

# MERLIN

## ENTERTAINMENTS PLC

Registered number 08700412

IMAGE REMOVED



# ANNUAL REPORT AND ACCOUNTS 2015

# MERLIN ENTERTAINMENTS

## Financial highlights and key performance indicators

MERLIN ENTERTAINMENTS IS EUROPE'S LEADING AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR. OUR AIM IS TO DELIVER MEMORABLE EXPERIENCES TO MILLIONS OF VISITORS ACROSS OUR GROWING PORTFOLIO OF MIDWAY ATTRACTIONS AND THEME PARKS. WE ARE DRIVEN BY SIX GROWTH DRIVERS AND OUR UNIQUE CREATIVE AND PRODUCTION RESOURCE 'MERLIN MAGIC MAKING' WHICH SITS AT THE HEART OF EVERYTHING WE DO.

### Financial highlights and KPIs <sup>(1), (2), (3)</sup>

<b>Visitors</b> 62.9m +0.3%	<b>Revenue</b> £1,278m +2.3%	
GRAPH REMOVED	GRAPH REMOVED	
<b>Underlying EBITDA</b> £402m -2.1%	<b>Underlying operating profit</b> £291m -6.2%	
GRAPH REMOVED	GRAPH REMOVED	
<b>Like for like revenue growth</b> +0.4%	<b>Basic EPS</b> 16.8p (2014:16.0p)	
<b>Return on capital employed <sup>(4)</sup></b> 9.7% (2014:10.6%)	<b>Adjusted EPS</b> 17.8p (2014:17.7p)	
<b>Non-financial KPIs <sup>(1), (5), (6), (7)</sup></b>		
<b>Customer satisfaction <sup>(5)</sup></b>	<b>2014</b> ✓	<b>2015</b> ✓
<b>Staff engagement <sup>(6)</sup></b>	✓	✓
<b>Health and safety <sup>(7)</sup></b>	✓	x

At the end of 2015  
Merlin operated:

**111**  
attractions

**23**  
countries

ACROSS  
**FOUR**  
continents

Footnotes (see page 3 for further footnotes to this Annual Report and Accounts):

<sup>(1)</sup> The KPIs shown above are Merlin's key financial and non-financial performance indicators.

<sup>(2)</sup> Figures presented for 2011 are based on underlying trading figures compiled on a 52 week basis for ease of comparison. Statutory numbers for 2011 were prepared on a 53 week basis.

<sup>(3)</sup> Group profit before tax for 2015 was £237 million (2014: £226 million).

<sup>(4)</sup> Return on capital employed is based on underlying operating profit after tax divided by average net operating assets.

<sup>(5)</sup> Source - customer satisfaction surveys: measure is based on 90%+ rating as 'satisfied' or 'very satisfied'.

<sup>(6)</sup> Source - annual employee surveys: measure is based on 80%+ rating for 'staff engagement' (see page 37 for further details).

<sup>(7)</sup> The accident at Alton Towers overshadowed all other Health and Safety measures and accordingly we did not achieve the measure we set ourselves.

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### Footnotes to this Annual Report and Accounts:

- Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', 'the Group', 'We' and 'Us' refer to the Company (Merlin Entertainments plc) and, as applicable, its subsidiaries and/or interests in joint ventures.
- Unless otherwise stated, references to 'year' or '2015' mean the 52 week period ended 26 December 2015 and references to 'previous year' or '2014' mean the 52 week period ended 27 December 2014.
- References to visitors mean all individual visits to Merlin owned or operated attractions.
- The terms 'financial statements', 'consolidated financial statements' and 'accounts' are used interchangeably.
- Like for like growth refers to the growth between 2014 and 2015 on a constant currency basis using 2015 exchange rates and includes all businesses owned and opened before the start of 2014.
- EBITDA is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.
- In order to show the underlying business performance of the Group, enhance comparability from period to period and with other companies, and to provide information consistent with how it is measured internally, underlying information presented excludes exceptional items that are classified separately within the financial statements (see note 2.2 to the financial statements on page 118 for further details).
- Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

# OUR STRATEGY

*and business model*

OUR VISION IS TO BECOME THE  
**WORLDWIDE LEADER** IN BRANDED,  
LOCATION BASED ENTERTAINMENT.

IMAGE REMOVED

Merlin's  
unique creative  
and production  
resource

**MERLIN  
MAGIC  
MAKING**

Sitting at the heart  
of everything  
we do

Find out more on  
pages 32 to 35

*Merlin has two core products:*

- **Midway attractions**, which are typically smaller, indoor attractions located in city centres or resorts.
- **Theme parks**, which are larger multi-day destination venues, with on-site themed accommodation.

The theme parks are managed in two Operating Groups:  
**LEGOLAND Parks** and **Resort Theme Parks**.

IMAGE REMOVED

## MIDWAY ATTRACTIONS

*Indoor attractions located in city centres or resorts*

### MIDWAY

GRAPH REMOVED

99 ATTRACTIONS

21 COUNTRIES

4 CONTINENTS

1-2 HOUR EXPERIENCE

6 GLOBAL CHAINABLE BRANDS. NEW BRAND 'DREAMWORKS TOURS - SHREK'S ADVENTURE!' LAUNCHED THIS YEAR

IMAGE REMOVED

## THEME PARKS

*Outdoor attractions with rides and shows, complemented with themed accommodation*

### LEGOLAND PARKS

GRAPH REMOVED

6 ATTRACTIONS

5 COUNTRIES

3 CONTINENTS

1-3 DAY EXPERIENCE

LEGO THEMED ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES

3 NEW PARKS IN DUBAI, JAPAN AND SOUTH KOREA UNDER DEVELOPMENT

### RESORT THEME PARKS

GRAPH REMOVED

6 ATTRACTIONS

UK, GERMANY, ITALY

1-3 DAY EXPERIENCE

ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES AROUND A CENTRAL THEME

IMAGE REMOVED

#### Footnotes:

<sup>(i)</sup> Based on 2015 revenue.

# OUR STRATEGY

## *and business model*

## MERLIN'S BRANDS

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### MIDWAY

<p>SEA LIFE</p> <p>IMAGE REMOVED</p>	<p>With <b>47</b> sites, SEA LIFE is the world's biggest aquarium brand, built around the notion of <b>Amazing Discoveries</b>, and home to a variety of creatures from shrimps and starfish to seahorses, rays, sharks and seals. SEA LIFE campaigns actively on a variety of conservation issues prioritised around breeding, rescue and protection of the marine environment.</p>	<p>MADAME TUSSAUDS</p> <p>IMAGE REMOVED</p>	<p>Madame Tussauds' heritage and the breathtaking artistry of the figures at our <b>19</b> sites differentiate it from other wax attractions. <b>Famous Fun</b> is the heart of the experience, where visitors are encouraged to interact with all the historical and celebrity figures from Napoleon to One Direction.</p>
<p>LEGOLAND DISCOVERY CENTRE</p> <p>IMAGE REMOVED</p>	<p><b>13</b> LEGOLAND Discovery Centres are the ultimate LEGO indoor playground, with over two million bricks under one roof. With <b>Playful Learning</b> at the heart of the experience, they create a fun filled and interactive environment where children and parents are inspired to be creative.</p>	<p>THE DUNGEONS</p> <p>IMAGE REMOVED</p>	<p>The <b>nine</b> Dungeons are a unique mix of dark, historical horror and irreverent humour delivered through set piece shows performed by live actors, rides and spine chillingly themed sets. <b>Scary Fun</b> is the goal, delivered daily to families, teenagers and young adults.</p>
<p>THE EYE BRAND</p> <p>IMAGE REMOVED</p>	<p>Each of our <b>four</b> Eye observation attractions offers the ultimate viewing experience, unparalleled and different every time, giving a <b>Revealing Perspective</b> of the location's landscape and iconic landmarks.</p>	<p>DREAMWORKS TOURS - SHREK'S ADVENTURE!</p> <p>IMAGE REMOVED</p>	<p>At 'DreamWorks Tours - Shrek's Adventure!' guests play their part in a unique and interactive DreamWorks experience, where the choices they make decide the outcome. At the heart of this are the <b>Hilarious Misadventures</b> you experience in the company of your favourite DreamWorks characters.</p>

## THEME PARKS

## LEGOLAND RESORTS

With **Playful Learning** at the heart of the experience, our **six LEGOLAND** resorts across Europe, North America and Asia offer a unique LEGO themed experience for families with children aged two to twelve years, including highly themed accommodation and based on interactivity, imagination and family fun.

IMAGE REMOVED

ALTON  
TOWERS  
RESORT

IMAGE  
REMOVED

Alton Towers Resort is the UK's number one theme park resort, set in 500 acres of beautiful Staffordshire countryside. Boasting two themed hotels, 'The Enchanted Village' lodges and an indoor waterpark, it invites families, teenagers and young adults alike into a world of **Fantastical Escapism**.

## THORPE PARK

IMAGE  
REMOVED

**Insane fun** is on offer at **THORPE PARK**, the UK's third biggest theme park and acknowledged thrill capital for teenagers, young adults and older families. The resort now includes the unique **THORPE SHARK** Hotel, offering bite-sized rooms in a stunning waterfront location.

CHESSINGTON  
WORLD OF  
ADVENTURES  
RESORT

IMAGE  
REMOVED

**Wild Adventure** is at the heart of Chessington World of Adventures Resort, with exotic themed lands and rides mixed with amazing creatures from around the world. Guests can stay in the heart of the adventure at our Safari and Azteca resort hotels.

## HEIDE PARK

IMAGE  
REMOVED

Heide Park is Germany's third biggest theme park with rides and attractions appealing to all ages, set in four lands of **Extraordinary Adventure**. The resort attracts visitors from all over Germany and beyond, who can stay in the Heide Park Adventure Hotel or adjacent Holiday Village.

WARWICK  
CASTLE

Jousting, knights, princesses, falconry, staged scenes by Madame Tussauds and the Castle Dungeon all make Warwick the **Ultimate Castle** experience.

IMAGE  
REMOVED

GARDALAND  
RESORT

IMAGE  
REMOVED

Gardaland Resort is Italy's leading theme park. Located on the edge of Lake Garda, it boasts rides for all ages set in a beautifully landscaped and themed world. **Big Fantasy Adventure** is all around, including at the Gardaland Hotel and adjacent SEA LIFE.

# OUR STRATEGY

*and business model*

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MAP IMAGE REMOVED

GRAPHS REMOVED



**OUR STRATEGY** IS TO CREATE A HIGH GROWTH, HIGH RETURN, FAMILY ENTERTAINMENT COMPANY BASED ON STRONG BRANDS AND A GLOBAL PORTFOLIO THAT IS NATURALLY BALANCED AGAINST THE IMPACT OF EXTERNAL FACTORS.

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MAP IMAGE REMOVED

# OUR STRATEGY

## *and business model*

### MERLIN'S GROWTH DRIVERS

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*Merlin has six highly complementary growth drivers*

<p><b>PLANNED CAPITAL INVESTMENT CYCLES</b></p> <p>Adding new rides and features to our attractions to drive customer satisfaction, increase capacity and provide a compelling new proposition to guests.</p>	<p>IMAGE REMOVED</p>	<p>EXISTING ESTATE GROWTH</p>
<p><b>STRATEGIC SYNERGIES</b></p> <p>Leveraging the scale of the Group in key markets to exploit enhanced operational, marketing and buying power.</p>	<p>IMAGE REMOVED</p>	
<p><b>RESORT POSITIONING</b></p> <p>Developing our theme parks into short break destinations: extending the catchment area, creating new revenue streams and improving guest satisfaction.</p>	<p>IMAGE REMOVED</p>	

OUR STRATEGY *and business model*

NEW BUSINESS DEVELOPMENT	<p><b>MIDWAY ROLL OUT</b></p> <p>Opening new Midway attractions under one of our chainable global brands. Merlin has opened 20<sup>(1)</sup> new sites in the last three years.</p> <p><small><sup>(1)</sup> Includes Turkuazoo Aquarium which was a standalone acquisition that has since been relaunched as a SEA LIFE</small></p>	IMAGE REMOVED
	<p><b>NEW LEGOLAND PARK DEVELOPMENTS</b></p> <p>Opening new full scale LEGOLAND parks. New parks are under development in Dubai (2016), Japan (2017) and South Korea (2018). Merlin is exploring further potential sites in North America and Asia.</p>	IMAGE REMOVED
	<p><b>STRATEGIC ACQUISITIONS</b></p> <p>Pursuing acquisition opportunities that complement our strategic objectives.</p>	IMAGE REMOVED

# OUR STRATEGY

## *and business model*

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### 2015 STRATEGIC DEVELOPMENTS

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#### JANUARY

##### ***SEA LIFE Michigan***

SEA LIFE Michigan opens, marking Merlin's 46th SEA LIFE around the world, and its seventh in North America.

#### MARCH

##### ***Oblivion***

Italy's first dive-coaster - 'Oblivion' - opens at the beginning of the season at Gardaland.

IMAGES REMOVED

IMAGES REMOVED

#### APRIL

##### ***Enchanted Village***

125 lodge 'Enchanted Village' opens at Alton Towers, complementing the resort's existing two hotels.

##### ***LDC Osaka***

Not to be confused with the full sized park opening in Japan in 2017, the LEGOLAND Discovery Centre opens in Osaka, marking Merlin's third attraction in the country and its second LDC.

##### ***LEGOLAND Japan***

Ceremony held to celebrate the ground-breaking of LEGOLAND Japan, to open in 2017.

#### MAY

##### ***LEGOLAND Florida Hotel***

152 bedroom LEGOLAND Florida Hotel opens. Each Merlin theme park now has on-site accommodation.

##### ***LEGO Friends***

'LEGO Friends' themed area opens at LEGOLAND Windsor.

##### ***Orlando openings***

A Merlin first, as we open a cluster of three attractions in Orlando - Madame Tussauds, SEA LIFE and the Orlando Eye - on the same day!

##### ***New Openings group***

Announcement of the creation of the New Openings group to support the acceleration of new openings.

## OUR STRATEGY *and business model*

### JULY

#### ***LDC Istanbul***

LDC Istanbul opens in the Forum shopping mall alongside the aquarium acquired in 2013 (relaunched as a SEA LIFE in January 2015).

#### ***accesso®***

Agreement signed with the accesso Technology Group (accesso®) to roll out new ticketing systems across the Merlin estate over three years.

#### ***Shrek's Adventure!***

Our new 'DreamWorks Tours - Shrek's Adventure!' attraction - the first under this new brand - opens on London's South Bank in the heart of the existing London cluster.

IMAGES REMOVED

IMAGES REMOVED

### OCTOBER

#### ***China Media Capital Joint Venture***

Announcement of agreement to set up joint venture with China Media Capital to develop a LEGOLAND park in the Shanghai area and other attractions in China.

### NOVEMBER

#### ***Madame Tussauds New Delhi***

Announcement of the planned opening of Merlin's first attraction in India - Madame Tussauds New Delhi - in 2017.

IMAGES REMOVED

# CHAIRMAN'S

## Statement

**Sir John Sunderland**  
Chairman

IMAGE REMOVED

After a very successful first year following Merlin's IPO in November 2013, 2015 was a more difficult year for your Company. The dominant event was the traumatic accident at Alton Towers on 2 June. Up to that moment our customers had enjoyed hundreds of millions of rides in complete safety. Nevertheless on that day our procedures and training did not prove adequate to the task of preventing this particular accident. We immediately accepted responsibility and are of course profoundly sorry for the trauma to those who were injured. We have already announced the direct cause and have introduced a series of enhanced and rigorous new protocols to ensure there can be no repetition of this accident.

Safety and customer service have always been the foundation upon which Merlin bases its appeal to our worldwide market. This will continue to be the case, and ensuring the safety of our customers will remain at the forefront of the Board's oversight agenda.

Since June visitor numbers at Alton Towers were well below our original targets for the year. We announced to the market in July the expected impact this would have on the Company's financial performance for the year, and these predictions have been borne out.

Despite the great shadow cast by this incident, I am able to report that business elsewhere in the Merlin empire performed satisfactorily. There were the usual swings and roundabouts but overall our performance delivered in line with the revised consensus.

### **Health, safety and security**

Merlin has a strong safety culture that underpins the delivery of millions of memorable experiences to our guests each year. On 2 June the serious accident at Alton Towers was a reminder of this imperative for the safety and security of our visitors to be at the centre of everything we do. Our thoughts remain with those injured and we will continue to support them in the future in whatever way we can.

Our absolute focus is to make sure that, through continuous improvement, such an accident cannot happen again. Merlin has made specific improvements with regard to processes and procedures on rides like 'The Smiler'. We also continue to invest in our Health and Safety teams and infrastructure around the Group and will ensure this investment continues as the Group grows. We have never been, nor will we ever be, complacent in this area. Our Health, Safety and Security Committee report on pages 66 to 69 provides more specific details on how we approach this most important area.

## CHAIRMAN'S Statement

**Trading performance and strategy**

Our LEGOLAND Parks Operating Group had another strong year after the record performance in 2014. The parks broadened their demographic appeal with major investments in the 'LEGO Friends' product, and expanded their themed accommodation offering with the opening of a hotel at LEGOLAND Florida. Midway Attractions delivered a solid performance overall, albeit with specific regional challenges. Visitation to our London attractions was impacted by the relative weakness of the Euro, while travel restrictions affected trading in Hong Kong. Trading in the Resort Theme Parks Operating Group was materially impacted by the accident at Alton Towers, but we are particularly pleased with the performance of Gardaland, boosted by the opening of the 'Oblivion' dive-coaster, and our accommodation offering across the parks.

Merlin's strategic development has continued. We launched a new 'DreamWorks Tours' brand, with the first attraction, based on the 'Shrek' film franchise, opening in July in London. We also announced a joint venture with China Media Capital to develop Midway attractions and a LEGOLAND park in China, further evidence of the opportunities we see in that growing market. These specific developments add to our existing programme of rolling out Midway attractions, developing new LEGOLAND parks and creating destination resorts at our theme parks through the provision of themed accommodation.

**Governance and the Board**

In January 2016 Andrew Carr, Merlin's Chief Financial Officer, announced his intention to retire. On behalf of the Board I would like to thank him for the dedication he has shown to the Group during the last 16 years. He has been a major contributor to Merlin's phenomenal growth during this period and its successful transition to a public company. We have recently announced that Anne-Francoise Nesmes will join in August as Andrew's successor. We look forward to working with her as Merlin continues to grow.

At the Annual General Meeting (AGM) in May 2015, Dr. Gerry Murphy and Rob Lucas (the representatives of our two pre-IPO private equity shareholders Blackstone and CVC), stood down, as did Miguel Ko who left us due to other full time executive commitments. We thank them all for their valuable input. Following the 2015 AGM we were fully compliant with the UK Corporate Governance Code.

I am very pleased that we have since appointed two new Non-executive Directors. Trudy Rautio and Yun (Rachel) Chiang bring with them wide experience in the major markets of the USA and China across leisure and other industries.

**Dividends**

The Board will be recommending to the AGM in May that we pay a final dividend of 4.4 pence per share in June. Taken together with the interim dividend of 2.1 pence per share paid last September, this will equate to a full year dividend of 6.5 pence per share, up 4.8% on 2014.

“

*I have yet again been impressed by the leadership and dedication of Merlin's management team and our many thousands of employees*

”

**Corporate social responsibility (CSR)**

In 2015 Merlin's CSR activities were brought together under one central theme of 'Being a Force for Good' to reinforce a consistent global approach that reflects Merlin's values.

Within **sustainability and the environment** all our businesses are required to develop carbon reduction targets and sustainability plans. Under **marine and wildlife conservation** we focus our activities on protecting wildlife globally through rescue, breeding, conservation and education, most notably through the activities of our charity the SEA LIFE Trust. **Merlin's Magic Wand** is our own children's charity that delivers magical experiences around the world to children who are disadvantaged through sickness or disability. It does this by arranging visits to our attractions; by installing 'magical spaces' - themed areas at children's homes and hospitals; and through community outreach activities where attraction teams 'take the magic' to local children's organisations. Finally, we have the long term aspiration of becoming industry leaders for visitors affected by disability. Our **accessibility** initiatives are therefore aimed at raising awareness and delivering environments that provide access for everyone. More details can be found on pages 51 to 57.

**Our people**

In this most challenging of years, I have yet again been impressed by the leadership and dedication of Merlin's management team and our many thousands of employees around the world. I would like to thank all of them for their contribution.

As we move into 2016, I am confident that with their continued commitment and our proven business model, we are well placed to continue to deliver further growth in the years ahead.

**Sir John Sunderland**

**Chairman**

24 February 2016

# CHIEF EXECUTIVE'S

## *Report*

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IMAGE REMOVED

**Nick Varney**  
Chief Executive Officer



## CHIEF EXECUTIVE'S Report

2015 TRADING SUMMARY	2015	2014	Growth	Constant Currency Growth
Visitors (m)	62.9	62.8	0.3%	
Revenue (£m)	1,278	1,249	2.3%	3.9%
EBITDA (£m)	402	411	(2.1)%	(1.1)%
Operating profit (£m)	291	311	(6.2)%	(5.6)%
Like for like revenue growth				0.4%
Like for like EBITDA growth				(4.3)%

Despite specific challenges in 2015, revenue grew by 3.9% on a constant currency basis reflecting the strength in the underlying brands and strategic growth drivers. The Group benefited from the continued strong performance in the LEGOLAND Parks Operating Group and the positive contribution from new attractions and accommodation. This was offset to a degree by more challenging market conditions in London and Hong Kong and the impact of the accident at Alton Towers on trading within the Resort Theme Parks Operating Group.

These challenges, particularly the lower visitation at Alton Towers following the accident, created a drag on profitability, resulting in Group EBITDA declining by 1.1% on a constant currency basis.

Whilst there will always be macro-economic or geo-political factors outside of our control, we remain confident in the strength of the underlying business and the natural diversification that the growing portfolio creates.

**62.9**  
MILLION  
visitors in 2015

“

*Merlin remains well placed to deliver exciting growth in one of the most dynamic markets globally*

”

2015 has without doubt been the most difficult year in Merlin's history. The accident at Alton Towers in June and the media coverage around it, led to a significant reversal of the strong momentum we had seen in our UK Resort Theme Parks business and consequent impact on overall Company performance. More importantly, people we had a responsibility to safeguard sustained serious injuries and ride safety processes we believed robust on this occasion proved inadequate.

Our focus since June has therefore necessarily been on ensuring we support those injured in every way we can while putting in place extensive measures to ensure such an accident cannot happen again. These measures are covered in more detail in the Health, Safety and Security (HSS) Committee Report. In addition, we continue to invest in further improvements to both engineering and health and safety across the estate, including additional compliance managers in all our theme parks and a new Group engineering function.

This represents a substantial additional investment on top of our already extensive HSS and engineering infrastructure which we must remember has delivered hundreds of millions of safe ride experiences over many years.

IMAGE REMOVED

The new 'DreamWorks Tours - Shrek's Adventure!' attraction in London

## CHIEF EXECUTIVE'S Report

### Merlin today

While never forgetting the incident at Alton Towers and those affected by it we must nonetheless move forward. Merlin Entertainments remains well placed to deliver exciting growth in one of the most dynamic markets globally. In the world around us macro trends are increasingly evident:

- The rapid growth of the middle classes in emerging countries, notably China, who have an appetite to consume high quality, branded, entertainment options and to travel; a phenomenon contributing to high growth in international tourism to 'gateway cities'.
- An increasing focus on Intellectual Property (IP) as the key ingredient to delivering compelling propositions and attractive financial returns. This is fuelling ever greater partnerships between brand/IP owners and delivery platforms such as location based entertainment.
- The increasing trend in developed markets towards multiple short breaks at home or abroad.
- The rapid and progressive move to an online and mobile transaction model in most countries.

Within this evolving global environment it is worth restating the competitive advantages which Merlin possesses:

- We hold global exclusivity for the LEGOLAND brand; the only attraction based representation of the LEGO toy brand which is now No. 1 internationally and one of the world's strongest IP's in its own right.
- We are the only company to successfully operate the limited dwell time, indoor, Midway format across multiple brands and countries.
- We have the most extensive geographic footprint of any company in our industry with the proven international roll out potential of our LEGOLAND resorts and Midway brands.
- The addition of themed accommodation continues to deliver the double benefit of positioning our theme parks as short break resorts while yielding attractive returns in its own right.
- In Merlin Magic Making we have a unique development resource which enables value enhancing growth from both the existing estate and new attractions.



***We hold global exclusivity for the LEGOLAND brand; the only attraction based representation of the LEGO toy brand***



### Looking ahead

We continue to be confident in our strategy and the long term growth trajectory of the business, focused around the core six growth drivers. As we look to quicken the pace of expansion, against the backdrop of the macro trends identified above, we have set new strategic milestones out to 2020:

- 2,000 new accommodation rooms by the end of 2020
- 40 new Midway attractions by the end of 2020
- Four new LEGOLAND parks by the end of 2020 (including the three already announced)

The main geographic focus of this expansion will be North America and Asia. Within the latter we regard China, Japan and South Korea as priority markets.

IMAGE REMOVED

LEGOLAND Water Park in Florida

With regard to our existing estate the planned capex cycles are working well with a pipeline of innovative and compelling propositions coming out of Merlin Magic Making. 'Derren Brown's Ghost Train' at THORPE PARK and 'Galactica', the fusion of Virtual Reality into an existing roller coaster at Alton Towers, are good examples which will be launching this year.

We also continue to develop new ways of exploiting the synergies which arise from the Group's scale. Over the next few years the biggest focus of this will be on the ways in which we can enhance the customer journey via imaginative use of technology. The central aspect of this will be the accesso® admissions/ticketing system, which started to roll out in 2015 after successful pilots, augmented by on-site downloadable apps and ibeacons to send visitors targeted messages. These new systems are also facilitating the data capture which will enable us to expand our CRM activities considerably in key markets meaning we can communicate with our customers on an ongoing basis.

## CHIEF EXECUTIVE'S Report

Finally we are able to contemplate acquisitions and investments which strengthen our strategic position. We have just announced that Merlin is acquiring a minority stake in BIG BUS, the leading global owner-operator of Hop On Hop Off City Tours. We see significant synergies from this business with our own city centre attractions and there is already a clear overlap in cities such as London, New York, Hong Kong and San Francisco. This investment will facilitate a closer working relationship on the ground while enabling us to learn about a highly complementary business.

**The Sparkle**

With the increasing importance of IP in all areas of entertainment we have been working hard to establish a network of core partnerships which have value to both our existing estate and new developments business.

The relationship with the LEGO Group is well established and 2016/2017 will see major co-operation around the relaunched LEGO NINJAGO brand with new rides and attractions at all parks and LEGOLAND Discovery Centres. This will be supported by the NINJAGO movie, scheduled for release by Warner Bros. in 2017.

Our partnership with DreamWorks Animation (DWA) is also developing with new themed lands in 2016 in Gardaland (Kung Fu Panda) and Heide Park (How to Train Your Dragon) in addition to the new Midway brand 'DreamWorks Tours - Shrek's Adventure!' being piloted in London.

Beyond this, brand partnerships with specific IP's such as 'Star Wars' (Madame Tussauds), 'CBeebies' (Alton Towers) and 'Derren Brown' (THORPE PARK) clearly demonstrate both the direction of travel and Merlin's favourable position.

IMAGE REMOVED

'Star Wars' at Madame Tussauds London

“With a clear strategy,  
a strong development pipeline  
and the brands and people  
to deliver them, Merlin is well  
placed to continue the magic  
well into the future”

**Merlin people**

After a challenging year we saw staff engagement at an all time high and Merlin voted one of the best 25 big companies to work for (for a second year in a row). We have a team that is passionate about the business and able to produce consistently high performances. This has yet again translated into increased visitor satisfaction. Our people section covers this in much more detail but suffice to say I am proud of and grateful to, in equal measure, the fantastic people who work for Merlin.

**And finally...**

In the first half of 2015 I had the opportunity to visit five of the 'Merlin's Magical Spaces' installed at hospices and hospitals by the Merlin's Magic Wand Charity. These multisensory experiences use Merlin's brands and creativity to bring enjoyment to children whose lives are often tragically affected by illness and who, for this reason, cannot visit our attractions. The money for these projects is raised by the Merlin team, our guests and our partners and of all the things we do, this is the one of which we are most proud.

Merlin is first and foremost an entertainment company. We exist to deliver memorable experiences to our millions of visitors and are doing so on an increasingly diverse, international, stage. Our market too is dynamic with an ever increasing interface between screen based and location based content and rapidly growing international tourism. With a clear strategy, a strong development pipeline and the brands and people to deliver them, Merlin is well placed to continue the magic well into the future.

**Nick Varney**  
**Chief Executive Officer**  
24 February 2016

# MIDWAY

## *Attractions*

THE MIDWAY ATTRACTIONS OPERATING GROUP SAW FURTHER GROWTH IN 2015 IN THE EXISTING ESTATE. THERE WERE STRONG PERFORMANCES IN ASIA, PARTICULARLY IN MAINLAND CHINA, AND EUROPE, ALTHOUGH LOWER VOLUMES IN OUR LONDON DIVISION AND TRAVEL RESTRICTIONS INTO HONG KONG SUPPRESSED THE OVERALL RESULT. IN ADDITION, OUR STRATEGIC MIDWAY ROLL OUT PROGRAMME CONTINUES Apace, WITH SEVEN NEW ATTRACTIONS OPENED IN 2015 ACROSS FOUR COUNTRIES, INCLUDING THE LAUNCH OF THE NEW 'DREAMWORKS TOURS - SHREK'S ADVENTURE!' BRAND. WE TARGET OPENING 40 NEW ATTRACTIONS BY THE END OF 2020.

---

**£561**  
**MILLION**  
*revenue in 2015*

IMAGE REMOVED

## OPERATIONAL REVIEW - MIDWAY Attractions

	2015	2014	Growth	Constant Currency Growth
Visitors (m)	40.0	38.1	4.9%	
Revenue (£m)	561	529	6.0%	7.5%
EBITDA (£m)	221	214	1.2% <sup>(1)</sup>	2.0% <sup>(1)</sup>
Operating profit (£m)	167	167	(2.4)% <sup>(1)</sup>	(1.9)% <sup>(1)</sup>
Like for like revenue growth				2.3%

<sup>(1)</sup> Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 50. Including this reallocation, reported EBITDA and operating profit growth were 3.0% and 0.0% respectively, and 3.8% and 0.4% respectively on a constant currency basis.

**Trading performance**

The Midway Attractions Operating Group trading was robust in 2015, with continued growth in visitor numbers and revenue. Revenues grew by 7.5% on a constant currency basis, driving EBITDA growth of 2.0% and a decline in operating profit of 1.9%. Movements in foreign exchange rates adversely impacted reported results, resulting in revenue growth of 6.0% and operating profit 2.4% down against last year.

Overall, the Operating Group continues to benefit from both the consumers' desire for high quality, branded, location based entertainment, and the continuing growth in visitation to large gateway cities, particularly from the burgeoning middle class in emerging markets. However, the attractions are exposed to fluctuations in inbound and domestic tourist flows which have created some specific challenges in 2015.

IMAGE REMOVED

“

The brand new  
'DreamWorks Tours - Shrek's  
Adventure!' opened in  
London in July

”

**Existing estate**

2015 revenue grew by 2.3% on a like for like basis, reflecting a strong performance in Midway Asia, particularly in mainland China, and Midway Europe. This was offset by specific challenges in London and Hong Kong.

Our attractions in Shanghai continue to benefit from ongoing market growth in the country, and were further boosted this year by excellent new product, in particular at MT Shanghai where we launched a new 'Ice Age 4D' experience (see 'Focus on China' on page 23).

Our attraction in Hong Kong was however adversely impacted by travel restrictions imposed on visitors from the neighbouring city of Shenzhen. We continue to expect volumes to remain subdued whilst this policy continues.

Midway Europe benefited from good new product and relatively favourable weather over the summer season.

This was however offset by lower volumes in London, primarily due to the persistent weakness of the Euro against Sterling impacting both domestic city breaks and inbound tourism from the key Eurozone region, with inbound tourist volumes flat in January to November (source: VisitBritain).

Margins declined by 1.8%, excluding the effect of changes in the allocation of costs across the Group, as a result of the dilutive effect of new openings, and the investment in regional structures and support functions across our developing markets as we expand the estate in both North America and Asia. This was compounded by the lower like for like revenue growth and the relatively fixed cost nature of the Midway Attractions Operating Group.

## OPERATIONAL REVIEW - MIDWAY Attractions

IMAGE REMOVED

The new LEGOLAND Discovery Centre in Osaka, Japan

### Capital investment

Our existing estate growth was underpinned by our strategy of planned capital investment cycles, with each Midway attraction having a 'high year' once every five years, followed by four 'low' years.

This year's major high year capital projects included the new 'Star Wars' experiences at Madame Tussauds London and Berlin, and 'Ice Age 4D' at MT Shanghai.

In the non-high capital investment years, many attractions receive 'mobile features' which we move around the estate to several different locations over a period of years, thus maximising capital efficiency.

### Customer satisfaction

Our focus on customer service and investment in new products and features has seen us enjoy continued excellent guest satisfaction scores.

### Existing estate - looking ahead

2016 will see significant further investment in the existing estate, including a new 'drop ride' at MT Berlin, a 4D movie in Bangkok at our MT attraction there, and penguins in SEA LIFE Sydney.

### New openings - Midway roll out

Our Midway roll out strategy continued apace in 2015, with seven attractions opening throughout the year.

SEA LIFE Michigan was the first attraction to open, in January. As is typical of new aquariums, the attraction opened very strongly with excellent PR coverage and high penetration of the local resident market. Our other North American openings comprised a SEA LIFE, Madame Tussauds and 'The Orlando Eye' observation attraction in Orlando, Florida. Located on the world-renowned 'I-Drive' this cluster of three attractions opened on the same day - another first for Merlin!

Elsewhere, we also opened two LEGOLAND Discovery Centres, in Osaka, Japan and in Istanbul, Turkey. The latter immediately formed a cluster with the existing SEA LIFE Centre located in the same shopping mall.

Finally, 2015 saw the launch of the new 'DreamWorks Tours - Shrek's Adventure!' attraction, opened alongside our existing cluster of attractions on London's famous 'South Bank'. The new brand concept has received a positive customer response, which bodes well for further potential roll out.

### Looking ahead

Our Midway roll out programme will see us open seven attractions in 2016, including three in Asia - a Madame Tussauds and a SEA LIFE Centre in Chongqing and the first LEGOLAND Discovery Centre in China, to be opened in Shanghai.

Six of these attractions will be creating or adding to clusters, where we have more than one attraction in the same location, providing operating cost, marketing and cross-selling advantages. New attractions in Arizona, Michigan, Istanbul and Shanghai will be located alongside existing attractions; in Chongqing, China, our two openings will create a new cluster from the outset.

IMAGE REMOVED

The Orlando Eye' observation attraction in Orlando, Florida

The 2016 opening schedule reflects our longer term ambition of an even geographic spread of revenue across Europe, the Americas and Asia Pacific, and also that our focus will be primarily on cluster cities.

Longer term, we continue to see scope for 100+ new Midway attractions across the world. By the end of 2020, we target opening 40 new attractions, prioritising opportunities in the Americas and Asia Pacific, continuing our cluster city focus.

Reinforcing our plans for growth in Asia, in October 2015, we announced an agreement with China Media Capital which will see us form a joint venture and accelerate our Midway roll out in the region. In November we then announced plans for our first business in India, Madame Tussauds New Delhi, scheduled to open in early 2017.

IMAGES REMOVED

## FOCUS ON CHINA

China has been a major growth driver for Merlin in recent years, where we have continued to increase brand awareness and drive product innovation. We have a strong pipeline of new openings, supported by the recent announcement to partner with China Media Capital.

Underpinning this growth are the rapidly expanding number of middle class households, which economic forecasts suggest could potentially increase from 47 million to 472 million over the period 2010-20. We believe that in the fullness of time, our China Midway estate could expand to over 30 attractions.

### Our history in China

#### Acquisitions

Our transformational acquisition in 2007 of The Tussauds Group brought with it Madame Tussauds (MT) Shanghai and MT Hong Kong, followed in 2012 by Chang Feng Ocean World, a large aquarium in Shanghai then owned by Living and Leisure Australia.

Our strategy to raise brand awareness and increase visitor numbers at the MT's has led to several years of strong growth. In 2015 MT Shanghai benefited from 'high year' investment in a new 'Ice Age 4D' cinema, driving significant increases in visitor numbers and revenue. MT Shanghai continues to be one of the most profitable attractions across the Merlin estate.

At Chang Feng Ocean World, our focus on improving the guest experience through an improved product offering has yielded great results. This focus, on top of an already strong level of visitation, brought good price and yield growth. Both of our Shanghai attractions have been buoyed by significant growth in domestic tourism.

### Organic expansion

In 2013 we opened MT Wuhan, focused on the domestic market, followed in 2014 by MT Beijing in a great location close to Tiananmen Square.

### Future growth

2016 will see an MT and a SEA LIFE Centre open in Chongqing, with the first LEGOLAND Discovery Centre (LDC) in China also opening in Shanghai. We have identified further sites and will continue to roll out our MT, SEA LIFE and LDC attractions.

Looking further ahead, we have entered into a strategic agreement with China Media Capital, a leading investor in the media and entertainments industries, to explore wider opportunities. We plan to work with them initially to tailor our Dungeon brand to the Chinese market and in turn leverage their ownership of DreamWorks IP in China. We hope this will see the development of other 'DreamWorks Tours' attractions in China, most likely based upon the Kung Fu Panda character.

IMAGES REMOVED

# LEGOLAND

## *Parks*

LEGOLAND PARKS ENJOYED ANOTHER EXCELLENT YEAR FOLLOWING THE RECORD PERFORMANCE REPORTED IN 2014. THE POSITIVE UNDERLYING MOMENTUM OF THE LEGOLAND BRAND CONTINUES, SUPPORTED BY THE STRENGTH OF THE LEGO TOY BRAND AND OUR ONGOING INVESTMENT ACROSS THE ESTATE. IN ADDITION, THE STRONG EARLY PERFORMANCE OF THE NEW 152 ROOM FULLY THEMED HOTEL AT LEGOLAND FLORIDA HAS PROVIDED FURTHER CONFIDENCE IN OUR ONGOING RESORT POSITIONING STRATEGY. WE REMAIN ON TRACK TO OPEN THREE NEW LEGOLAND PARKS OVER THE COURSE OF 2016 TO 2018 AND TARGET A FURTHER OPENING BY THE END OF 2020.

---

IMAGE REMOVED

**£429**  
**MILLION**  
*revenue in 2015*



## OPERATIONAL REVIEW - LEGOLAND Parks

	2015	2014	Growth	Constant Currency Growth
Visitors (m)	12.7	12.7	(0.1)%	
Revenue (£m)	429	386	11.2%	10.6%
EBITDA (£m)	169	142	18.6% <sup>(1)</sup>	16.7% <sup>(1)</sup>
Operating profit (£m)	146	120	21.8% <sup>(1)</sup>	19.7% <sup>(1)</sup>
Like for like revenue growth				8.2%

<sup>(1)</sup> Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 50. Including this reallocation, reported EBITDA and operating profit growth were 19.3% and 22.6% respectively, and 17.4% and 20.5% respectively on a constant currency basis.

### Trading performance

The positive momentum around the LEGOLAND brand continued in 2015. The strength and product development of the core toy brand, coupled with the continued investment in compelling product across the LEGOLAND park estate and impetus provided by the 2014 release of 'The LEGO Movie' have delivered another year of strong growth.

Overall revenue growth of 10.6% was driven predominantly by growth in revenue per capita (RPC), supporting strong conversion of revenue into profit, with EBITDA growth of 16.7% and operating profit growth of 19.7% for the year (all at constant currency). At reported currencies, the results from our two parks in North America benefited from the translation impact of the strength of the US Dollar, leading to revenue growth of 11.2%, converting into EBITDA growth of 18.6% and operating profit growth of 21.8%.

### Existing estate

Revenue grew by 8.2% on a like for like basis, despite the tough comparatives created in 2014 which saw like for like revenue growth of 13.2%. Growth in the prior year benefited from increased visitation following the launch of 'The LEGO Movie' and the associated marketing and promotional opportunities that this created. Although 2015 saw continued strong visitation, the revenue performance was primarily driven by growth in RPC.

This reflected the opportunity to close the pricing differential with competitors in the North American market, coupled with lower overall promotional activity compared to 2014, which included promotions related to 'The LEGO Movie'. Like for like growth in EBITDA and operating profit was strong, reflecting the RPC-led revenue growth and the non-recurrence of certain remedial costs related to the LEGOLAND Windsor Hotel which suppressed the 2014 result.

### Capital investment

LEGOLAND parks operate under a four year pre-determined capital investment cycle whereby 'high' or 'medium' years are typically followed by a 'low' year.

In 2015, the 'high year' investment was in LEGOLAND Windsor, with a 'medium' year in LEGOLAND Florida. In both of these parks, the new product was based around 'LEGO Friends', the LEGO toy range targeted towards girls, with themed areas added, including new ride and show content. This was complemented with new 'LEGO Friends' themed rooms at our on-site hotels. These investments were well received by our guests and helped to broaden the customer demographic, with LEGOLAND Windsor for example seeing a 2% increase in the number of girls visiting compared to boys.

### Resort positioning

Our strategy of developing the parks as short break destinations continued in 2015. In May we opened the fantastic new 152 room hotel at LEGOLAND Florida. The hotel benefited from being the first on-site themed accommodation and delivered a strong opening performance, both directly in the hotel and in its contribution to park volumes (see page 27). We also ran a trial of 14 'giant-sized' beer barrel chalets in LEGOLAND Deutschland. This accommodation concept has proved extremely popular and will be 'rolled out' further in 2016.

The strong performance of our existing accommodation, as well as the success of the LEGOLAND Florida Hotel, provides us with further confidence in our resort positioning strategy. We continue to see significant further opportunity for accommodation expansion at our existing resorts, as well as exploring options to accelerate the accommodation strategy at any new parks.

“

**'LEGO Friends' at  
LEGOLAND Windsor and Florida  
proved highly popular, broadening  
the customer demographic**

”

## OPERATIONAL REVIEW - LEGOLAND Parks

### Customer satisfaction

It is a testament to the strength of the product and our excellent staff that, in a year of continued growth, our already high guest satisfaction score improved further in 2015.

### Looking ahead

We will continue to make further investments across our estate, providing guests with new, innovative and compelling features at each of our parks, under our defined four year capital investment cycles.

Our 'high year' investment in 2016 will be at LEGOLAND Billund in Denmark. Opening early in the season, 'NINJAGO - The Ride', will be a brand new, interactive 'dark' ride capitalising on LEGO's own NINJAGO brand. We will also open smaller scale attractions using the same underlying concept in California and Malaysia and plan to roll the product out to other parks in future years.

It is the large and increasing scale of the Operating Group that allows us to invest so effectively in this way. Many of our investments, in both the existing estate and accommodation, benefit from the Operating Group's attractions being similar in their core concept, design and construction. As we roll out compelling new product for our guests at any given park, we are able to capture and learn from the guest feedback, operational improvements and efficiencies seen in prior launches. Exploiting synergies in this way helps us to drive growth with capital efficiency.

Further harnessing the strength of the LEGO brand and the momentum created around 'The LEGO Movie', we will also be launching 'The LEGO Movie 4D A New Adventure' throughout our parks, beginning with Florida and California in the first half of the year. Partnering with Warner Bros. and the LEGO Group, the short, animated film will again feature our guests' favourite characters such as Emmet and Wyldstyle.

Longer term, we will again seek to explore any potential marketing and promotional opportunities around further LEGO movies as they are launched, with further releases expected over the coming years.

IMAGE REMOVED

'NINJAGO - The Ride' at LEGOLAND California

### New openings - developing new LEGOLAND parks

2015 has seen continued progress on the three new LEGOLAND parks currently being developed in Dubai (2016), Japan (2017) and South Korea (2018).

#### LEGOLAND Dubai

LEGOLAND Dubai is on schedule to open in the fourth quarter of 2016. Together with its associated waterpark, which will be run as a 'second gate' attraction, the park will operate under a management contract and be funded primarily by Dubai Parks and Resorts. Similar to the operating model used for LEGOLAND Malaysia, Merlin will earn fees for the management of the park, including additional amounts based upon performance, with no upfront or ongoing capital investment obligation. The LEGOLAND park and waterpark will be located as part of a wider resort, consisting of a number of other complementary leisure attractions and hotels, including 'motiongate™ Dubai' and 'Bollywood Parks™ Dubai'. The resort is well located on the main highway connecting Dubai and Abu Dhabi and is equidistant between the two city's international airports. The resort is expected to attract a range of visitors, primarily from the Middle East and Indian sub-continent.

#### LEGOLAND Japan

LEGOLAND Japan is on schedule to open in the first half of 2017, with construction well progressed. Opening under an 'Operated and Leased' model, Merlin will invest approximately a third of the overall cost. The balance of the funding will be met by KIRKBI, who own 75% of the LEGO Group and are a 29.89% shareholder in Merlin. Japan is the second largest theme park market in the world and, given the level of LEGO brand awareness and the specific 'young family' target demographic, LEGOLAND Japan is expected to be complementary to the existing parks in the region.

#### LEGOLAND Korea

Located on Jung-do island in Chuncheon, South Korea, LEGOLAND Korea is expected to open in 2018. Similar to LEGOLAND Japan, the park will operate under an 'Operated and Leased' model with Merlin investing approximately one-third of the total park cost.

### Further developments

With the sustained success of the LEGO and LEGOLAND brands we continue to pursue options for the roll out of further LEGOLAND parks. In the fullness of time we firmly believe that there is scope for over 20 parks worldwide. In addition to the parks in Dubai, Japan and South Korea, we target one further opening by 2020. This is likely to be in either North America or China, where we are actively negotiating potential projects, including a partnership with China Media Capital for a joint venture in the Shanghai area, as announced in October 2015. Furthermore, we see opportunity for accommodation at each of the parks which have yet to open, with a range of possible funding structures. Specifically, we have plans for accommodation in both Japan and Dubai.

IMAGES REMOVED

## LEGOLAND HOTEL AT LEGOLAND FLORIDA RESORT

IMAGE REMOVED

### DID YOU KNOW?

.....  
*There are more than 2,000 LEGO models in the entire hotel created out of more than two million LEGO bricks!*  
 .....

.....  
*This is the first LEGOLAND hotel to have its own Model Shop where guests can build exclusively with Model Builders daily.*  
 .....

.....  
*Behind reception is an entire wall created out of more than 5,000 LEGO Minifigures.*  
 .....

.....  
*Hotel guests are greeted by a smoke-breathing LEGO dragon created out of more than 445,000 LEGO bricks. Each wing spans 8 feet!*  
 .....

The 152 room LEGOLAND hotel at LEGOLAND Florida Resort opened on 15 May 2015, representing the beginning of this location's resort positioning journey.

Located just 130 'kid steps' from the theme park entrance, the hotel is a fully immersive LEGO experience, with each guest room heavily LEGO themed. There are also themed restaurants and live entertainment - we even have special 'VIP' suites and a 'Disco Elevator' - it is a truly magical experience!

Performance so far has been strong and we saw occupancy levels of 98% in the key summer period. We're also delighted that the hotel has created over 100 new jobs for the surrounding local community, who have given us fantastic support.

Looking forward, we see significant scope for further accommodation at the site. In 2015, we purchased adjacent, undeveloped land for the resort's second phase of accommodation, which is expected to follow the holiday village style.

Existing expansion space provides opportunities for still further accommodation. These could include a 'Castle' hotel, lodges or 'glamping'. Each would have different levels of theming and offer varying price points to ensure we cater to as many guests as possible.

IMAGES REMOVED

# RESORT

## *Theme Parks*

THE RESORT THEME PARKS OPERATING GROUP HAS HAD A CHALLENGING YEAR IN 2015. DESPITE A POSITIVE START TO THE SEASON, THE OVERALL PERFORMANCE WAS MATERIALLY IMPACTED BY THE ACCIDENT WHICH TOOK PLACE AT ALTON TOWERS IN JUNE. OUTSIDE OF OUR UK DAY-VISIT TRADING WE ARE PARTICULARLY PLEASED WITH THE PERFORMANCE AT GARDALAND. IN ADDITION THE RESILIENCE OF OUR ACCOMMODATION OFFERING THROUGHOUT THE YEAR GIVES US CONFIDENCE IN THIS STRATEGY. OUR PRIMARY FOCUS SINCE THE ACCIDENT ON 2 JUNE HAS BEEN WORKING TO ENSURE EVERY POSSIBLE LESSON IS LEARNT.

---

**£285**  
**MILLION**  
*revenue in 2015*

IMAGE REMOVED

## OPERATIONAL REVIEW - RESORT Theme Parks

	2015	2014	Growth	Constant Currency Growth
Visitors (m)	10.2	12.0	(14.2)%	
Revenue (£m)	285	331	(14.0)%	(10.2)%
EBITDA (£m)	47	87	(49.2)% <sup>(1)</sup>	(46.5)% <sup>(1)</sup>
Operating profit (£m)	18	60	(75.0)% <sup>(1)</sup>	(73.6)% <sup>(1)</sup>
Like for like revenue growth				(12.4)%

<sup>(1)</sup> Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 50. Including this reallocation, reported EBITDA and operating profit growth were (46.2)% and (70.7)% respectively, and (43.3)% and (69.0)% respectively on a constant currency basis.

**Alton Towers accident**

The Chairman's Statement, Chief Executive's Report, and Health, Safety and Security Committee Report comment in detail on the accident at Alton Towers. The review of the Resort Theme Parks Operating Group which follows focuses on the implications on operations and trading during the period.

**Trading performance of existing estate**

Revenue in the Resort Theme Parks Operating Group fell by 12.4% on a like for like basis, primarily reflecting the significant decline in visitation at Alton Towers following the accident on 2 June. This led to a decline in EBITDA of 46.5% and operating profit of 73.6% at constant currency. The reported trading results of the attractions in Continental Europe were adversely impacted by the translation impact of the weakening of the Euro against Sterling. At reported foreign exchange rates, revenue fell by 14.0% and EBITDA and operating profit fell by 49.2% and 75.0% respectively.

The performance of the Operating Group was dominated by the impact of the incident at Alton Towers and the resulting significant decline in park visitation through the main trading season. Whilst the majority of the impact was experienced at Alton Towers Resort, this created a difficult day-visit theme park market across the UK. As a result THORPE PARK, our other major rides park, also experienced a decline in visitation.

Action was taken to limit the decline in volumes and refocus marketing efforts towards younger families and the broader short break appeal of the resort. However, this had limited effect over the key summer trading period in the face of ongoing media coverage of the incident.

Outside of the UK, Gardaland - Italy's largest theme park - traded well, benefiting from a major new ride investment.

Whilst our larger resorts typically have a significant element of variable costs, the vast majority of these for the 2015 season had been committed by the end of May.

As a result of this, and despite good trading in Gardaland, the significant revenue shortfall at Alton Towers resulted in a significant decline in EBITDA and operating profit. As a result, EBITDA margins declined to 16.5%.

**Capital investment**

Consistent with our strategy of deploying capital in the existing estate according to a pre-determined four year cycle, 2015 saw a major investment at Gardaland. 'Oblivion' - a new dive-coaster - opened at the start of the 2015 season, receiving excellent guest feedback and helping contribute to a good trading performance for the resort. Further details are set out on page 31.

**Resort positioning**

Our strategy of developing our resorts into short break destinations continued in 2015. Alton Towers Resort saw the launch of a new 125 lodge 'Enchanted Village' in April, which complements the existing 391 rooms across two hotels at the resort. Notwithstanding the challenging trading within the day-visit market, this new accommodation offering performed broadly in line with our expectations, and received excellent guest feedback. The 2015 performance further benefited from the full year impact of the new 'Azteca' hotel opened in August 2014 at Chessington World of Adventures, and reinforces our continued confidence in the strategy.

IMAGE REMOVED

The 'Enchanted Village' at Alton Towers Resort

## OPERATIONAL REVIEW - RESORT *Theme Parks*

### Customer satisfaction

We are pleased that, in a difficult year for the Resort Theme Parks Operating Group, guest satisfaction scores remain high, increasing slightly as a result of continued investment in new products and features together with the exceptional staff that helped deliver enjoyable days out to our guests.

### Looking ahead

We will continue to invest in the Resort Theme Parks Operating Group through our four year capital investment cycle in new and compelling propositions, delivering fun, memorable days out to our guests.

Our resort positioning strategy will take another step forward in 2016 as we open a new 100 room 'Adventure Hotel' in Gardaland, adjacent to the existing 247 room hotel. This forms a major part of the resort's ongoing strategy to increase multi-day visits, and appeal more to the approximately three million international visitors who already come to the Lake Garda region of Italy. 2016 will also see us launch a new 'glamping' offering at Chessington World of Adventures, complementing the existing 219 rooms currently offered through our two hotels at that resort. At Warwick Castle, we will be opening the 'Knight's Village', where 28 themed lodges will complement our existing successful medieval 'glamping' experience.

Beyond 2016, we see a strong pipeline of further accommodation across each of our resorts as part of the Group target to open 2,000 new rooms by the end of 2020. These include a combination of further hotels, lodges, 'glamping', and other exciting options for our guests to enjoy! Where possible, we may also look to use Intellectual Property in our accommodation projects in the same way that we have for our existing estate investments.

We remain cautious on the outlook for Alton Towers in 2016, given the challenging year we have experienced in 2015 and the inherent uncertainty around customer behaviour. We are confident in the resort's opportunities and strength longer term.

We remain optimistic on the short term performance of our European theme park resorts, as well as our accommodation offerings.

IMAGE REMOVED

The new 'glamping' offering at Chessington World of Adventures

IMAGE REMOVED

'Galactica' at Alton Towers Resort

### Intellectual property and technology

We view the use of Intellectual Property (IP) and technology as an increasingly important part of the Resort Theme Parks growth strategy. It is an opportunity to generate marketing and PR opportunities and grow first-time and repeat visitation with good capital efficiency.

Across the RTP estate, we already benefit from the Group's excellent relationships with major IP owners, such as the BBC, DreamWorks Animation, ITV and Rovio. 2016 will see further significant developments with existing, and new, IP partners, including Derren Brown at THORPE PARK.

We will launch new themed areas at Gardaland (Kung Fu Panda) and Heide Park (How to Train Your Dragon) using DreamWorks Animation IP. These new features will build on the expertise gained from the 'CBeebies Land' themed area at Alton Towers to both support visitation levels during the year of launch and, as attractions targeted towards young families, to help broaden the resorts' demographics.

In the UK, our major high year capex project is at THORPE PARK where we have partnered with Derren Brown - the acclaimed British maestro of mind control - to create a world's first experience combining the unique talents of Derren to those of the Merlin Magic Making creative team (see page 35).

Finally, at Alton Towers, we will use state-of-the-art, Virtual Reality technology to create 'Galactica', a completely new 'space travel' experience. The use of technology in this way, alongside an existing roller coaster, allows us to create a truly unique experience for our guests with good capital efficiency.

IMAGES REMOVED

## OBLIVION AT GARDALAND RESORT

2015 saw the launch of a new dive-coaster at Gardaland. At a total investment of over €20 million, not only was this the first of its kind for the park, it was also the first for the Italian theme park market!

It was not however a completely new ride for Merlin. The original 'Oblivion' ride, manufactured by Bolliger & Mabillard, was opened at Alton Towers in March 1998. Bringing the ride into the 21st century, the original concept and brand were re-developed, fusing updated and refreshed Intellectual Property with the latest in roller coaster technology.

The ride was launched at the start of the season with an excellent marketing and PR campaign, which drove very high pre-launch awareness. Guest satisfaction KPIs were strong from launch, with the ride enjoying excellent product scores. The strength of the 'Oblivion' brand has allowed us to offer dedicated retail offerings which has helped drive secondary spend in the park. Furthermore, the ride has delivered wider park benefits as the area around 'Oblivion' has been refreshed, with noticeable uplifts in the number of guests enjoying our food and beverage, retail and other units in the vicinity.

As a further sign of the 'Oblivion' brand strength - an internally-generated IP - and our ability to capitalise on this through our resort positioning strategy, we also opened two new 'Oblivion' themed rooms at the Gardaland Hotel.

IMAGE REMOVED

IMAGE REMOVED

IMAGES REMOVED

MERLIN MAGIC MAKING IS THE UNIQUE RESOURCE THAT SITS AT THE HEART OF EVERYTHING MERLIN DOES. THIS SPECIALIST IN-HOUSE TEAM EMPLOYS OVER 300 PEOPLE IN ITS BUSINESS DEVELOPMENT, CREATIVE, PRODUCTION AND PROJECT MANAGEMENT TEAMS. MERLIN MAGIC MAKING CONSTANTLY RAISES THE BAR IN INNOVATIVE THINKING.

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## MERLIN MAGIC MAKING

### MERLIN MAGIC MAKING

- Finds new business opportunities all over the planet.
- Creates the highest class visitor attractions and compelling propositions.
- Takes creative ideas and produces amazing content for our attractions.
- Delivers them at market leading speed and value.

### FINDING THE MAGIC

#### '2016 IS SET TO BE EVEN BUSIER'

The Midway pipeline roll out was successfully delivered for 2015, with seven businesses opened across three continents.

2016 development is set to be even busier. We have already secured seven new Midways scheduled to open this year, with three in China, two in the USA and two in Europe, with our first adventure in India also underway as we target a 2017 opening for Madame Tussauds in New Delhi.

As we look to continue our growth in line with our strategy and to capitalise on our new relationship with China Media Capital, we have strengthened our Asia team.

IMAGE REMOVED

IMAGE REMOVED



## MERLIN Magic Making

## CREATING THE MAGIC

Our Midway roll out continued apace in 2015, starting with SEA LIFE Michigan and followed by the cluster of three attractions in Orlando, two new LDC's in Osaka and Istanbul and, last but not least, the amazing new 'DreamWorks Tours - Shrek's Adventure!' in London.

Across our existing businesses, 2015 has been yet another huge success, led by a new dive-coaster, 'Oblivion', in Gardaland and two new 'LEGO Friends' lands in our LEGOLAND resorts.

Our creative and innovative pipeline looks even stronger as we look forward into 2016. We have some amazing projects near completion across the whole Group, including at THORPE PARK, Alton Towers, SEA LIFE Sydney Aquarium and the LEGOLAND parks in California and Billund.

### 'WE HAVE PROACTIVELY TEAMED UP WITH SOME OF THE BIGGEST IP HOLDERS IN THE WORLD'

As Intellectual Property (IP) becomes even more prevalent across the whole industry, we continue to strengthen our portfolio, proactively teaming up with some of the biggest IP holders in the world to produce some ground breaking 'magic'.

DreamWorks Animation, the BBC, Derren Brown, LEGO, Star Wars, and Horrible Histories are just the highlights of the stellar line up we have in 2016.

We will look even further into these relationships and drive new IP opportunities by proactively seeking out partners for true co-creation. The next generation of these partnerships can be seen with the new 'Derren Brown Ghost Train' experience at THORPE PARK (see page 35).

Oh...and in our spare time we have a couple of ideas on our own IP front...watch this space!

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*In 2016 we will see a fully integrated Virtual Reality roller coaster experience at Alton Towers, which will lead to a mesmerising visit to 'outer space'*

”

### 'OUR UNIQUE BLEND OF MATCHING TECHNOLOGIES OLD AND NEW TOGETHER'

Technology continues to feature heavily in our thinking, with our unique blend of technologies old and new, ensuring that we produce innovative, exciting and immersive experiences for our guests to enjoy. In 2016 we will see a fully integrated Virtual Reality roller coaster experience at Alton Towers, which will lead to a mesmerising visit to 'outer space', as well as ground breaking ride technology being introduced into our LEGOLAND parks.

## MERLIN Magic Making

IMAGE REMOVED

### PRODUCING THE MAGIC

To support our innovative thinking we are ensuring that our technology stays at the forefront of our production processes.

In wax production we have been using 3D printing technology to help us create 'bodies' for our figures and have used a variety of 3D mapping techniques to improve the quality and quicken the process of producing wax heads.

LEGO model demand continues to rise, with the opening of our new parks in Dubai and Japan, our expansion of the LEGOLAND Discovery Centre chain and the great new features we plan for our existing LEGOLANDs. To meet this demand we are starting to implement our 'hub strategy', where we plan to have three main geographic production hubs (Asia, Europe, North America) over the next few years. This starts with our brand new Merlin Magic Making production hub in Florida that opens in the first quarter of 2016 and the expansion of our very successful hub in Malaysia.

Merlin Animal Welfare continues to be at the forefront of the care and wellbeing of the wonderful creatures in our care. We have new training programmes in place that are enhancing the skills of our animal care teams and we are working with a number of external conservation partners to make sure that we are leading the industry when it comes to the collection and display of animals. The team have been heavily involved in projects as diverse as banning the use of cyanide in the wild to creating sustainable animal collection methods.

### DELIVERING THE MAGIC

During a breathtaking 2015 we have been working on over 50 major projects, in eleven countries. These projects represent a total capital investment of nearly £240 million - another record!

All of our Midway roll out businesses have started the build process and our existing estate projects are nearing completion for a great 2016.

Hotels development is in really good shape. In 2016 we will see the launch of a new 100 room hotel in Gardaland and a further 'Castle' hotel launched at LEGOLAND Deutschland to complement the existing offering.

We have further strengthened our projects team with a number of key appointments in 2015, introducing more specialists to ensure we can continue to successfully deliver the magic.

Overall 2015 has been a real success, 2016 is beginning to shape up really well and we are looking forward to pushing ourselves to new heights in our delivery to our guests.

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*In 2016 we will see  
the launch of a new 100  
room hotel in Gardaland  
and a further 'Castle' hotel  
launched at LEGOLAND  
Deutschland*

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IMAGE REMOVED

## MERLIN Magic Making

### DERREN BROWN'S GHOST TRAIN THORPE PARK

#### ***What are we doing?***

We are co-creating a world's first entertainment experience - with the well known Intellectual Property, Derren Brown. We have been able to marry the mind bending talents of Derren to that of the Merlin Magic Making creative team, to create a unique entertainment that has not been seen before.

#### ***How are we doing it?***

In the great Merlin Magic Making tradition, we are using a mix of innovative technology, standard show-based entertainment and new ride design, to create a visitor experience that will be absolutely unique, not just to the theme park market, but to any entertainment experience. Work on construction is completed and we are in the process of adding that special magic that will deliver a world class attraction.

#### ***What will the results be?***

Well...that would be telling! If you want to have your 'socks blown off', see you at THORPE PARK in 2016.

IMAGE REMOVED

# TEAM MERLIN

'THE MERLIN WAY' CAPTURES THE ESSENCE OF HOW TEAM MERLIN ARE ALIGNED WITH OUR ULTIMATE GOAL OF DELIVERING MEMORABLE EXPERIENCES TO OUR GUESTS. OUR PEOPLE STRATEGY UNDERPINS THIS GOAL, DRIVING OUR AMBITION TO BE THE BEST COMPANY TO WORK FOR IN OUR INDUSTRY; NURTURING OUR GLOBAL LEADERS; GIVING OUR TEAM THE SKILLS TO BE THE BEST AT WHAT THEY DO; AND REWARDING GREAT PERFORMANCE. OUR SUCCESS IS DEMONSTRATED BY THE OUTSTANDING EMPLOYEE ENGAGEMENT SCORES RETURNED BY OUR ANNUAL EMPLOYEE SURVEY.

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IMAGE REMOVED

## TEAM MERLIN

**Employee engagement**

Merlin's success rests with 'Team Merlin', our extraordinary people who have an absolute passion for what they do, delivering memorable experiences to our visitors. Or as we put it, living 'The Merlin Way'.

The Merlin Way values capture the essence of Merlin. In short, 'We LOVE what we do', 'We CARE'... and we do it all 'FOR THE LOVE OF FUN'. These values are the reason why so many of our employees love working here to keep on giving our visitors the most magical, memorable experiences every day, everywhere.

Our People Strategy underpins how the Group meets its objectives, keeping our people engaged and focused on our customers. Wherever they work and whatever their role, our job is to make sure that our people feel that they're working for the best - and certainly most magical - company in our sector. Most importantly though it is our shared vision of doing it all 'FOR THE LOVE OF FUN'!



IMAGE  
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**Awards**

The Sunday Times '25 Best Big Companies to Work For' survey has ranked us 15th for 2015 and we're in the top 25 again for 2016. We're really proud! The Job Crowd also named us as one of the top five companies for graduates in our sector.

**'The Wizard Wants to Know'**

During the summer, we ran 'The Wizard Wants to Know', our annual online employee survey. We invited everybody to tell us what they think and to make suggestions - it's our chance to find out just how engaged our employees really are. We're excited that our people, everywhere, completed the survey, and thrilled that again, 95% of our respondents said that they enjoy working here. We think these scores are truly awesome!

Our employee engagement score is one of Merlin's Key Performance Indicators, measuring whether our teams think we are a 'Great Place to Perform', a 'Great Place for Customers', and a 'Great Place to Work'. This year we're really proud that our engagement score has increased again and that it's way above our 80% target. We continue to believe that 'The Merlin Way' sits at the heart of these great results.

**Other engagement initiatives**

We continue to promote strong communications across all our offices and attractions. These include quarterly team briefs from the Executive team, attraction team briefs, newsletters and good, old-fashioned noticeboards.

All our people can play a full part at Merlin through a number of schemes. These include:

- **FOR THE LOVE OF FUN** - this encourages everybody to embed their love of fun into the way we work, so that it's at the heart of everything we do.
- **STAR** - our online global recognition scheme where employees can send 'Stars' to recognise colleagues who live 'The Merlin Way', or just to say 'Thank You' for a job well done. In 2015, they sent more than 100,000 'Stars' worldwide - the most ever!
- **Spark an Idea** - another online service that lets our colleagues share their ideas, however big or small. For example, 'Trading Ambassadors' at one LEGOLAND resort now put LEGO Minifigures on their name badges to trade with visitors. Our visitors love it - and it boosts our Minifigure sales, too!
- **The Merlin Way Film Competition** - this gives our people the chance to make a short video demonstrating just how they make 'The Merlin Way' come to life. This year Madame Tussauds London beat more than 100 other entries from across the globe!



IMAGE  
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< The Merlin Way: our special potion of Merlin values that wins the hearts and minds of our employees to deliver memorably fun experiences to our guests.

## TEAM MERLIN

IMAGE REMOVED

Colleagues at LEGOLAND Billund making it FUN

### Diversity

Our people are the single biggest reason for our success, so we're always striving to make life at Merlin better for all of them. Diversity is a crucial part of this. We've designed our strategy to give us the best people for every role, regardless of gender, race, disability, sexual orientation, or any other factor. We want to make sure that, wherever possible, everyone has the same access to every opportunity. You can read more about our disability work in our 'Being a Force for Good' section on page 54.

In 2015 we continued our work to promote gender diversity, where our Women at Merlin (W@M) programme has been a great success. It helps us give women the support and opportunities they need to achieve their ambitions and develop into senior roles. We have now expanded the network by opening up some of our W@M workshops and webinars to women working at lower grades across the world. There are now 108 women making up 33% of our senior leadership teams, while 3,925 or 49% of our permanent colleagues are women.

Each of our Operating Groups has now set up Diversity Development Plans. These don't just focus on achieving a gender balance, but on improving our diversity overall. To support this, we've launched an 'Unconscious Bias' programme for our senior leaders globally. It trains them to recognise and avoid unconscious bias, so that Merlin remains an inclusive place to work, where every single employee can flourish.

IMAGE REMOVED

Colleagues at Falls Creek on the slopes!

### Talent and development

Merlin's future growth depends on recruiting and developing the Team Merlin of the future. We're an entertainment company, dedicated to giving our guests unforgettable experiences, so we seek out people who have a genuine love of fun and a natural ability to inject magic into the lives of our guests whenever they visit one of our attractions.

Once recruited, it's our commitment to develop and promote people within Merlin by offering amazing careers. We carefully nurture their talents, providing them with training to do a great job and supporting their development to enable them to take full advantage of the fantastic opportunities available. We encourage employees to move across disciplines, brands, and countries to build their own unique careers like many hundreds of employees before them. Fundamentally we believe Merlin offers a world of opportunities; whatever they want from their next role, we strive to offer it in Merlin!

### Recruitment

As Merlin grows each year, we need an ever greater variety of roles and skills and offer an increasingly wide range of opportunities. We have been working closely with our recruiters to give them the skills, knowledge and creativity they need to find and select candidates who have the right skills and attitudes for long and successful careers with us.

Technology plays a key role in our hiring strategy and application process so we continue to put special emphasis on our social media activities and how we present our internal employer brand and values to the outside world. In developing markets, we continue to build relationships that will help us improve our campaigns there.

### 'Welcome to Team Merlin' - our new induction

In 2015 we launched our brand new induction, 'Welcome to Team Merlin'. We're now confident that, wherever in the world our new people join us, they have a clear, consistent and fun induction into our magical business. The induction has proved hugely successful globally, with some outstanding feedback.

We also introduced our global 'Senior Leader Induction'. This brings together our new leaders from around the world for an exciting five days. Sessions provide insights into the whole Merlin business, our Operating Groups, Merlin Magic Making and other key functions.

The induction gives our new leaders a fabulous opportunity to network and a valuable chance to improve their understanding of our strategy, 'The Merlin Way', and their role as a Merlin leader in fulfilling our strategy and enhancing our culture.

IMAGE REMOVED

## TEAM MERLIN

**Training**

Whether customer facing, in a management role or a support function at any of our attractions, or in a position at one of our corporate offices, our goal is to allow everyone to have the right skills to be the best at what they do and fulfil their potential in their career with Merlin. A key component of this is the wealth of training we provide. Aside from the initial induction, there are opportunities specific to an individual's role and an abundance of specialist training to further enhance their careers.

**Accelerate**

Accelerate is our fast track graduate programme which provides tailored roles for Marketing and General Management positions and is structured to support individuals at every step of their Merlin career. This was demonstrated in 2015 when all of our 2013 intake moved into permanent roles and a number of Accelerate alumni were promoted into senior positions across the Group. Reflecting our global scale, the 2015 intake included super-talented recruits from across the UK, North America, Germany, China, Hong Kong, Japan, South Korea and Australia.

**Leadership development programmes**

We've got lots of other brilliant leadership development programmes, including partnering with the IMD Business School in Switzerland to provide our senior executives with exceptional leadership development. Our flagship 'XCalibre' programme, which we run with Kingston University is for leaders with bags of potential. There's the 'Merlin Leadership Programme', which we run globally, as well as our 'Bootcamps' - development centres specifically for our General Management, Finance and HR team members. Bootcamps combine personal development and competency assessment to help us identify and nurture the talent already working here.

**Merlin employee exchange programme**

Originally launched in the UK, the Merlin Employee Exchange Programme is now a global success story. Through job swaps or placements, the programme gives our people the chance to work in other attractions around the world. Linked to individual employees' Personal Development Plans and Merlin's succession planning strategy, this programme lets those involved develop new skills, forge new relationships and benefit from new experiences, all of which help prepare them for the next step in their career. Nearly 60 placements took place in 2015.

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And finally, at any time our teams can access **Merlin's School of Magic**, our online training resource run with the renowned Ashridge Business School.

**Compensation and benefits**

When you rely on your people as much as we do, it's essential to provide compensation and benefit programmes which are competitive and which support our business and culture.

**Share plans**

We continue to make great progress towards our goal of helping as many of our colleagues as possible to take an equity stake in Merlin. We call this 'Owning a Piece of the Magic' and it's an important way of making Team Merlin even more committed to our success.

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Early in the year we launched our second Employee Sharesave offer. It gives our permanent colleagues a chance to build up a holding of Merlin shares by saving over a three year period and buying shares at a discount. This opportunity was spread internally with a huge multi-media campaign, which included videos from our CEO, webinars, face to face briefings, intranet updates, posters and 'table-top teasers'. We're thrilled that, so far, almost 38% of our permanent colleagues worldwide have enrolled in the Sharesave plans.

We also made more than 400 share awards to colleagues at executive, senior and middle management levels under our long term incentive plans.

**Other benefits initiatives**

We continue to harmonise our local benefit structures one country at a time and run a number of programmes to support our teams. For example, we've increased our focus on pensions (particularly in the UK), to reflect the age profile of our employees and ensure we apply latest legislation. We've also extended our employee healthcheck programme to support the physical wellbeing of our people.

We've seen a big jump in the number of colleagues moving to new countries to support our business growth, and things haven't slowed down this year! These moves have directly supported our Midway and LEGOLAND attractions as they step up their development. Our international mobility programme is invaluable in helping us move our greatest assets safely, securely and comfortably.

# RISKS

## *and uncertainties*

MERLIN CONTINUES TO EXERCISE A PROACTIVE APPROACH TO THE MANAGEMENT OF POTENTIAL RISKS AND UNCERTAINTIES WHICH COULD AFFECT THE HEALTH, SAFETY AND SECURITY OF GUESTS, STAFF OR OUR ANIMALS OR HAVE A MATERIAL IMPACT ON THE GROUP'S BUSINESS PERFORMANCE, DELIVERY OF ITS STRATEGY OR THE INTEGRITY OF ITS FINANCIAL REPORTING. IT IS AN INTEGRATED 'BOTTOM UP' AND 'TOP DOWN' APPROACH, WITH BUSINESS RISKS IDENTIFIED, EVALUATED, CONTROLLED AND MONITORED BY BOTH OUR ATTRACTION AND CORPORATE MANAGEMENT TEAMS, AND OVERSEEN BY THE BOARD AND ITS COMMITTEES. EMPHASIS IS PLACED ON IDENTIFYING NEW RISKS THAT MAY AFFECT MERLIN IN THE FUTURE.

In September 2014, new or revised obligations were introduced by the Financial Reporting Council in connection with the assessment of risk management and internal controls by the Board. The most notable of the changes were those that related to:

- The ongoing monitoring, review, assessment and reporting of risk management and internal control effectiveness; and
- The statement required from the Directors that they have a reasonable expectation that the Group will be able to continue in operation over a specified assessment period (the Viability Statement).

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*Merlin continues to exercise a proactive approach to the management of potential risks and uncertainties*

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Merlin's strategic business planning and risk management processes had historically gone some way to meeting these objectives and were extended in 2015 to meet the obligations fully.

### **Overview of Merlin's approach to risk management**

Merlin separates risk and the management thereof into three components. The Board retains overall responsibility for these components, appointing specific Committees to oversee the management of the risks in each category as follows:

- Health, safety and security risk - overseen by the Health, Safety and Security (HSS) Committee which comprises both Board members and senior management representatives. Our HSS Committee report on pages 66 to 69 provides more details of our approach to HSS governance, management and assurance.
- Commercial and strategic risk - overseen by the Group's Executive Committee (a non-Board committee), the Commercial and Strategic Risk Management Committee (CSRMC) comprises members of the Executive Committee and is chaired by the CFO (a full Board member) with minutes of the quarterly meetings provided to the Non-executive Board members and a verbal update to the Board provided by the Chairman. Annually, a detailed report of the discussions and output of the Committee is provided to the Board.
- Financial process risk - overseen by the Audit Committee which comprises Non-executive members of the Board.



## RISKS and uncertainties

### Risk appetite

In fulfilling the Group's strategy, proportionate and considered commercial risks are taken to maximise profitable growth and sustainable returns for its investors. The amount of risk the Group is willing to take to achieve such commercial success must never compromise the health, safety and security of guests, employees, contractors, animals or other visitors and be aligned with the Group's policies on sustainability and the environment.

To ensure there is effective governance, monitoring and measurement of the Group's appetite for risk, both quantitative and qualitative measures are used. Quantitative measures include defined financial and non-financial targets, whereas, qualitative measures consider items such as reputational impact, management effort or compliance with law and regulation.

In assessing the significant risks the Group faces, the risk appetite parameters set by the Board fall into two distinct categories:

- **Compliance risk** - this covers the requirement to comply with legislative or regulatory requirements in all territories where the Group operates. It includes, but is not limited to, ride safety, accounting practices or fraud and bribery, as well as ensuring compliance with the Group's values and ethical principles. In these circumstances the Board is risk averse and does not countenance any breaches in compliance obligations.
- **Commercial risk** - this covers the willing acceptance of a risk to earn a commercial reward. The Group manages this type of risk by employing an appropriate analysis of threats and opportunities and structured review processes, independent expert opinions and decision-making authority levels. Factors such as the scale of possible commercial upside, the potential market size, the quantum of downside risk and timescales involved may all be relevant to commercial risk decisions.

### Risk management

Each attraction and central function maintains a risk register, being a record of the material risks it faces categorised into the three components of risk identified above. The registers include a rating of each risk, based on an assessment of likelihood and impact after taking into account existing mitigating control measures including front end processes, management oversight and independent review. Where this assessment indicates a high residual risk, additional actions are considered to further mitigate the risk. Risk registers provide the basis for ongoing risk management and all are formally reviewed at least once a year. This review feeds into the annual strategic business planning cycle.

In addition to the ongoing risk management processes, periodic detailed reviews of specific risk issues are also undertaken. This review process, together with structured audit programmes covering both financial processes and health, safety and security controls across the Group, allow the Board to gain assurance over the robustness of risk management systems.

### Health, safety and security (HSS) risk

We are continually working to identify and implement new safety improvements and reduce risks. Our goal is to provide and maintain the highest practical health, safety and security standards across Merlin's portfolio. We operate a positive and proactive safety culture with an approach that complies with legislation, meets or exceeds industry standards and above all safeguards our guests, employees, visitors and contractors within our care.

Merlin's Health, Safety and Environmental Management System provides a systematic approach that combines appropriate organisational structure, management commitment, planning, policies, processes, monitoring, incident reporting, auditing, reviewing, effective communications, and software that effectively controls risk and delivers proactive maintenance procedures plus robust systems of work.

Managers at every level are responsible for HSS matters, supported by functional HSS specialists who provide advice and help with all aspects of risk. Merlin's managers are integral to the effective planning, organisation, control, monitoring and review of preventative and protective measures.

### Commercial and strategic risk

The management of commercial and strategic risk is embedded across the Group through a regular cycle of strategic and operational reviews completed at attraction, regional and divisional levels. Each attraction and central function is required to perform a full risk assessment workshop on an annual basis. The purpose of this process is to review any material changes in the external commercial landscape and to assess whether recent trading trends may require an alternative risk management approach. These annual assessments are incorporated into the commercial and strategic section of the risk register for each Operating Group and are aggregated at Group level.

During the year the CSRMC participated in an externally facilitated workshop to consider whether any new or emerging industry or macro risks ought to be added as key focus areas in 2016. Risks that were added as a result of this process include the fast changing technological developments the industry is undergoing.

The CSRMC also has oversight responsibility for the treatment of animals in our care. To ensure that we meet the high standards our stakeholders expect, the Group has a team dedicated to animal welfare and development. This team of subject matter experts is responsible for ensuring that the Group behaves in an ethical way in the sourcing, transportation, care and display of animals. The team works across the globe with regulatory bodies, vets and conservationists to develop programmes that support breeding rather than collection from the wild, delivering high quality educational content and identifying improvements in the already high standards we set for animal care.

## RISKS and uncertainties

### Financial process risk

Financial processes within the Group are led and co-ordinated by the central finance function. To manage financial process risks we continually assess external regulatory changes, the quality and timeliness of internal financial reporting and other financial risk areas such as taxation and treasury. Key issues are reviewed on a quarterly basis by a senior finance team within Merlin and reported to the Audit Committee.

Further assurance is gained from both the internal and external audit processes. In 2015 the internal audit function, based on an annual assessment of risk, provided audit coverage of material central functions and attractions representing approximately 60% of attraction generated revenue, as well as central revenue generating functions, such as e-commerce and call centres. These activities seek to identify procedural weaknesses and provide a structure to assess and report on management's response. The Group is also subject to external audit. Matters arising from both audit functions are reported to the Audit Committee.

### Business continuity planning

The Group has in place disaster recovery plans incorporating escalation procedures and crisis management protocols. They are regularly updated.

More broadly, business continuity plans exist to allow attractions to recover performance in the event of various adverse incidents. Examples of such incidents could include prolonged power failure, major IT failure or life support system failure within a SEA LIFE attraction. It is recognised that only limited contingency planning can be made against natural disasters such as major flooding or earthquakes, however the Group's geographic diversity provides protection against the financial impact of such occurrences.

The Group has performed a review of these business continuity processes following the accident at Alton Towers in line with its standard response protocols. Findings from this review will be implemented in 2016.

### Principal risks

The tables on the following pages highlight the main risks that have been identified through the Group's risk assessment processes and that have the potential to impact on the strategic development of the Group.

The risk committees consider both gross and net risk, where gross risk reflects the risk exposure and risk landscape before considering the mitigations in place, and net risk reflects the residual risk after mitigations. The gross risk movement from prior year for each principal risk and uncertainty has been assessed and is presented as follows:

<b>Stable</b>	No change in gross risk exposure
<b>Increasing</b>	Increased gross risk exposure
<b>Reduced</b>	Reduced gross risk exposure

Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk and uncertainty.

### Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a four year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 43 to 45. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period until December 2019.

The Group's strategic planning process occurs annually on a rolling basis, in the middle of the year, covering the current year plus four further years. Accordingly the Directors have determined that a four year period to December 2019 is an appropriate period over which to provide its Viability Statement.

The strategic plan considers all elements of the Group's growth strategy. It focuses on capital investment in the existing estate, where the review period matches or is in excess of the pre-determined capital investment cycles; new business development including the roll out of Midway attractions and the development of committed new LEGOLAND parks; and the expansion of our accommodation portfolio. The Group also considers strategic acquisition opportunities and other uncommitted potential major capital projects within the plan period to assess the availability of appropriate funding.

The Board also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency or liquidity as well as the Group's approach to risk management as set out in this Strategic Report. The outputs from these reviews are then used to perform liquidity and debt covenant headroom analysis, including the downside sensitivity review based on principal risks.

While the review has considered all the principal risks identified by the Group, severe but plausible events were focused on for enhanced stress testing. The results take into account the controls implemented by the Group as well as the availability and likely effectiveness of specific mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks. The diversification of the Group's attractions helps minimise the risk of serious business interruption for many of its principal risks, for example extreme weather conditions or changing economic and political environments. Also, our ability to flex the cost base and the ability to rephase or delay capital investment protects our viability in the face of macro events or uncertainty not in the Group's control.

## RISKS and uncertainties

Description		Gross risk trend	Mitigating factors
<b>Health, safety and security (HSS)</b>			
Ride and attractions safety	<p><i>Health and safety is one of Merlin's Key Performance Indicators.</i></p> <p>A serious accident to a guest or staff member on a ride or at an attraction could cause harm to an individual and impact confidence in the Group's brands.</p>	Stable	<ul style="list-style-type: none"> <li>Proactive ownership of HSS risks by line management based on the provision and adoption of HSS policies, Codes of Practice and guidance notes.</li> <li>Competent and trained operational and engineering staff, backed up by professional HSS teams supporting, monitoring and inspecting attractions.</li> <li>Utilisation of HSS systems to support the management of risks with annual risk register and action planning processes by each attraction.</li> <li>Regular internal and annual independent external auditing regimes.</li> <li>Regular review of performance as well as key policies and procedures.</li> </ul>
Contractor management	The delivery of new attractions and experiences often involve work by sub-contractors. Poor workmanship or unreliable delivery could impact the Group's safety and growth expectations.	Stable	<ul style="list-style-type: none"> <li>Contractor selection and approval procedures.</li> <li>Major contracts are managed by qualified project managers and are subject to strict tendering processes.</li> <li>Contractor performance is monitored by in-house project management teams.</li> </ul>
Terrorism	<p>A terrorist attack on, or sabotage of, a ride or attraction could cause harm to one or more individuals, as well as impacting guest confidence.</p> <p>A terrorist attack on a city in which the Group operates could impact on people's confidence to visit that city.</p>	Increasing	<ul style="list-style-type: none"> <li>Detailed security protocols.</li> <li>Regularly tested major incident management plans.</li> <li>Co-operation with local and national security forces.</li> <li>Availability of appropriate insurance cover.</li> </ul>
Pandemic	A material macro event such as the spread of a worldwide pandemic could impact visitation in one or more of the Group's geographies.	Increasing	<ul style="list-style-type: none"> <li>Regularly tested major incident management plans.</li> </ul>
Infrastructure safety	The failure of one of the Group's buildings or other structural elements, through fire, flood, power failure, substandard build quality or degradation, could cause harm to an individual or animal. This could lead to an adverse impact on the public's confidence in the Group's brands.	Stable	<ul style="list-style-type: none"> <li>External independent review processes.</li> <li>Competent and trained operational and engineering staff, monitoring and inspecting facilities in accordance with a planned maintenance and inspection regime.</li> </ul>

IMAGE REMOVED

## RISKS and uncertainties

	Description	Gross risk trend	Mitigating factors
<b>Commercial and strategic</b>			
Customer satisfaction	<p><i>Customer satisfaction is one of Merlin's Key Performance Indicators.</i></p> <p>A downturn in customer enjoyment of our attractions could impact repeat visitation. Similarly subsequent adverse social media feedback could adversely affect customer likelihood to visit.</p>	Stable	<ul style="list-style-type: none"> <li>Regular and detailed customer feedback collected at every location. Data analysed against challenging satisfaction targets and actions taken accordingly.</li> <li>Ongoing investment in our attractions continually refreshes the experiences for customers.</li> <li>Monitoring public and social media for concerns in order to take any requisite action.</li> </ul>
People availability and expertise	<p><i>Staff engagement is one of Merlin's Key Performance Indicators.</i></p> <p>Merlin is a people business. The increasing cost of attracting and retaining motivated, customer service orientated staff could impact guest satisfaction and future expansion.</p>	Increasing	<ul style="list-style-type: none"> <li>Personal development plans in place at all levels of the business to encourage long term employment stability.</li> <li>Succession planning processes embedded across the Group and proactively managed.</li> <li>Annual employee survey to monitor employee engagement and to identify opportunities to develop HR policies and processes.</li> </ul>
Foreign exchange rates impacting international tourism	<p>Changes in exchange rates can have a positive or adverse impact on inbound tourism. If exchange rates work against a country in which the Group generates a high proportion of its revenue this can adversely impact visitation.</p>	Stable	<ul style="list-style-type: none"> <li>Increased hedging as a result of further diversification of the Group's operations globally.</li> <li>Ability to proportionally upweight marketing activity towards either domestic or international audiences depending on tourism trends.</li> </ul>
Animal welfare	<p>Growth would be impacted if animals were lost to disease or other welfare issues.</p>	Stable	<ul style="list-style-type: none"> <li>External Zoo Licence audits ensure appropriate animal care.</li> <li>Internal ethics committee and the Merlin Animal Welfare and Development team ensure the ethical treatment of animals in our care.</li> </ul>
Availability and delivery of new sites and attractions	<p>The Midway and LEGOLAND parks growth strategy is predicated on the availability of suitable sites. A decline in the pipeline of suitable and economically viable sites could inhibit this growth.</p> <p>Planning permission is often required for new rides and attractions so growth could be impacted if planning permission could not be obtained.</p>	Stable	<ul style="list-style-type: none"> <li>Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of expansion opportunities.</li> <li>Sites regularly update their development masterplans and teams work closely on fostering links with local communities and planning authorities.</li> <li>The introduction of a dedicated New Openings team in 2015 expands the Group's resources to support its roll out strategy.</li> </ul>
Competition	<p>Competition for leisure time and new entrants to the market could reduce opportunities for growth.</p>	Stable	<ul style="list-style-type: none"> <li>Diversification to reduce reliance on individual attractions or locations.</li> <li>Ongoing investment in sites to ensure continued appeal to visitors.</li> </ul>
IT robustness, technological developments and cyber security	<p>The Group has grown in the past both organically and through acquisition and as a consequence has varied IT systems across its portfolio.</p> <p>Such systems and associated technical developments necessary to meet consumer expectations are integral to the success of the Group's operations and financial reporting integrity.</p> <p>The Group remains conscious of the increasing threat of cybercrime and speed by which new technology can act as a business interrupter.</p>	Increasing	<ul style="list-style-type: none"> <li>IT strategy focused on ensuring the long term stability of operating systems and data security, whilst keeping pace with the changing face of consumer IT expectations.</li> <li>Increasing resilience of the Group's IT stability and security through an expanded use of secured hosting partners and penetration testing regimes.</li> <li>Further measures put in place to mitigate the increasing threat of cyber security risk.</li> </ul>
Weather / seasonality	<p>Individual attraction performance can be affected by particularly adverse weather at key trading periods.</p>	Stable	<ul style="list-style-type: none"> <li>Increased hedging as the proportion of revenue generated from Asia Pacific and North America regions increases.</li> <li>Healthy mix of indoor and outdoor attractions.</li> <li>Strategy to drive an increased percentage of pre-booked business.</li> </ul>

## RISKS and uncertainties

	Description	Gross risk trend	Mitigating factors
<b>Financial process</b>			
Anti-bribery and corruption	<p>An incident of bribery or corruption could lead to prosecution and fines and could cause reputational damage to the Company.</p> <p>Merlin's business model is lower risk relative to other industries as the majority of transactions are of low value and to individual customers.</p> <p>Merlin has a well embedded culture across the Group in which fraud and bribery at any level are not tolerated. Merlin does however operate globally and increasingly within territories with a historically higher propensity to bribery and corruption.</p>	Stable	<ul style="list-style-type: none"> <li>• Global fraud and bribery training programme in place alongside a fraud policy sign off for all staff.</li> <li>• Robust financial and contractual controls with regard to procurement activities. Internal audit monitors purchasing processes on a rotational basis.</li> <li>• A separate profit protection team monitors for theft or other criminal activity across the Group and ensures best practice for protection is shared between sites.</li> <li>• A whistleblowing policy is in place together with an independently operated employee hotline.</li> </ul>
Liquidity / Cash flow risk	<p>Many of Merlin's businesses are seasonal in nature, generating cash in peak trading periods and utilising cash out of season, when capital investments are undertaken and fixed costs continue to be incurred.</p> <p>Merlin's growth plans include both the roll out of existing Midway and LEGOLAND brands, as well as strategic acquisitions when appropriate opportunities present themselves. The Group needs to have sufficient cash to fund these activities.</p> <p>Lack of liquidity and changes to the global credit market could impact the Group's long term ability to meet current growth targets.</p>	Reducing	<ul style="list-style-type: none"> <li>• The Group has a £300 million multi-currency revolving credit facility to assist with seasonal cash flow requirements as necessary.</li> <li>• Short term cash flow forecasts are updated frequently in order to ensure liquidity for business operations on an ongoing basis.</li> <li>• Forecasts cover at least four years and are reviewed regularly to ensure sufficient financial headroom exists and to meet the covenant tests set out in the Group's banking facilities.</li> <li>• Merlin maintains strong relationships with a number of lenders and keeps the debt markets under review in order to ensure that funding is obtained at the right time and at the right price to ensure the availability of funds to meet its strategic growth plans.</li> <li>• The continued expansion of the Group outside of Northern Europe reduces the exposure to any one peak trading period.</li> </ul>
Interest rate risk	<p>In addition to equity, Merlin continues to finance its operations through cash flow and long term debt. As a significant amount of the debt is at floating rates it is exposed to interest rate fluctuations which could impact on financial performance.</p>	Stable	<ul style="list-style-type: none"> <li>• Interest rate swap arrangements in place to fix the majority of the debt, all of which are hedge accounted.</li> </ul>
Foreign exchange translation risk	<p>Merlin generates its main profits in Sterling, Euros and US Dollars and has long term debt in these currencies.</p> <p>Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.</p>	Increasing	<ul style="list-style-type: none"> <li>• The Group presents constant currency figures where appropriate to show the underlying results of the Group excluding the impact of foreign exchange rate translation differences.</li> <li>• Treasury policies in place and reviewed annually with regular reviews of currency exposures.</li> <li>• Broad match of borrowings in the currencies of underlying profits.</li> <li>• Currency exposures hedged where appropriate.</li> </ul>
Credit risk	<p>Merlin has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit.</p> <p>Merlin has relationships with a number of banks and is therefore inherently exposed to some credit risk.</p>	Stable	<ul style="list-style-type: none"> <li>• Counterparty credit ratings are regularly monitored and there is no significant concentration of credit risk with any single counterparty.</li> </ul>

# GROUP

## *Financial Review*

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IMAGE REMOVED

**Andrew Carr**  
Chief Financial Officer

## GROUP Financial Review

	2015 £m	2014 £m	Growth £m	Change at actual rate %	Change at constant rate %
Revenue	1,278	1,249	29	2.3%	3.9%
EBITDA <sup>(1)</sup>	402	411	(9)	(2.1)%	(1.1)%
Operating profit <sup>(1),(2)</sup>	291	311	(20)	(6.2)%	(5.6)%
Net finance costs <sup>(1)</sup>	(41)	(62)	21	32.6%	
Profit before tax <sup>(1)</sup>	250	249	1	0.3%	
Taxation <sup>(1)</sup>	(70)	(70)	-	-	
Profit for the year <sup>(1)</sup>	180	179	1	0.4%	
Post-tax exceptional items	(10)	(17)	7	43.2%	
Leverage on net debt to underlying EBITDA	2.3x	2.3x			

**Trading performance**

Despite the challenging trading conditions experienced in 2015, Merlin has delivered a robust set of financial results. Underlying profit before tax of £250 million was in line with 2014, and with £325 million of operating cash flow, the business remains highly cash generative. We continue to invest for the long term - in both our existing and new attractions.

Total revenue grew by 3.9% in 2015 on a constant currency basis, reflecting our like for like businesses combined with the contribution of new Midway attractions and accommodation. Like for like revenue grew by 0.4%, with strong growth in the LEGOLAND Parks Operating Group offset by challenging trading in Resort Theme Parks (RTP). Movements in foreign exchange rates reduced the reported results however, resulting in revenue growth of 2.3% to £1,278 million. Further detail on the impact of foreign exchange movements is provided on the next page.

Visitor numbers grew by 0.3% during the year, reflecting the continued strong performance in LEGOLAND off the back of a record year in 2014 and the benefit of new attractions, offset by a sharp decline in RTP and a lower Midway Attractions like for like performance.

Revenue per capita (RPC) was £18.31, in line with the prior year (2014: £18.15). This was driven by general underlying price increases and mix improvements, with proportionally higher visitation in the LEGOLAND parks which bring higher average spend levels. This was offset by adverse net foreign exchange translation impacts. Our focus continues to be on revenue maximisation rather than specific volume or RPC targets.

Reported EBITDA fell by £9 million, or 2.1%, to £402 million. EBITDA declined by 4.3% on a like for like basis and by 1.1% including the contribution of new attractions and accommodation, on a constant currency basis.

Merlin's operating model is such that increased revenues at existing attractions should flow through to operating profit less incremental expenditure on a number of variable costs, such as direct cost of sales, incremental labour costs and variable rents. Similarly, if an attraction experiences significant unplanned reductions in revenue, some costs may be variable but a proportion of costs will be relatively fixed. Operating margins are also impacted by the mix of revenues across attractions, including the impact of foreign exchange translation, as well as the nature of additional revenues generated by each site.

In 2015, EBITDA margins fell by 1.4% to 31.5%, as a result of the lower like for like revenue growth, the significant decline in RTP revenue and a cost base that can only be flexed to a limited degree in the short term. Additionally, the dilutive impact of new openings has further dampened the Group margin. A number of one-off central cost savings were made during the year, including savings in variable remuneration. This resulted in a reduction in central costs of 12.7%, excluding the effect of the change in allocation of costs to the three Operating Groups (see page 50 for more details).

Operating profit declined by £20 million, or 6.2%. This reflected both the decline in EBITDA and an increase in the depreciation and amortisation charge from £100 million to £111 million, reflecting our continued capital investment across the estate.

**Table notes:**

<sup>(1)</sup> References to EBITDA, net finance costs, taxation and all other profit measures in the table above and the following commentary are stated on an underlying basis, before exceptional items unless otherwise stated. Further details are provided of exceptional items on page 118.

<sup>(2)</sup> Operating profit is defined as EBITDA less depreciation and amortisation.

Details of the Group's accounting policies are contained within the financial statements on pages 108 to 161 and those areas requiring significant judgement in the preparation of the financial statements are summarised on page 114.

Further information regarding the Group's segmental analysis; geographical revenues and assets; and certain operating costs are provided in note 2.1 to the financial statements on pages 115 to 117.

## GROUP Financial Review

**Finance costs**

**Net underlying finance costs** reduced by £21 million to £41 million (2014: £62 million). In March 2015 the Group completed a refinancing of its core debt facilities which provided further flexibility for the Group and significantly reduced the cost of debt finance (see note 2.3 to the financial statements). More details on the refinancing are set out on the next page.

**Underlying profit before tax**

Underlying profit before tax of £250 million was in line with the prior year. This was consistent with the revised expectations we announced for the year on 27 July 2015 in the light of challenging trading conditions following the accident at Alton Towers.

**Taxation**

An underlying tax charge of £70 million is equivalent to an effective tax rate of 27.9% (2014: 28.0%) of underlying profit before tax. The difference between the reported effective tax rate and the UK standard weighted tax rate of 20.3% is mainly due to the different tax rates that apply in the various jurisdictions we operate in around the world. Further detail is provided in note 2.4 to the financial statements.

**Exceptional items**

There were no exceptional costs impacting EBITDA or operating profit in 2015 or 2014.

**Exceptional finance costs** of £13 million were incurred in the period. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities and as a result recycled £14 million through the income statement that had previously been hedge accounted through equity. This was then offset by foreign exchange gains of £1 million, also as part of the refinancing. Tax on exceptional items amounted to a credit of £3 million (2014: credit of £6 million).

**Foreign exchange rate sensitivity**

Merlin is exposed to fluctuations in foreign currency exchange rates principally on the translation of the results of our overseas operations. The table below shows the impact on 2014 revenues of re-translating them at 2015 foreign exchange (FX) rates. Operating profits would be similarly impacted.

Currency	2014 average FX rates	2015 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.66	1.54	7.4%	22
EUR	1.24	1.39	(11.5)%	(26)
AUD	1.82	2.04	(11.9)%	(9)
Other				(6)
<b>Reduction in 2014 revenues at 2015 FX rates</b>				<b>(19)</b>

“

*Merlin's refinancing  
provided further flexibility for  
the Group and significantly  
reduced the cost of  
debt finance*

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**Earnings per share (EPS)**

Basic earnings per share was 16.8p (2014: 16.0p).

Adjusted earnings per share, which excludes the impact of exceptional items, was 17.8p (2014: 17.7p).

**Reconciliation between basic and adjusted earnings**

	2015 £m	2014 £m
Profit attributable to shareholders	170	162
Exceptional items after tax	10	17
Adjusted profit attributable to shareholders	180	179
Weighted average number of shares (million)	1,014	1,014
Basic earnings per share	16.8p	16.0p
Adjusted earnings per share	17.8p	17.7p

**Dividend**

The Company has adopted a progressive dividend policy with a target range of payout of 35-40% of underlying profit after tax, so as to maintain an appropriate level of dividend cover whilst retaining sufficient capital in the Group to fund continued investment across our six strategic growth drivers.

In September 2015 we paid an interim dividend of 2.1 pence per share and the Board is recommending a final dividend of 4.4 pence per share. This equates to a full year dividend of 6.5 pence per share.

When making proposals for the payment of dividends, the Directors consider the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits, as well as the liquidity of the Group.



## GROUP Financial Review

## Cash flow

	2015 £m	2014 £m
<b>EBITDA</b>	<b>402</b>	<b>411</b>
Working capital and other movements	(18)	-
Tax paid	(59)	(54)
<b>Net cash inflow from operating activities</b>	<b>325</b>	<b>357</b>
Capital expenditure	(215)	(192)
Other investing activities	(5)	(3)
Interest paid, net of interest received	(41)	(56)
Dividends paid	(64)	(20)
<b>Net cash inflow before refinancing and repayment of borrowings</b>	<b>-</b>	<b>86</b>
Refinancing and repayment of borrowings	(137)	(70)
<b>Net cash (outflow)/inflow for the year</b>	<b>(137)</b>	<b>16</b>

Merlin continues to be highly cash generative, with a net operating cash flow after tax of £325 million (2014: £357 million). This reflects EBITDA less £18 million of working capital and other outflows, primarily relating to the payment of 2014 performance related bonuses, together with tax payments in the year of £59 million.

Capital expenditure of £215 million was incurred, comprising £125 million on the existing estate and £90 million on new attractions and accommodation.

Consistent with Merlin's strategy, our capital investment programme creates new rides, themed areas or features for the existing businesses, following the specific investment cycles laid down for each Operating Group.

In addition to the £125 million invested in the existing estate, we have invested £40 million in new accommodation offerings across our theme park resorts, including the 'Enchanted Village' lodges at Alton Towers and the new LEGOLAND Florida Hotel. The Group invested £44 million opening new Midway attractions. Seven new attractions were opened in 2015 and we plan to open a further seven in 2016.

Capital expenditure of £6 million was incurred in respect of the new LEGOLAND parks currently under development in Japan and South Korea.

All major capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing their viability and to ensure appropriate prioritisation.

Other investing activities of £5 million reflected an increased investment in LEGOLAND Malaysia.

Refinancing and repayments of borrowings totalled £137 million. Surplus cash reserves were used to make a net repayment of £110 million of term debt as part of the refinancing (set out below). Payments of £27 million were made in respect of the refinancing and restructuring of the related interest rate swaps.

Net interest paid of £41 million (2014: £56 million) has reduced reflecting lower finance costs following the refinancing in March 2015.

Dividends paid in the year of £64 million comprise the final dividend for 2014 of £43 million together with the interim dividend for 2015 of £21 million (2014: £20 million).

## Net debt

Further detail is provided in note 4.1 to the financial statements.

	2015 £m	2014 £m
Interest-bearing loans and borrowings	1,007	1,136
Less: cash and cash equivalents	(152)	(285)
	<b>855</b>	<b>851</b>
Finance leases	82	84
<b>Net debt</b>	<b>937</b>	<b>935</b>
Leverage on net debt to underlying EBITDA	2.3x	2.3x

Leverage on net debt at the year end equates to 2.3x underlying EBITDA (2014: 2.3x), reflecting broadly similar levels of both EBITDA and net debt for each reporting period.

## Loan facilities

In March 2015 Merlin completed a refinancing of its core debt facilities. The new committed facilities are:

- Bank facilities from twelve relationship banks in the form of £648 million of floating rate term debt in a combination of US Dollars, Euro and Sterling to mature in March 2020.
- A £300 million multi-currency revolving credit facility from the same twelve banks.
- The Group's inaugural bond in the form of €500 million (£367 million) seven year notes with a coupon rate of 2.75% to mature in March 2022.

In connection with the refinancing, fixed charges over shares in certain Group companies and certain intra-Group receivables were released. The new facilities are senior and unsecured. This transition to unsecured facilities reflects the re-positioning of the Merlin credit profile as one more expected of a listed business.

## GROUP Financial Review

These landmark transactions confirmed investors' confidence in the Group's strategy, allowing Merlin to diversify sources of finance in line with its business plan, while benefiting from long term resources at an attractive cost.

In addition to the term debt a new multi-currency revolving facility of £300 million (2014: £150 million) was made available. This facility, in conjunction with the Group's cash balance of £152 million (2014: £285 million), is available to finance working capital requirements and capital investment. At 26 December 2015 all of these facilities remained available and £nil had been drawn down from the revolving facility (2014: £nil).

Merlin is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. We are also required to comply with certain non-financial covenants in the €500 million notes. All covenant requirements were satisfied throughout the year.

Further detail is provided in note 4.2 to the financial statements.

### Net assets

Net assets increased by £86 million from £1,063 million in 2014 to £1,149 million in 2015.

The consolidated statement of financial position on page 110 shows an increase in property, plant and equipment of £85 million from £1,410 million to £1,495 million, primarily reflecting the capital additions referred to previously offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates. Foreign exchange translation differences account for the majority of the reported reduction in intangible assets from £942 million to £923 million. Working capital movements of £11 million related to the payment of 2014 performance related remuneration and other timing differences. Further detail is provided in note 3.4 to the financial statements. Net debt has remained broadly flat. The net pensions liability also remained flat at £5 million (2014: £5 million).

The £170 million profit for the year was reduced by amounts totalling £24 million within other comprehensive income. This primarily reflected exchange losses arising on the retranslation of net assets denominated in foreign currencies offset by the recycling of interest rate swaps referred to previously. In addition we paid dividends of £64 million.

Further detail is provided in the notes to the financial statements on pages 113 to 154.

### Return on capital employed (ROCE)

The Board considers ROCE to be an important metric for appraising financial performance and uses it, along with EPS, in the remuneration of senior executives. For 2015 minor amendments were made to the ROCE calculation.

The profit measure used in calculating ROCE is based on underlying operating profit after tax; the change to the tax rate applied reflects the more stabilised tax position following the IPO. The capital employed element of the calculation is based on net operating assets which include all net assets other than deferred tax, financial assets and liabilities, and net debt. From 2015 we use average net assets in this calculation to better match the deployment of capital to the period over which the related income is earned. ROCE in 2015 was 9.7% (2014: 10.6%) largely reflecting the decline in underlying operating profit. Had the changes not been made the reported ROCE for 2015 would have been 9.5%.

### Allocation of Group costs

As announced via RNS on 15 January 2016, Merlin has revised the way in which certain costs incurred by the Group are allocated to its three Operating Groups. This change will apply for the 2015 full year results and all subsequent periods. Overall Group reported profitability is not affected. The effect included in reported 2015 EBITDA is as follows:

	2015 £m
Midway Attractions	4
LEGOLAND Parks	1
Resort Theme Parks	2
Central costs	(7)
Group total	-

### Summary

I am pleased with the robust financial results the Group has reported for 2015, despite the extremely challenging trading conditions. 2015 has seen us further strengthen the Company's financial structure with the refinancing, and the platform for future growth remains sound.

**Andrew Carr**  
**Chief Financial Officer**  
 24 February 2016

# BEING A FORCE FOR GOOD

## *Corporate Social Responsibility - The Merlin Way*

A KEY ELEMENT OF 'THE MERLIN WAY' IS THAT WE CARE ABOUT OUR PEOPLE, OUR VISITORS, THE CREATURES IN OUR CHARGE AND THE COMMUNITIES AND ENVIRONMENT IN WHICH WE OPERATE. WE CALL THIS 'BEING A FORCE FOR GOOD' AND FOCUS OUR EFFORTS IN THE FOLLOWING KEY AREAS: MERLIN'S MAGIC WAND CHILDREN'S CHARITY; SUSTAINABILITY AND THE ENVIRONMENT; MARINE & WILDLIFE CONSERVATION; AND ACCESSIBILITY - DELIVERING ENVIRONMENTS THAT PROVIDE ACCESS FOR ALL.

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IMAGE REMOVED

FORCE FOR GOOD Corporate Social Responsibility - The Merlin Way

# MERLIN'S MAGIC WAND

IMAGE REMOVED

## WE BELIEVE IN MAKING A POSITIVE DIFFERENCE, IN A MERLIN WAY.

Our very own children's charity Merlin's Magic Wand (MMW) has delivered a record number of magical experiences for children around the world who are disadvantaged through sickness and disability.

MMW thrives due to the engagement and support of Merlin employees, guests and partners. To find out more about the great work the charity does, visit its website at [www.merlinsmagicwand.org](http://www.merlinsmagicwand.org) or follow our Facebook page.

IMAGE REMOVED

Edinburgh Dungeon actor meets patient  
at the Royal Hospital for Sick Children

IMAGE REMOVED

## COMMUNITY OUTREACH

We have visited hundreds of children in hospital to bring smiles to them. The Merlin Magic has enabled them to be children first and patients second.

Children have had visits from SEA LIFE mascots, Master Model builders and even a dog trained in sign language!

## MAGICAL VISITS - DAYS OUT

During 2015 every single Merlin attraction has hosted a MMW visit. In total we provided over 75,000 tickets with a retail value of over £1 million.

“

*It is so rare  
to get a photo of  
my son with him  
smiling. I was  
in tears*

”

IMAGE REMOVED

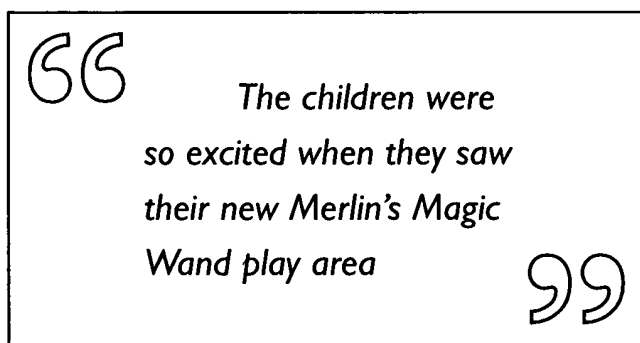
IMAGE REMOVED

FORCE FOR GOOD *Corporate Social Responsibility - The Merlin Way*

**WE TAKE THE MAGIC TO THE CHILDREN WHEN THEY CAN'T COME TO US!**



**SINCE 2010 MERLIN HAS CREATED 17 MAGICAL SPACES... AND COUNTING!**



LOGO REMOVED

IMAGE REMOVED

## FORCE FOR GOOD Corporate Social Responsibility - The Merlin Way

### Accessibility

It is our aim to provide experiences and environments that are accessible to all. We want to provide industry leading facilities and experiences. The cornerstones of our approach are:

#### Guest Information

- We will provide clear, accurate, consistent and accessible information to enable visitors to make informed choices.

#### Accessible Environments

- We will make our environments as accessible as possible, continually improving our estate.

#### Team Engagement

- We will ensure employees have the tools and training to deliver memorable experiences to accessibility challenged guests.

We make no differentiation between able bodied and disabled persons in terms of recruitment, training and career progression. We will make every effort to continue the employment and training of those persons who become disabled while employed by the Group.

IMAGE REMOVED

“

*It is our aim to  
provide experiences and  
environments that are  
accessible to all*

”

### Community Relations

As well as through our MMW activities, each attraction continues to forge partnerships in the local community, for example with local charities and other groups supporting disadvantaged people.

**SEA LIFE Brighton** work with a local community initiative 'Gully's Days Out' to provide tickets to young people with additional needs.

Over 100 foster children enjoyed a day out at **SEA LIFE Bangkok** in June 2015.

**LEGOLAND Windsor** is proud to be an active member of the local community - as a key partner for the local children's hospice for which we host a Christmas party and offer magical visits for the children; providing LEGOLAND Annual Passes to foster children; and offering free workshops in local libraries.

IMAGES REMOVED

**LEGOLAND Florida** were able to provide foster children with a duffle bag, carefully and lovingly decorated to help these children carry their prized possessions from home to home.

Our **Dallas** cluster have been involved with a whole range of local community initiatives, from helping celebrate World Turtle Day at the SEA LIFE Centre, to helping out with the annual 'Texas Trash Off'.

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## FORCE FOR GOOD Corporate Social Responsibility - The Merlin Way

**Marine and wildlife conservation**

As well as being the leading global operator of aquariums through our SEA LIFE brand, Merlin also runs zoos at the Chessington World of Adventures Resort in the UK along with WILD LIFE Sydney Zoo and WILD LIFE Hamilton Island in Australia. The Company has an excellent reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment. This reputation is widely acknowledged by expert organisations around the world.

Merlin actively engages our guests and employees in our conservation and welfare work through our global 'Breed, Rescue, Protect' initiative and promotes the protection of wildlife across the globe by supporting projects and campaigns which make a real difference.

**SEA LIFE**

The SEA LIFE Trust has again enjoyed fantastic support from SEA LIFE staff and visitors the world over. With this support, the Trust was able to campaign against whaling, for better protection for sharks and to reduce marine litter.

- Over 105,000 people have signed the 'Wipe Out Whaling' petition as part of the campaign to help bring an end to the transport of whale meat through Europe.
- In just one weekend in September, SEA LIFE staff and volunteers cleaned over 33km of beach, river and lakeside, removing over 1.4 tonnes of litter!
- Our staff supported the Trust by holding fundraising events in July - walking, rowing, running, cycling and kayaking over 7,500 miles in the process - that's the equivalent of crossing the Atlantic twice!

In 2016 the focus for the Trust is on habitat protection. SEA LIFE sites will be working with the Trust to fund projects helping to protect local habitats and wildlife across the globe. To find out more about the Trust and the conservation projects we are supporting, just visit [www.sealifetrust.org](http://www.sealifetrust.org).

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IMAGES REMOVED

**WILD LIFE**

Chessington Zoo's breeding programmes had a busy year, including two firsts for Chessington - the birth of two Blesbok Antelope and a Southern Three-banded Armadillo. Other successes include five Sitatunga calves, two Squirrel monkey babies and a Humbolt Penguin chick in their brand new walk-through enclosure. The Chessington Conservation Fund expanded its support in Ecuador to enable the expansion of a rainforest nature reserve by a massive 137 acres. This area was at a specific risk of destruction by silica and gold mining so this purchase has safeguarded this important nature hotspot.

WILD LIFE Sydney Zoo is part of several managed species programmes including the national 'Save the Tasmanian Devil' breeding programme. 'Adopt an animal' packages are also sold for koalas, wombats, bilbies, cassowaries and Tasmanian devils with all proceeds going to the WILD LIFE Conservation Fund (WLCF).

LOGOS REMOVED

## FORCE FOR GOOD Corporate Social Responsibility - The Merlin Way

### Sustainability and the environment

#### Strategy and governance

Merlin's strategy on sustainability and the environment is to manage resources responsibly. Ultimate responsibility for this strategy rests with the CEO, with management teams responsible for implementation at local and regional levels.

#### Environmental policy

We recognise that our operations impact upon the environment and that effective management of this impact is essential for sustainable business success. We are committed to regular monitoring, auditing and review of our activities and identifying opportunities for sustainable environmental improvement, in line with our strategic business goals and in order to minimise the potentially harmful effects of such activity.

We will:

- ✓ Comply with all relevant legislation and where appropriate and practicable exceed these requirements and apply best practice.
- ✓ Promote a culture of environmental responsibility and awareness through the Group sustainability team.
- ✓ Promote communication of our environmental sustainability initiatives.
- ✓ Encourage business partners to carry out their activities in an environmentally responsible manner.
- ✓ Further develop our excellent standards on managing marine habitat and wildlife.
- ✓ Manage impacts on biodiversity.
- ✓ Implement practical and cost-effective water, waste and energy conservation and pollution control measures to minimise environmental impacts associated with the Group's operations.
- ✓ Encourage regular investments in environmental initiatives.
- ✓ Measure, monitor and make public our annual carbon emissions, with a carbon reduction target of at least 2% year on year.
- ✓ Work with stakeholders to minimize the impact of our products and services.
- ✓ Strive to continually improve our environmental performance and ensure our strategic business growth is sustainable.

“

*We promote a culture  
of environmental awareness  
and responsibility*

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IMAGE REMOVED

#### Environment and energy management

We have specific budgets set aside to implement environmentally focused initiatives and an annual 'Environmental Award' to recognise the great work done at our sites in this area. We have developed groupwide sustainability management and carbon reduction plans and a number of water and waste management initiatives that have been developed to encourage sites and build on examples of best practice across the Group, through 2015 and beyond.

We participate in the UK Carbon Reduction Commitment (CRC) energy efficiency scheme, EU Energy Efficiency Directives (ESOS UK) and other applicable environmental regulations globally.

IMAGE REMOVED

Solar powered cars at LEGOLAND Florida



## FORCE FOR GOOD Corporate Social Responsibility - The Merlin Way

IMAGE REMOVED

**Greenhouse gas (GHG) reporting**

The Company is required to annually report its carbon dioxide emissions in tonnes emitted. During the year DEFRA released updated carbon factors, reflecting a significant drop in the purchased UK electricity carbon factor when compared to 2014. This, taken with other technical revisions made, is estimated to have contributed 2% to the savings noted above.

<b>Report boundaries</b>	Financial control - All facilities under the Group's direct financial control have been included.
<b>Consistency with financial statements</b>	This report covers the twelve month period from 1 December 2014 to 30 November 2015 in comparison to our financial year of January to December 2015.
<b>Methodology</b>	The WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) applying emissions factors from DEFRA (2015).
<b>Intensity ratio</b>	Emissions per £1 million of revenue
<b>Scope 1</b>	18,980 tonnes of CO <sub>2</sub> equivalent (2014: 17,436 tonnes)
<b>Scope 2 Localised Based</b>	123,277 tonnes of CO <sub>2</sub> equivalent (2014: 125,989 tonnes)
<b>Scope 2 Market Based</b>	(2,292) tonnes of CO <sub>2</sub> equivalent (2014: nil)
<b>Group Gross and Net emission</b>	139,965 tonnes of CO <sub>2</sub> equivalent (2014: 143,425 tonnes)
<b>Intensity baseline (revenue)</b>	£1,278 million (2014: £1,249 million)
<b>Emissions intensity</b>	110 tonnes of CO <sub>2</sub> equivalent per £1 million of revenue (2014: 115 tonnes)

**Table notes:**

- Scope 1 refers to direct emissions (natural gas, LPG, heating oil, refrigerants, diesel, petrol).
- Scope 2 refers to indirect emissions (purchased electricity, purchased heat and steam).
- Scope 2 market based offsets are renewable energy certificates purchased in the USA.
- Our base year (2014) emissions intensity value has been adjusted from 113 tonnes of CO<sub>2</sub> per £1 million of revenue, as previously reported, to 115 tonnes of CO<sub>2</sub> per £1 million of revenue in line with our carbon recalculation policy, largely due to the inclusion of refrigerants which were not reported in 2014.
- Our annual target is to reduce our carbon emission intensity by 2% year on year.

**Procurement and sourcing**

We recognise the responsibility we have to the workers in our supply chain and seek to ensure our products are made in an appropriate environment and the products we source are produced in accordance with international laws and legislation.

We require all of our suppliers to sign the Merlin Entertainments Standard Terms and Conditions of Purchase, which captures the Group's policies in areas such as fraud, bribery and child labour. We will independently audit certain categories of suppliers who produce Merlin Entertainments branded products. We commit to working with suppliers to ensure they achieve our standards. Strict sanctions are applied when standards are not met.

We will enter into rebate and volume discount arrangements with suppliers where appropriate but do not require suppliers to make loyalty or 'pay to stay' type payments to the Group. Our payment terms vary in different territories; standard payment terms are 45 days.

**Human Rights**

Merlin has implemented a Human Rights Policy that sets out our approach in this area. We are guided in this by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work; and the OECD Guidelines for Multinational Enterprises. The Policy notes that:

- We value diversity and have a commitment to equal opportunity and intolerance of discrimination and harassment.
- We will not engage in child labour.
- We will not use forced or compulsory labour and have policies in place regarding non-excessive working hours.
- We respect employees' right to join, form or not to join a labour union without fear of reprisal, intimidation or harassment and will act in good faith when legally required to enter into collective bargaining agreements.
- We operate in full compliance with local labour laws regarding wages, benefits, holidays and rest breaks.
- We are committed to maintain a safe, secure and healthy workplace for our employees.
- We will comply with all relevant legislation and where appropriate and practicable, exceed these requirements and apply best practice.

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**We value diversity  
and have a commitment  
to equal opportunity**

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# CORPORATE

## Governance Statement

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### Introduction

Merlin has a premium Listing on the London Stock Exchange and is subject to the UK Corporate Governance Code (the Code), the Disclosure and Transparency Rules (the DTRs) and the Listing Rules. Merlin believes that effective corporate governance is a fundamental aspect of a well run company and is committed to maintaining high standards of corporate governance across the Group. In this regard, Merlin takes account of the views of its shareholders and institutional shareholder representative bodies. The Code can be viewed on the website of the Financial Reporting Council ([www.frc.org.uk](http://www.frc.org.uk)). The DTRs and the Listing Rules can be viewed on the website of the Financial Conduct Authority ([www.fshandbook.info](http://www.fshandbook.info)).

### Statement of compliance

Merlin was fully compliant throughout the accounting period with all relevant provisions of the Code, the DTRs and the Listing Rules, with the exception of the provisions relating to Board composition for the period prior to the 2015 AGM.

### Board composition

The Board has undergone a number of changes during the year including the departure of Miguel Ko (Non-executive Director), Dr. Gerry Murphy (Blackstone Representative Director) and Rob Lucas (CVC Representative Director) at the AGM, followed by the appointment as Non-executive Directors of Trudy Rautio in October and of Yun (Rachel) Chiang effective January 2016, which together have led to an increase in Board diversity. Trudy and Rachel were appointed after rigorous search processes using Spencer Stuart and Russell Reynolds respectively, both of which are external search companies with no links to Merlin.

### Fair, balanced and understandable

As part of the Company's commitment to maintaining high standards of corporate governance, the Board has put in place a process dedicated to ensuring that the Annual Report and Accounts is presented in a way that is fair, balanced and understandable. This process includes a review of all Board and Committee meetings by the Company Secretary of any matters for inclusion, as well as a series of specific reviews undertaken by a dedicated Disclosure Committee of senior managers.

### Evaluation of effectiveness

During the year externally facilitated evaluations were undertaken, as required every three years, in relation to the Board and its Committees, as well as of the internal audit function and the external auditors. These were facilitated by Prism Cosec, who are independent of the Company and also advise the Company on company secretarial compliance matters.

Our 2014 Effectiveness Review made a number of recommendations, including reviewing the balance and composition of the Board, continuing our focus on succession planning for Executive Directors and facilitating greater dialogue between the Board and senior management, in particular in relation to strategy. All of the recommendations from the 2014 Effectiveness Review were specifically addressed during the year.

Some further recommendations arose from the 2015 Effectiveness Review, including formalising the training made available to Directors. This recommendation has already been actioned with a programme of Director training sessions having been introduced for 2016.

### Investor relations

The Company communicates with institutional and private shareholders in a number of ways and has a dedicated investor relations team to facilitate the exchange of information and feedback between shareholders and shareholder representative bodies and the Company. Details of major shareholders are provided on page 62.

The Company undertakes regular meetings in which existing and potential investors are provided with information on the financial and trading position of the Group. This activity is led by the CEO and the CFO, together with the Company's investor relations team. They report back regularly to the Board so that the Non-executive Directors in particular can appreciate and discuss the views of shareholders. During the year the Chairman and the Company Secretary also met with many of our leading shareholders to ensure full and mutually constructive dialogue. Merlin's 2016 financial calendar is set out on page 162.

The Company's corporate website is regularly updated with news and information, including its Annual Report and Accounts, which set out our strategy and performance together with our plans for future growth. Our presentations to analysts and shareholders are also available on the Company website.

At our AGM all shareholders have the opportunity to discuss and raise questions concerning the performance, trading and development of Merlin and to vote on the resolutions proposed.

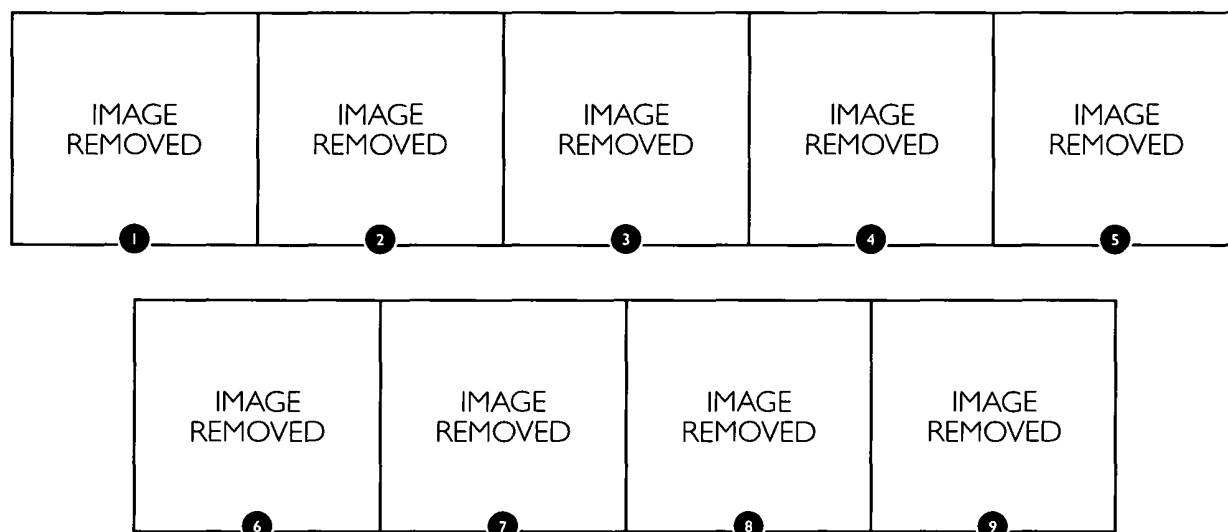
# BOARD

## *of Directors*

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IMAGE REMOVED

## BOARD of Directors



The members of the Board during the year and at the date of this report are as follows:

### **1** Sir John Sunderland, *Chairman*

Sir John was appointed Chairman of Merlin Entertainments in December 2009. He has been Chairman of the Company throughout the year and continues in this role as at the date of this report.

Sir John is currently Chairman of Cambridge Education Group, Chancellor of Aston University and an Associate Member of BUPA. He is also an adviser to CVC Capital Partners.

Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007 and President of the Food and Drink Federation from 2002 to 2004.

Sir John was a Non-executive Director of the Rank Group from 1998 to 2006 and a Director of the Financial Reporting Council from 2004 to 2011.

Sir John was a Non-executive Director of Barclays Bank PLC from 2005 to 2015 and of AFC Energy plc from 2012 to 2015.

### **2** Nick Varney, *Chief Executive Officer*

Nick has over 25 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

Prior to Merlin, Nick was Managing Director of Vardon Attractions and a main board Director of Vardon plc. In 1999 Nick led the management buyout of Vardon Attractions to form Merlin Entertainments. In 2005 he initiated the process which led to its acquisition by Blackstone and subsequent rapid expansion, taking the Company to its 2013 Listing on the London Stock Exchange.

Before joining Vardon Attractions, Nick held senior positions within The Tussauds Group (then a part of Pearson plc), including Marketing Director of Alton Towers and Head of Group Marketing. He started his career in FMCG marketing first with Rowntree and then Reckitt & Colman.

### **3** Andrew Carr, *Chief Financial Officer*

Andrew is a qualified chartered accountant and was appointed Chief Financial Officer of Merlin Entertainments in 1999. He has been a Director of the Company throughout the year and continues in this role as at the date of this report. As previously announced, Andrew will retire at the end of October 2016 and Anne-Francoise Nesmes will be appointed to the Board as Chief Financial Officer in August, allowing for an appropriate transition period.

Prior to Merlin, Andrew was Financial Director of Vardon Attractions and played a key role in the management buyout of Vardon Attractions to form Merlin Entertainments in 1999 and in the subsequent business, including two follow-on buyouts, the acquisitions of LEGOLAND, Gardaland and The Tussauds Group and the Listing of Merlin Entertainments on the London Stock Exchange.

Before joining Vardon Attractions, Andrew trained, and was subsequently head of a regional Corporate Finance Department, at KPMG.

## BOARD of Directors

**4 Yun (Rachel) Chiang,**  
*Non-executive Director*

Rachel was appointed a Non-executive Director of Merlin Entertainments with effect from 1 January 2016 and continues in this role as at the date of this report.

She has extensive experience of the Asian consumer and property markets, having held a number of senior executive and non-executive roles in the region.

Rachel is currently Partner and founding member of the private equity activities of Pacific Alliance Group (PAG), one of the region's largest Asia-focused alternative investment managers with over \$11 billion in funds under management across Private Equity, Real Estate and Hedge Funds. She currently holds Non-executive positions with Hong Kong-listed Sands China (a majority-owned subsidiary of Las Vegas Sands) and Hong Kong-listed Pacific Century Premium Developments (PCPD) which specializes in the development and management of premium property and infrastructure projects in the Asia Pacific region.

**5 Charles Gurassa,**  
*Senior Independent  
Non-executive Director*

Charles was appointed Senior Independent Non-executive Director of Merlin Entertainments and Chairman of the Remuneration Committee in 2013. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

Charles is the Non-executive Chairman of Channel 4 and Genesis Housing Association, Deputy Chairman at EasyJet plc and a trustee of English Heritage and the Migration Museum. He is a former Chairman of Virgin Mobile plc, LOVEFiLM, Phones4U, MACH, Tragus, NetNames, Parthenon Entertainments and Alamo/ National Rent a Car and former Deputy Chairman of the National Trust.

His executive career included roles as Chief Executive of Thomson Travel Group plc, Executive Chairman TUI Northern Europe, Director TUI AG and as Director, Passenger & Cargo business at British Airways. He is a former Non-executive Director at Whitbread plc, trustee of the children's charity Whizz-Kidz and a member of the development board of the University of York.

**6 Fru Hazlitt,**  
*Non-executive Director*

Fru was appointed a Non-executive Director of Merlin Entertainments in 2014. She has been a Director of the Company throughout the year and continues in this role as at the date of this report.

Fru was formerly Managing Director, Commercial, Online and Interactive at ITV, and previously Chief Executive Officer at GCap Media plc and Virgin Radio. Prior to that Fru spent six years at Yahoo! where her roles included Managing Director, UK and Ireland, and Sales and Marketing Director, Europe.

She is now a Governor of Downe House School and has also served as a Non-executive Director on the Boards of Betfair Plc and Woolworths Plc.

**7 Ken Hydon,**  
*Non-executive Director*

Ken was appointed a Non-executive Director and Chairman of the Audit Committee of Merlin Entertainments in 2013. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

Ken is currently a Non-executive Director of Reckitt Benckiser Group plc. Previously, he was CFO of Vodafone Group Plc. Ken was also a Non-executive Director of Tesco Plc from 2004 to 2013, a Non-executive Director of Royal Berkshire NHS Foundation Trust from 2005 to 2012 and a Non-executive Director of Pearson Plc from 2006 to 2015.

**8 Trudy Rautio,**  
*Non-executive Director*

Trudy was appointed a Non-executive Director of Merlin Entertainments with effect from 1 October 2015 and continues in this role as at the date of this report.

Trudy retired on 1 May 2015 from the position of Chief Executive Officer of Carlson, a privately held global hospitality and travel company. Trudy had been a senior executive with Carlson since 1997, having served as Executive Vice President and Chief Financial and Administrative Officer of Carlson preceding her appointment as CEO.

Prior to joining Carlson, Trudy served as Senior Vice President and Chief Financial Officer of Jostens, Inc., and served as Vice President of Finance for Minneapolis-based Pillsbury Co.

Trudy is the Chair of The Rezidor Hotel Group Board, and also serves on the Board of Directors for Cargill, The Donaldson Company, Inc., and Securian Holding Company.

**9 Søren Thorup Sørensen,**  
*Non-executive Director*

Søren was appointed a Non-executive Director of the Company in 2013, representing KIRKBI. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

Søren is currently the Chief Executive Officer of KIRKBI, following his appointment in March 2010. Søren was formerly a Partner, Chief Financial Officer and member of the Group Executive Board of A.P. Møller - Maersk Group between 2006 and 2009. Prior to this he was Managing Partner of KPMG Denmark, having been a Partner at KPMG since 1997. Outside the KIRKBI Group, Søren is currently Non-executive Chairman of Topdanmark A/S and holds Non-executive Director positions at LEGO A/S, TDC A/S and Falck Holding A/S.

# CORPORATE

## Governance Report

### Board membership and UK corporate governance code

As at the date of this Annual Report and Accounts the Company complies and the Company intends to continue to comply with the Code. The Board will also take account of institutional shareholder governance rules and guidance on disclosure and shareholder authorisation of corporate events.

The Code recommends that a UK listed company's Chairman be independent on appointment. The Chairman was appointed in December 2009. The Board considers that the Chairman was independent on appointment and remains so. The Chairman is an adviser to CVC, who were a shareholder in the Company from July 2010 until March 2015. The Board does not consider that this has had any effect on the independence of the Chairman for the purposes of the Code. The Chairman's role is to ensure good corporate governance.

The Code recommends that at least half the members of the Board of Directors (excluding the Chairman) of a UK listed company should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The Board has concluded that, for the purposes of the Code, Charles Gurassa, Ken Hydon, Fru Hazlitt, Trudy Rautio and Rachel Chiang should be regarded as independent Non-executive Directors and that their appointments were in the best interests of shareholders.

Although Mr Gurassa previously served on the board of Tragus Group Limited (formerly a portfolio company of Blackstone, which was a shareholder in the Company until March 2015) and Mr Ko served during his tenure as a Director of the Company on the board of Formula One (Delta Topco Limited), a CVC portfolio company, the other Directors have concluded that these relationships did not have any effect on the independence of those Directors.

Blackstone and CVC, along with KIRKBI, were the pre-IPO major shareholders of Merlin. Blackstone and CVC ceased to hold any shares in the Company in March 2015, while KIRKBI presently holds 29.89% of the issued share capital of the Company.

The Non-executive Directors representing KIRKBI (Søren Thorup Sørensen), Blackstone (Dr. Gerry Murphy) and CVC (Rob Lucas) are not regarded as independent for the purposes of the Code. Dr. Gerry Murphy and Rob Lucas stepped down as Directors at the conclusion of the 2015 AGM.

Accordingly, the Board considers that from the conclusion of the 2015 AGM, the Company was in full compliance with the recommendation of the Code concerning the balance of independent Non-executive Directors on the Board.

### Relationship agreements

The Company has entered into Relationship Agreements with each of KIRKBI, Blackstone and CVC. The Relationship Agreements with Blackstone and CVC (which were described in the Annual Report and Accounts for the year ended 27 December 2014) terminated when they ceased to hold any shares in the Company. The Relationship Agreement with KIRKBI remains in force. Under the KIRKBI Relationship Agreement:

- KIRKBI is entitled to appoint one Director to the Board. In addition, while KIRKBI holds at least 10% of the Company's issued share capital, it may also appoint an observer to the Board (with the right to attend and speak but not vote).
- KIRKBI may appoint an observer (with the right to attend and speak but not vote) to each of the Audit Committee, Remuneration Committee and Nomination Committee for so long as KIRKBI (together with its respective affiliates) holds at least 10% of the Company's ordinary shares.

### Major shareholdings

As at 23 February 2016, the latest practicable date prior to the date of this Annual Report and Accounts, the Company had been notified pursuant to DTR5 of the following interest in 3% or more of the Company's total voting rights:

Name of shareholder	Number of ordinary shares	% of issued share capital	Nature of holding (Direct/ Indirect)
KIRKBI Invest A/S	302,971,529	29.89	Direct

## CORPORATE Governance Report

**Board and its Committees**

The Chairman is responsible for the effective running of the Board and for overseeing communications with all Board and Committee members and shareholders. He ensures that the Board receives sufficient information on financial, trading and corporate issues prior to Board meetings.

The Board has established Health, Safety and Security, Audit, Remuneration, and Nomination Committees with formally delegated duties and responsibilities and written terms of reference. In addition, from time to time, separate Committees may be set up by the Board to consider specific issues when the need arises.

The Chief Executive Officer is responsible for day-to-day operations and the development of strategic plans for consideration by the Board. He is assisted in this by an Executive Committee of senior managers. The Executive Committee is not a formal committee of the Board.

The terms of reference of each of the Board and its Committees are available on the Company's corporate website [www.merlinentertainments.biz](http://www.merlinentertainments.biz)

The Directors of all Group companies, as well as the Board and each of its Committees, also have access to the advice and services of the Group Legal Director/General Counsel and Company Secretary and other senior management, as well as external advice on, inter alia, legal, accounting, remuneration, health and safety and corporate governance matters. Appropriate induction and subsequent training is provided to members of the Board and its Committees.

The table below sets out the membership of the Board and its Committees during the year, together with the number of meetings held and each member's attendance. The tables overleaf contain further information in relation to the Board and its Committees covering their respective responsibilities, duties and Code compliance.

	The Board	Health, Safety and Security Committee <sup>(1)</sup>	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held <sup>(1)</sup></b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>
Sir John Sunderland	#9	#4	N/A	3 <sup>(7)</sup>	#3
Nick Varney	9	4	N/A	N/A	N/A
Andrew Carr	9	4	N/A	N/A	N/A
Charles Gurassa	9	4	4	#4	3
Ken Hydon	9	N/A	#4	3 <sup>(7)</sup>	3
Fru Hazlitt	9	4	2 <sup>(5)</sup>	4	3
Trudy Rautio	1 <sup>(3)</sup>	N/A	N/A	N/A	1 <sup>(2)</sup>
Søren Thorup Sørensen	9	N/A	N/A	N/A	N/A
Miguel Ko <sup>(4)</sup>	4	N/A	2 <sup>(6)</sup>	1	1 <sup>(6)</sup>
Dr. Gerry Murphy <sup>(4)</sup>	5	N/A	N/A	N/A	N/A
Rob Lucas <sup>(4)</sup>	4	N/A	N/A	N/A	N/A

**Table notes:**

<sup>#</sup> Denotes Chairman.

<sup>(1)</sup> Number of meetings attended during the year during term of respective Director. Rachel Chiang joined the Board effective 1 January 2016 and is therefore not included within this analysis.

<sup>(2)</sup> In addition to the Board members noted above, the Health, Safety and Security Committee also includes as members the managing directors of both the Resort Theme Parks and Midway Attractions Operating Groups and the director of health, safety and security. These members attended all four meetings that took place in the year.

<sup>(3)</sup> Trudy Rautio has attended each of the Board and Nomination Committee meetings held following her appointment in October.

<sup>(4)</sup> Miguel Ko, Dr. Gerry Murphy and Rob Lucas all stood down as Directors at the conclusion of the 2015 AGM.

<sup>(5)</sup> Fru Hazlitt has attended each of the two Audit Committee meetings held following her appointment to this Committee.

<sup>(6)</sup> Miguel Ko attended each of the two Audit Committee meetings and the only Nomination Committee meeting held prior to standing down at the AGM.

<sup>(7)</sup> Sir John Sunderland and Ken Hydon did not formally attend one of the Remuneration Committee meetings, instead tabling their comments to its Chairman in advance.

# CORPORATE Governance Report

	The Board	Health, Safety and Security Committee
Principal responsibilities and duties	<p>The Board has overall responsibility for overseeing the management of the Company.</p> <ul style="list-style-type: none"> <li>• Overseeing the Company's strategy and management.</li> <li>• Determining the Company's capital structure.</li> <li>• Overseeing the Company's financial reporting and controls.</li> <li>• Ensuring the Company maintains a sound system of internal controls and risk management.</li> <li>• Approval of the annual capital expenditure budget, major capital projects and strategic transactions.</li> <li>• Ensuring effective communication with shareholders and managing investor relations.</li> <li>• Considering and, if accepted, implementing recommendations from Committees within their respective remits, including: <ul style="list-style-type: none"> <li>• Appointments to the Board and Committees;</li> <li>• Board and senior management remuneration;</li> <li>• Succession planning; and</li> <li>• Changes to the Company's share incentive plans.</li> </ul> </li> <li>• Appointing Committees and agreeing their terms of reference.</li> <li>• Corporate governance matters and reporting thereon.</li> <li>• Approving major policies, including: <ul style="list-style-type: none"> <li>• Health and safety policy;</li> <li>• Fraud policy; and</li> <li>• Share dealing policy.</li> </ul> </li> <li>• Approving the appointment of principal financial and professional advisers.</li> <li>• Approval of major litigation.</li> <li>• Approval of Group insurance programme.</li> </ul>	<p>The Health, Safety and Security Committee assists the Board in ensuring that health, safety and security matters are managed effectively and proactively throughout the Group.</p> <ul style="list-style-type: none"> <li>• Recommending to the Board, implementing and monitoring the Group's health, safety and security policy.</li> <li>• Reviewing the effectiveness of the Group's health and safety processes and controls.</li> <li>• Reviewing the health and safety resources available within the Group and the skills of the health and safety management.</li> <li>• Reviewing the adequacy of security processes and controls.</li> <li>• Reporting to the Board on matters within the remit of the Committee.</li> </ul> <p><i>See the Health, Safety and Security Committee Report on pages 66 to 69 for further details on how the Group manages Health, Safety and Security risks.</i></p>
Number of meetings	<p>At least six times a year and as required or otherwise at the request of one or more of the Directors.</p> <p>Where urgent decisions are required on matters specifically reserved for the Board between meetings, there is a process in place to facilitate discussion and decision making.</p>	<p>At least four times a year and at such other times as the Board or the Committee Chairman requires.</p>
Code compliance	<p><b>We comply</b></p> <p>The Code recommends that the Board of a UK listed plc should comprise at least 50% independent Non-executive Directors (excluding the Chairman).</p> <p>From the conclusion of the 2015 AGM the Board has complied with this recommendation.</p>	<p><b>N/A</b></p>



## CORPORATE Governance Report

Audit Committee	Remuneration Committee	Nomination Committee
<p>The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, external and internal audits and controls.</p> <ul style="list-style-type: none"> <li>• Financial reporting.</li> <li>• Internal controls.</li> <li>• Whistleblowing and fraud.</li> <li>• Internal audit.</li> <li>• External audit.</li> <li>• Reporting to the Board on matters within the Committee's remit, including the risk management process.</li> <li>• Considering the processes supporting the assessment of the Group's longer term solvency and liquidity which underlie the Viability Statement.</li> </ul> <p>See the Audit Committee Report on pages 70 to 75 for further details on the Committee's activities in the year.</p>	<p>The Remuneration Committee assists the Board in discharging its responsibilities in relation to remuneration.</p> <ul style="list-style-type: none"> <li>• Setting the remuneration policy for Executive Directors and the Chairman.</li> <li>• Reviewing and making recommendations to the Board on senior management remuneration.</li> <li>• Determining the individual remuneration and benefits package of each of the Executive Directors.</li> <li>• Determining the fees of the Chairman.</li> <li>• Reviewing the design of share incentive plans for approval by the Board.</li> <li>• Ensuring appropriate reporting on remuneration matters in the Annual Report and Accounts.</li> </ul> <p>No Director may participate in discussions relating to his own terms and conditions of remuneration.</p> <p>Non-executive Directors' fees are determined by the full Board.</p> <p>See the Directors' Remuneration Report on pages 76 to 96 for further details on the Committee's activities in the year.</p>	<p>The Nomination Committee assists the Board in discharging its responsibilities in relation to the composition of the Board.</p> <ul style="list-style-type: none"> <li>• Reviewing the balance of skills, knowledge and experience on the Board.</li> <li>• Reviewing the size, structure and composition of the Board.</li> <li>• Considering and making recommendations to the Board on retirements, re-elections and appointments of additional and replacement Directors and on membership of Committees.</li> <li>• Considering succession planning for both Executive and Non-executive Directors and the Chairman.</li> <li>• Considering the time required for Directors to fulfil their roles.</li> <li>• Developing a policy on diversity and reporting on progress thereon.</li> <li>• Making appropriate recommendations to the Board on matters within the remit of the Committee.</li> </ul> <p>See the Nomination Committee Report on page 97 for further details on the Committee's activities in the year.</p>
<p>At least three times during the financial year at appropriate times in the audit cycle.</p> <p>In addition, it meets at such other times as the Board or the Committee Chairman requires, or if requested by the external auditors.</p>	<p>At least twice each year and at such other times as the Board or the Committee Chairman requires.</p>	<p>At least twice each year and at such other times as the Board or the Committee Chairman requires.</p>
<p><b>We comply</b></p> <p>The Code recommends that an Audit Committee should comprise at least three independent Non-executive Directors and that at least one member should have recent and relevant financial experience.</p> <p>The Audit Committee consists of four independent Non-executive Directors. Ken Hydon is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers and is considered by the Board to have recent and relevant financial experience. No members of the Audit Committee have links with the Company's external auditors.</p>	<p><b>We comply</b></p> <p>The Code recommends that a Remuneration Committee should comprise at least three independent Non-executive Directors.</p> <p>The Committee consists of four independent Non-executive Directors and the Chairman.</p>	<p><b>We comply</b></p> <p>The Code recommends that a majority of the members of the Nomination Committee should be independent Non-executive Directors.</p> <p>The Committee is chaired by the Chairman of the Board and consists of the Chairman of the Committee and three independent Non-executive Directors.</p>

# HEALTH, SAFETY AND SECURITY *Committee Report*

## STATEMENT FROM THE CHAIRMAN OF THE HEALTH, SAFETY AND SECURITY COMMITTEE

Dear Shareholder

The Health, Safety and Security (HSS) of our guests, our employees and the people who work in partnership with us are of paramount importance to Merlin. We have an absolute commitment to continuously achieve the highest practical safety standards. We will never compromise our commitment to health, safety and security or become complacent in this area.

Following the traumatic accident at Alton Towers in June our immediate focus was to further strengthen our policies and processes. The Group undertook a full investigation following the accident and as a result added further safety protocols. On re-opening, 'The Smiler' ride will incorporate extensive new safety measures, enhanced training and additional levels of supervisory procedures.

### Continuous improvement

Aligned with our philosophy of continuous improvement, we have continued to invest in and develop our HSS and engineering activities and control structures, ensuring we capture learning points and apply them across our Operating Groups.

Through the course of the year, we have invested significantly in senior staff across each of the Operating Groups as well as making enhancements to local working protocols and upgraded software systems.

### The Board and HSS Committee

The HSS Committee assists the Board in ensuring that HSS matters are managed effectively and proactively throughout the Group.

This report describes the work of the HSS Committee and how it discharges its duties, together with details of the Group's HSS management systems, policies and processes.

### Looking forward

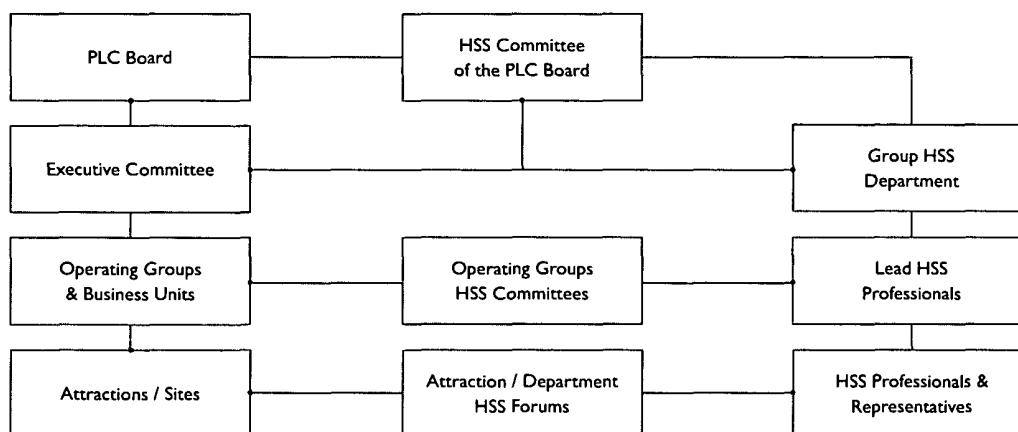
Looking forward we will continue to challenge, monitor and support the whole of the Merlin business in their HSS efforts. We have a strong history of delivering millions of safe experiences to our guests and this comes in no small measure from our strong safety culture.

**Sir John Sunderland**

**Chairman of the Health, Safety and Security Committee**  
24 February 2016

### The role of the HSS Committee

The HSS governance structure is illustrated below:



HEALTH, SAFETY AND SECURITY *Committee Report*

“ *The Group operates a positive and proactive safety culture, its priority being to safeguard guests, employees and contractors* ”

The HSS Committee reports to the Board, operating under specific terms of reference (available on the Company's website). It has three areas of focus:

- To set, monitor adherence to, and recommend improvements in, the Group's **policies and procedures** for ensuring the health, safety and security of guests, employees, suppliers and operating assets.
- To monitor the Group's processes for **identifying and managing risks**.
- To monitor the **skills, effectiveness and levels of resource** within the Group's HSS team.

The HSS Committee comprises the Chairman, three independent Non-executive Directors, the CEO, the CFO, the managing directors of Resort Theme Parks and Midway Attractions and Merlin's Group Health, Safety and Security Director. Details of the frequency of and attendance at meetings is outlined on page 63.

The Committee receives advice from Health, Safety and Security professionals and is updated on industry best practice. Issues discussed at the HSS Committee are shared with the Board.

#### HSS management

The Group has a well developed approach to HSS management, in line with HS(G)65 - the Health and Safety Executive (HSE) endorsed business model for effective safety management in the United Kingdom.

The Group operates a positive and proactive safety culture, its priority being to meet or exceed industry and legal standards and above all safeguard guests, employees and contractors. Procedures and practices are constantly reviewed to identify where there are opportunities to implement new safety improvements and reduce risks.

#### HSS management system

The Group's HSS Policy and health and safety management systems set mandatory obligations for standards and performance across all attractions and operations.

The requirements and policies set out in the Group's Global Health and Safety Manual are well established, providing a robust framework for delivering safe operations and enable monitoring for compliance and continual improvement.

#### The role of operational management

Operational management are responsible for and integral to HSS matters, supported by functional HSS specialists. Two key safety management activities are as follows:

- **Risk registers** - attraction management prepare detailed HSS risk registers that assist in the management of effective safety risk control by identifying and assessing all significant or material risks. The Group's principal HSS risks identified through these processes are summarised on pages 40 to 45.
- **Action plans** - every attraction is required to prepare an annual HSS action plan, driven by the results of its risk register, safety inspections and audits, near-miss/incident investigations and employee surveys. Appropriate control measures are then implemented.

#### Ride and attraction safety

All of Merlin's rides are managed for safety through their life cycle and the Group seeks to comply with all applicable national or local legislation and industry standards.

Operational and engineering processes cover areas such as; codes of safe working practices; new ride pre-use inspection and testing; emergency plans and procedures; as well as regular inspection, maintenance and refurbishment. A more detailed insight into the role of a ride engineer during a typical annual cycle is provided on page 69.

#### Construction safety and contractor selection

Merlin recognises its responsibility to ensure that high standards of health and safety are maintained on all of its construction projects across the world.

When considering a new location or product, local legal requirements are carefully researched. During the design phase of a project any higher risk activity which might be required during construction, such as the need to work at height, is identified and minimised. The Group ensures that the importance of safe construction practice is recognised and adopted by its commercial partners or landlords.

## HEALTH, SAFETY AND SECURITY *Committee Report*

A contractor's health and safety performance is one of the key elements considered during a tendering process. Contractors are asked to explain and verify their health and safety management systems and practices as well as providing details about how they will comply with both local legal requirements and the Group's policies and standards.

The Group ensures that projects have sufficient resources and timescales to enable their completion without compromising health and safety, capturing and acting on regular feedback on any health and safety issues, incidents or challenges.

### **Food Safety and Hygiene**

The Group recognises its duty to ensure that exposure of visitors, employees and contractors on its sites to food related illnesses must be avoided. The Group seeks to meet or exceed any national or local legal requirements, adopting the best practice approach associated with the international Hazard Analysis and Critical Control Point (HACCP) system.

The Group has a detailed and prescriptive Food Safety Manual that provides clear and consistent direction for each attraction on how to address food safety and hygiene risks. The manual is applicable to all Merlin sites and the content of the manual must be adhered to at all times.

All attractions are regularly independently assessed by food safety specialists for compliance against the requirements of the Food Safety Manual. Typically, theme parks are audited twice per year, with Midway attractions audited at least annually.

### **Security**

Attractions maintain both active and passive security protocols in order to maintain the integrity of physical boundaries, together with the operations and assets that sit within those boundaries. Security risk assessments help ensure that the appropriate technology, techniques and resources commensurate to the national or local threat level are used.

As the types of threats and risks evolve the Group works closely with local police and governmental security agencies to ensure appropriate intelligence is shared and attraction based security protocols remain suitable, proportional and robust.

### **HSS and employees - 'Protecting the Magic'**

HSS initiatives are regularly communicated to maintain employee awareness, encourage real team engagement and a sense of ownership across the business, including initiatives such as:

- **'Six Spells for Safety'** - introduced early in 2015, these demonstrate simple ways to operate safely and securely and are displayed on posters and banners at sites around the world.
- **'Protecting the Magic'** intranet site - a new one-stop location containing HSS documentation, a brand new induction film and an engaging safety quiz.

Extensive health and safety training programmes, regular refresher training and specific personal development needs are implemented. These are tailored to particular job roles, based on risk assessment findings. As a minimum, all employees receive HSS induction training and regular safety briefings.

Communication to senior management is actively facilitated and employees are regularly consulted about risks and preventative or protective measures.

### **Monitoring performance**

HSS performance is regularly reviewed by each attraction, each Operating Group's senior leadership team and the HSS Committee, using a blend of leading and lagging performance indicators.

All attractions in Merlin are subjected to routine health and safety audits, conducted by health and safety professionals independent of the attraction being assessed. These audits seek to evaluate compliance with Merlin's Global Health and Safety Manual and associated safety policies. Any non-compliance or improvement opportunities identified then require remedial action. These audits complement regional and attraction initiated safety inspections and audits that take place during the course of each year.

### **Continuous improvement**

Merlin's safety arrangements help deliver safe ride experiences to millions of visitors each year. Nonetheless, the Group will never become complacent and where improvements are identified will seek to implement them immediately. To ensure that HSS and engineering activities and control structures are commensurate with the Group's increasing scale, and to support the next phase of growth, specialist teams have been expanded as follows:

- New senior HSS management roles to directly support the Resort Theme Parks and LEGOLAND Parks Operating Groups, with updated reporting structures.
- A new senior HSS role to support each of the Operating Groups and focus exclusively on the development and implementation of HSS training and assurance programmes across the Group.
- A new Group engineering function to provide 'best in class' engineering support; ensure consistent groupwide engineering standards and processes; and practical compliance assurance programmes.
- New, dedicated Training and Compliance Manager roles to reside within the engineering departments at each of our theme parks.

## FOCUS ON MERLIN ENGINEERING

Merlin's rides are kept running safely as a result of our rigorous approach to safety management. Key to this are our engineers - highly trained, qualified and technically competent professionals, typically with core mechanical and/or electrical skills.

Each engineer undergoes ride specific training and must demonstrate an excellent level of knowledge and competence before they are permitted to perform the activities we outline below. Their individual performance is then continually assessed through shadowing, performance monitoring and auditing.

**Daily Inspections** are completed for safety critical elements of each ride, for example the integrity of passenger restraint systems, brakes and emergency devices. On completion, the ride will be signed off as safe for use and handed over to the operations team to carry out pre-opening checks.

Each ride undergoes **Planned Maintenance**, running in parallel to the daily inspections. With the frequency and type of work specific to each ride, these routines can be completed either out of park operating hours or during the day, for example where a ride vehicle is relocated to the maintenance workshop for its scheduled examination and service.

**Predictive Maintenance** is carried out during operating hours, assessing a ride's functionality and performance. Ride engineers will use their experience and the latest technology to monitor and evaluate ride performance, looking either at the overall operation of the ride, or certain equipment used within it, checking for example running speed, noise, vibration and operating temperatures.

**Reactive Tasks** often relate to ride stoppages which can occur for numerous reasons throughout the day, for example guest behaviour resulting in the activation of an emergency stop or a fault condition being reported by the ride's computer control system.

Attending engineers will be competent in all relevant technical aspects of the ride and will investigate the cause and undertake corrective action. Safety inspections and checks will then be followed to allow the ride to be put back into operation.

**Shutdown Preparation** involves planning for 'In-service Inspection' and 'Annual Maintenance' activities, undertaken while the ride is shut down and taken out of service.

It is typically done in early autumn for those parks that have a closed season or on a rotational basis where the park remains open throughout the year. A rigorous programme of work sets out the level of 'strip down' and 'non-destructive testing' required, as well as whether such activities are to be undertaken in-house or with third party specialist assistance.

**In-service Inspections** require an independent and competent Inspection Body (IB) to annually check the condition and suitability of a ride for continuing safe use. This includes thorough examination of all safety critical components. The in-house engineering team's responsibility during this process is to strip down each ride and prepare safety critical components ready for independent inspection and non-destructive testing.

**Annual Maintenance** takes place alongside the In-service Inspections, with the engineering team carrying out work on each ride in line with manufacturer's recommendations, replacing components where required.

On completion of the In-service Inspection, annual maintenance and function testing processes a Declaration of Operational Conformity (or safety certificate) will be issued if the IB is satisfied with the condition of the ride. This will typically be valid for twelve months. There can be minor variances to this process depending on the location of the attraction.

Our engineers review ride performances regularly, working with the ride manufacturer and the IB to make **Reliability Improvements**, enhancing reliability, productivity and asset life. After these reviews, it may be decided that an adjusted schedule of planned maintenance is required to maintain optimum performance.

# AUDIT

## Committee Report

### STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present the 2015 report of the Audit Committee (the Committee) and to be able to confirm, on behalf of the Board, that we believe the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

The Committee remains engaged in maintaining the integrity of the Company's financial reporting, internal control framework and risk management process. During the year the Committee delivered a detailed programme of work to ensure that it continues to meet the increasing depth of review and reporting that is now required of Audit Committees. An external assessment of the Committee was undertaken during the year which found it to be effective.

Following updates to the UK Corporate Governance Code, the Committee spent time ensuring that the additional requirements introduced were met by the Company. Particular focus was given to enhancements to the Company's risk management processes, and systems of internal control, including any learnings from its internal investigation into the accident at Alton Towers. The Committee is satisfied that the Company has appropriate systems and procedures in place to identify, evaluate and manage material risks to the business.

The Committee also spent time considering the processes supporting the assessment of the Group's longer term solvency and liquidity which underlie the new Viability Statement. Following this we agreed the stress testing parameters of the Group's principal risks and that the appropriate period over which the assessment should be made for the Viability Statement was that of the Group's business plan, which covers the current year and the next four years.

The Group's principal risks and uncertainties are set out on pages 40 to 45. The Committee has reviewed these and is comfortable the Company has addressed them appropriately within its ongoing operating model and priorities.

With respect to financial reporting, as in previous years, the two areas determined to be of most significance in preparing the Group's financial statements are the valuation of assets including impairment, and revenue recognition.

The Committee recognises that independent and effective auditors are an essential component of the overall control framework.

A new Group Internal Audit and Risk Management Director has been appointed following an internal promotion of the previous director. The internal audit plan is risk based and we are satisfied with the content and quality of both reporting and management responses. An external assessment conducted during the year found the internal audit department to be effective.

In 2015 Hugh Green replaced Mark Summerfield as the KPMG Senior Statutory Auditor, Mark having reached the end of his permitted tenure. The Committee is pleased with the smooth transition, a point supported by a review of KPMG's effectiveness in late 2015. This review covered KPMG's mindset and culture, skills and knowledge, judgement and quality control measures. The feedback received was positive with only minor points to be addressed. We have also kept abreast of the latest regulations on auditor rotation; we expect that a retender will be required no later than 2023 and will bear in mind the next KPMG partner rotation after the 2019 audit is concluded.

The CFO plays a critical role in maintaining financial reporting quality and we are therefore pleased that, with the recently announced appointment of Anne-Francoise Nesmes, we have found someone well qualified to be Andrew Carr's successor.

Priorities for 2016 include continuing to deliver incremental improvements to the already effective risk management and control frameworks and monitoring the implementation of the Group's new admissions systems, through which the Group will ultimately transact a significant proportion of its revenues.

From the date of the 2015 AGM Fru Hazlitt joined the Audit Committee following Miguel Ko stepping down from the Board. As we move into 2016 I am delighted that Trudy Rautio and Rachel Chiang have been appointed to the Audit Committee, adding to the valuable contribution provided by Charles Gurassa and resulting in a Committee with deep financial, sector and international business experience. We have also appreciated the enthusiastic support of management throughout the year.

**Ken Hydon**  
**Chairman of the Audit Committee**  
24 February 2016

## AUDIT Committee Report

### The role of the Audit Committee

The Audit Committee has received delegated authority from the Board as set out in its written terms of reference (available on the Company's website). Its primary responsibilities, subject only to minor changes in the year, are:

- To monitor the integrity of the financial statements of the Company and report to the Board on significant financial reporting issues and judgements.
- To review and report on the effectiveness of the Company's internal controls and the overall risk management systems.
- To review the Company's arrangements for its employees to raise concerns through its whistleblowing and fraud policies.
- To monitor and review the effectiveness of the Company's internal audit function, and its material findings, in the context of the Company's overall risk management and internal control environment.
- To oversee the performance and independence of the external auditors.
- To report formally to the Board and make recommendations where it is deemed necessary on matters within its terms of reference, including a report to the Board on how it has discharged its responsibilities.
- To consider the processes supporting the assessment of the Group's longer term solvency and liquidity which underlie the Viability Statement.

The above obligations form the basis of an annual programme of work agreed before the start of the year and reviewed at each meeting to consider the inclusion of any further items that may need to be added in response to matters arising. In addition, the Committee is kept abreast of any updates in governance, legislation or guidance. All elements of the programme were covered during the course of the year.

### Membership and meetings

Details of the membership, their qualifications and the frequency and attendance at meetings are outlined in the Corporate Governance section on pages 62 to 65. In addition to the permanent members, the CFO and other key members of management routinely attend. The Chairman and the CEO are also invited to attend meetings as observers and others are invited to attend from time to time depending on the matters under discussion. Private meetings are routinely held with internal audit and KPMG. The Committee also meets privately after each Committee meeting.

### Effectiveness review

During the year an external effectiveness review of the Audit Committee was undertaken. This was based on a questionnaire sent to Committee members, all other attendees and the Board on a broad range of matters including the Committee's scope; organisation and meetings; quality of debate and challenge; and leadership of the Committee. The results showed the Committee to be effective.

### Risk management and the control environment

The Board retains overall responsibility for the Company's internal controls and, as outlined in the Risks and uncertainties section on pages 40 to 45, separates the Company's oversight of risk management into three risk components: Health, safety and security; Commercial and strategic; and Financial process. The Board has delegated to the Committee responsibility for overseeing the overall risk management process and specifically monitoring financial risk. The Audit Committee therefore has a dual role in relation to internal controls and risk management.

In assessing internal controls, the Committee reviewed the overall risk management process in place during the year. At the end of the year it examined the Company's risk organisation, how this has been practically implemented including the depth and effectiveness of reviews, and the methodology by which risk matters raised are brought to the attention of the Board, all intensified by the Alton Towers accident.

The Committee directly monitors the management of the financial process risk of the Company. Management remain responsible for establishing and maintaining adequate internal controls over financial reporting. Such controls are designed to manage, rather than eliminate, the risk of failure to achieve its business objectives through the following structure:

- The first level of internal control comprises the delegated authority limits and purchasing and sale price approval levels in place across the Company.
- The second level of internal control is the frequent and regular review processes the Company undertakes on its trading performance along with its detailed capital investment and strategic planning processes.
- The third level of assurance is gained from audit and self-assessment, including quarterly self-certification by the heads of finance of each of the business units; periodic internal audit reviews, with the support of specialist experts as appropriate; and the findings of the external auditors on the control environment and financial statements. The outcomes of these assurance activities are reviewed by management, the Audit Committee and the Board.

## AUDIT Committee Report

### Audit plans and outcomes

The internal audit annual plan is developed in conjunction with management, the focus being driven by the results of an assessment of various risk factors, before being reviewed and approved by the Committee.

Internal audit results and management responses are presented at each Committee meeting, with significant findings discussed in more detail and challenged where appropriate. The Committee continues to review management actions in response to significant findings and look at the root cause of consistent themes emerging across the Company, requesting 'deep dive' assessments of the financial control environment as necessary. Significant findings relate to areas where controls are found to be absent or inadequate in areas which are considered susceptible to fraud or material misstatement (at a local level) or where there is any evidence of deliberate falsification of documents. KPMG also present their view of Merlin's control environment at the December meeting, following their audit of such processes in the fourth quarter.

These measures, combined with an assessment of discussions with relevant stakeholders of the internal control systems, satisfied the Committee that in 2015 a thorough process exists within Merlin to assess the internal control environment, and that financial process controls are in place to mitigate the risk of a substantial loss or fraud occurring.

### Significant issues considered in 2015

Detailed below are some of the main areas that the Committee focused on in 2015. We are pleased to report that the Committee had no cause for disagreement with management during the year on these matters.

#### Accounting, tax and financial reporting

In addition to considering the material financial reporting matters noted below and in the table opposite, the Committee assessed the financial statements presented by the Company during the year as well as items that they believe are material to the integrity of the financial processes and output, including the consideration of:

- The half year and full year financial statements.
- Disclosures in the Annual Report and Accounts in relation to internal control, risk management process and the work of the Committee.
- The tax position of the Group, in particular the effective tax rate and the recognition of deferred tax assets.
- Key assumptions in relation to the Company's defined benefit pension schemes.
- Treasury accounting matters arising from the Company's refinancing in the year.
- Technical updates, in particular in relation to the requirements of and changes to the Code.
- The Audit Committee's report in the context of the Code's requirement for 'fair, balanced and understandable' reporting.

### Going concern and viability review

The Committee considered the Group's going concern review, especially the appropriateness of the key judgements, assumptions and estimates underlying the budgets that underpin the review and a review of compliance with key financial covenants. The Committee also considered the key risks identified by the Group and the mitigating internal controls, together with how the risks have been addressed in the going concern assessment.

This process enabled the Committee, on behalf of the Board, to assess whether any material residual risks remained that could pose a significant threat to the viability of the business as a whole. The Committee also assessed over what period such a viability review would be appropriate and agreed with the four year outlook period used. The impact of those risks that could affect the future viability of the Group over the next four years was then reviewed as was the resilience of the Group to the occurrence of these risks, in severe yet plausible scenarios. As a result of this analysis, the disclosures detailed in the Viability Statement, on page 42, were approved by the Board.

### Whistleblowing systems and fraud/bribery mitigation

The Committee receives regular updates on whistleblowing, including the quantity, source and nature of incidents reported and how matters are resolved. Efforts have continued in 2015 to increase the awareness of the Company's whistleblowing procedures. Internal audit results have confirmed that the external hotline has been effectively rolled out, adding a further route by which issues can be independently raised, supplementing the existing local 'profit protection' teams. The Company has a good culture of encouraging its staff to report incidents of poor practice. 84% of the employees who completed the annual staff survey in 2015 agreed they were aware of the whistleblowing options. The Company revised and reissued its fraud and bribery policy in 2015. This includes the provision of mandatory training for those staff who are considered most likely to be exposed to such risk.

### Misstatements

Management reported to the Committee that they were not aware of any material misstatements made intentionally to achieve a particular presentation. The external auditors reported to the Committee any misstatements that they had found in the course of their work and that no material adjustments were required. The Committee confirmed that it was satisfied that the auditors had fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditors, the Committee was satisfied that the financial statements appropriately addressed the significant judgements and key estimates both with respect to the amounts reported and the disclosures. The Committee was also satisfied that the significant assumptions used for determining the value of assets and liabilities had been appropriately scrutinised and challenged and were sufficiently robust.



## AUDIT Committee Report

**Consideration of significant accounting matters**

Following discussion with both management and the external auditors, the Committee determined the areas of most significance, which could give rise to misstatement of the Group's financial statements. These are set out below. These items were considered by the Committee at the time they agreed the external auditor's plan, when reviewing the external auditor's final audit findings, and in discussion with relevant members of management.

Matter considered	Summary
<p><b>The valuation of assets and impairment</b></p> <p>This is an area of significant judgement given that the Group is involved in opening attractions in new and, to some degree, unproven locations. Existing businesses operate in geographically or politically diverse areas and in the past the Group has made material acquisitions resulting in significant balances of goodwill and intangible assets.</p> <p>The Group has accumulated experience of opening many attractions around the world, but inevitably the performance of additional attractions, particularly in new markets, can be difficult to predict accurately. The exposure of existing attractions to macro-economic volatility or material adverse events, such as the accident at Alton Towers, may indicate a need for an impairment assessment. These factors make forecasting the returns from the existing estate and acquired businesses similarly uncertain.</p> <p>Valuations are performed based on discounted future cash flow forecasts and other market data. They are complex to perform, include judgemental information such as market discount rates, and are based almost entirely upon forward looking estimates of future cash flows.</p>	<p>Management provided detailed papers to the Audit Committee, explaining the methodology and judgements applied to test the value of assets and to determine if an impairment adjustment was required. These papers examined the basis by which discount rates were determined, as well as the judgements made to calculate an asset's terminal value. A combination of discount rate, terminal value and forecast cash flows are used to calculate the 'value in use'.</p> <p>The papers considered the valuation of goodwill at an Operating Group level, individual brands and specific property, plant and equipment. For each of these categories, in accordance with accounting standards, as well as 'value in use', 'fair values' were provided using an appropriate EBITDA multiple. Comparing the higher of these two valuations to their carrying values determined if any impairment was required. This paper specifically analysed the impact of the accident at Alton Towers on the expected future earnings of the attraction and the Resort Theme Parks Operating Group, as well as detailing the results of sensitivity analysis performed.</p> <p>The papers also set out the disclosures proposed for the Annual Report and Accounts, taking account of the procedures noted above and the findings reported to the Committee.</p> <p>Having reviewed the basis of management's calculations and the findings of the external audit on the valuation of assets and impairment, the Committee is satisfied with the appropriateness of the presentation in the financial statements and the adequacy of the disclosures, and that no impairment is required.</p>
<p><b>Revenue recognition</b></p> <p>Revenue is generated by high volumes of low value transactions in numerous jurisdictions across the world. During the year the Company announced its plan to roll out the accesso® admissions system across the Group. This system will ultimately generate a significant proportion of the Group's revenue transactions.</p> <p>Whilst there is limited judgement required in Merlin's revenue accounting policies compared to some other sectors, the accuracy of financial reporting relies on robust internal controls over cash reconciliations and the accurate cut-off of revenue at the balance sheet date in the instance of advanced sales or payment in arrears by trade customers.</p> <p>IFRS 15, the new accounting standard on revenue from contracts with customers, which will become effective from the 2018 accounting period, could potentially have an impact on the Group's financial results.</p>	<p>The roll out of the new admissions system commenced during the year under the guidance of a senior steering group, chaired by the Group's Chief Information Officer. The steering group includes a number of the Group's senior finance team, including the Group CFO. The project roll out team includes finance resource that is responsible for designing and implementing appropriate financial processes and controls.</p> <p>The project was at an early stage in 2015, initially focused on a number of the Group's smaller attractions, representing a very small percentage of the Group's revenues. As the new system is increasingly used across the estate during 2016, it will be a key focus for the Committee.</p> <p>The Committee has concluded that IFRS 15 is not expected to materially alter the Group's financial results.</p> <p>Other than as noted above, there have been no material changes in revenue streams or processes during 2015. As in previous years, the Audit Committee has considered the internal controls in place, including those over revenue streams, and concludes that they remain effective.</p>

## AUDIT Committee Report

### Responsibilities in respect of internal and external audit

As noted above the internal and external audit functions represent an important part of the third line of defence in terms of maintaining an effective internal control environment within the Company. The Committee oversees both internal and external audit to ensure they are independent and effective, and further information is provided in the following sections as to how the Committee satisfies itself of this independence and effectiveness.

#### Internal audit

The Company's internal audit function is led by an appropriately qualified Group Internal Audit and Risk Management Director. Through 2015 he reported jointly to the Chairman of the Audit Committee and the CFO and the Committee consider him to have the appropriate experience to lead the function. During the year it was indicated that he would move to another role within the Company in early 2016 and the Audit Committee chair participated in the recruitment of his replacement. The Committee is satisfied that the appropriate focus, skills and experience were in place throughout 2015, a view supported by the results of the external effectiveness review performed towards the end of the year. The Committee is also confident that the new Group Internal Audit and Risk Management Director has the relevant skills and experience to fulfil the obligations of the role. The transition took place in January 2016.

The internal audit function comprises six in-house auditors, including the Group Internal Audit and Risk Management Director, four of whom hold professional accounting qualifications and two who are part qualified and actively working towards full qualification. When necessary external support is used. For example PricewaterhouseCoopers (PwC) provided specialist support to the audit of the Company's IT strategic roadmap and risks as the internal team did not have the relevant skills.

The Committee received and approved a presentation of the audits planned to be performed in 2015 at the start of the year, including an assessment of the risk approach taken in formulating the priorities. Factors such as size and location of business, history of audit findings, competence and stability of local management, material changes to a business and relevance to the Group's strategy were factored into this prioritisation.

During the year, audits have been undertaken in operations representing coverage of approximately 60% of the Group's revenue. In 2015, in addition to the revenue generating locations, internal audits were performed over the effectiveness of central marketing procedures, admissions and web booking systems, central profit protection systems and bribery and fraud mitigation procedures. The coverage is in line with the plan approved by the Committee.

The internal audit reports are reviewed by management with significant findings also reviewed by the Company's Executive Committee. Any such findings are also discussed at the Audit Committee, along with recommendations and actions planned by management.

An external review of the effectiveness of internal audit was undertaken during the year and the results of the review were presented to the Committee in December. Members and attendees of the Audit Committee meetings, along with the senior finance community of the Company, were questioned on a range of subjects including the governance and organisation of the internal audit function, their audit approach and the effectiveness of their reports and conclusions. The survey results showed that the internal audit function is considered professional, diligent and its internal audits appropriately detailed.

Having considered comments from management, external auditors, the survey results and the quality of the internal audit reporting and findings, the Committee concluded that the internal audit function is effective.

#### External audit

KPMG LLP were the Company's external auditors throughout the year. The Committee is responsible for overseeing the work of the external auditors, including considering the scope of planned work and the assessment of risk and materiality on which it is based and, on behalf of the Board, approving the audit fee and ensuring their independence.

#### Appointment and governance of the external auditors

The Committee is responsible for making a recommendation to the Board on the appointment, reappointment or removal of the external auditors, together with their remuneration and terms of their engagement.

Having performed the role of Senior Statutory Auditor for five years, Mark Summerfield stepped down from this role at the conclusion of the 2014 reporting cycle. Hugh Green took over the position for the 2015 audit and the Committee has been pleased with the smooth transition. An effectiveness survey of KPMG in late 2015 also concluded that a range of stakeholders acknowledged that the transition had been smooth.

In recommending the reappointment of external auditors at the AGM, the Committee has considered the latest EU Audit Reforms guidance. Following consultation between the Department for Business, Innovation and Skills (BIS) and the Financial Reporting Council (FRC), it is now expected that Merlin will be required to retender its audit no later than for the 2023 financial year and will bear in mind the next KPMG partner rotation after the 2019 audit has concluded. The Committee has considered whether a retender in 2016 would be appropriate as part of its annual recommendation to the Board on the appointment of the external auditors.

## AUDIT Committee Report

### Remuneration and independence of external auditors

The auditors are eligible for selection to provide non-audit services only to the extent that their skills and experience make them a competitive and most appropriate supplier of these services. Non-audit services are subject to market tenders or tests and are awarded to the most appropriate provider.

Non-audit services that are awarded to the auditors are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. The principle followed with regard to non-audit services is that the auditors may not provide a service which:

- Places them in a position to audit their own work.
- Impacts their independence by creating a shared interest.
- Results in the auditors developing close personal relationships with Merlin employees.
- Results in the auditors functioning as a manager or employee of Merlin.
- Puts the auditors in the role of advocate for Merlin.

The Committee granted the CFO authority to approve the following without prior approval:

- Work which a third party requires to be carried out by the Company's auditors.
- Tax compliance work where the external auditor is the most appropriate party to perform those services.
- Any other work up to a value of £100,000 where the external auditor is best placed to undertake the work.

Management provides the Committee with reports on audit, audit-related and non-audit expenditure, together with proposals of any material non-audit related assignments. The Committee regularly reviews and, where necessary, challenges management to ensure that auditor objectivity and independence is not impaired. The Committee has determined that 'non-audit fees' should be no higher than 70% of 'audit and audit-related fees'; this level will continue to be monitored. The Committee continues to monitor the implementation of the EU directive by the UK Government which will, in future, place certain restrictions around non-audit services performed by the auditors.

Fees for non-audit services during the year amounted to £0.8 million (2014: £0.8 million). This represents a ratio of 58%. Details of the fees paid for audit services, audit-related services and non-audit services can be found in note 2.1 to the financial statements.

The Committee is satisfied that the overall levels of audit-related and non-audit fees, and the nature of services provided, are not such that would compromise the objectivity and independence of the external auditors.

### Assessment of the performance of the external auditors

Following consideration of the FRC's Practice Aid on Audit Quality, the Committee has evaluated the performance, independence and objectivity of KPMG. One part of this evaluation was an effectiveness assessment, facilitated by an external party. This assessment was conducted by way of a series of questionnaires issued to, and interviews with, Audit Committee members and other attendees, and senior finance personnel both at Merlin's attractions and at its head office. The survey covered KPMG's mindset and culture, skills and knowledge, judgement and quality control aspects of the audit.

The survey indicated widespread support of the quality of the KPMG audit and the Committee were satisfied with KPMG's responses to points raised in the survey.

In addition, the effectiveness of KPMG's 2015 audit was assessed over the year by reference to the following factors:

- The performance of Hugh Green in his first year as Senior Statutory Auditor, including his understanding of our business and the impact on the Annual Report and Accounts.
- The robustness and perceptiveness of KPMG's handling of key accounting and audit judgements.
- The quality of communication with the Committee, including the regular reports on accounting and governance matters.
- The skills and experience of the wider audit team and their execution of the audit, including the way they handled the key accounting and audit judgements and communication of the same with management and the Committee.
- Their reputation and standing, including their independence and objectivity and their internal quality procedures.
- The quality of the formal report to shareholders.

After taking into account all of the above factors, the Committee concluded that the external auditors were effective.

# DIRECTORS'

## Remuneration Report

### STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

This year's Remuneration Report is split into two sections:

- **Statement from the Chairman of the Remuneration Committee** contains details of our remuneration principles and of the key decisions reached by the Committee during 2015.
- **Annual Report on Remuneration** contains details of pay received by Directors in 2015 and full details of how we intend to implement our pay policy during 2016. The Annual Report on Remuneration will be subject to an advisory vote at the 2016 AGM.

For the reference of shareholders, an Annex to the Remuneration Report contains the current Directors' Remuneration Policy (Policy) that was approved by a binding shareholder vote at the 2014 AGM in the exact form that it was included in the 2013 Remuneration Report. This Policy remains effective for the forthcoming year.

#### Remuneration principles

A series of key principles underpin the Merlin remuneration structure: payments should be based on results and performance; pay should be aligned to the long term success of the Company, and consistent with best practice; widespread share ownership should be encouraged.

#### Performance orientated

- Rewarding performance is a core part of our ethos. About 80% of our permanent employees participate in a bonus plan and over 325 employees receive regular share awards or share option grants.
- To reinforce the link between performance and pay, most employees are rewarded for the performance of their particular attraction. Only the senior executives (the Executive Committee and their direct reports) and employees of central functions are rewarded for the performance of the overall Group.
- For senior executives, including the Executive Directors, performance related pay, based on stretching short term and longer term targets, forms a significant part of their potential pay packages.

#### Aligned to the long term success of the Company

Our pay structure encourages strong alignment between the interests of our senior executives and the interests of our shareholders.

- Senior executives receive regular awards of shares under the Performance Share Plan (PSP) which are subject to the achievement of challenging EPS and ROCE performance targets. EPS and ROCE are key performance indicators aligned to the Company's strategic priorities.
- The business continues to see many global opportunities for the successful deployment of capital and these measures are designed to ensure that this is done in the most effective manner to generate sustainable long term returns.
- For senior executives, there is greater emphasis on rewards for delivery of longer term performance targets than short term performance targets.
- Members of the Executive Committee are required to build up and retain a significant holding of Merlin shares. For Executive Directors, the requirement is to build a holding of shares worth 200% of salary.

#### Consistent with best practice

- Salaries are set at competitive, but not excessive, levels compared to peers and other companies of an equivalent size and complexity.
- There is potential for market competitive levels of total pay but only if stretching business targets are delivered.
- For our employees, we have a high degree of simplicity in our pay model.

#### Widespread share ownership

- Widespread share ownership is an integral part of Merlin's culture. We operate all-employee share plans that enable all of our permanent employees to purchase a stake in our Company.
- These plans supplement the discretionary share plans for senior executives (Deferred Bonus Plan and PSP) and the Company Share Option Plan (CSOP) for middle management.

## DIRECTORS' Remuneration Report

**Performance in 2015**

The financial and operating performance of Merlin in 2015 is set out on pages 2 to 57 in the Strategic Report.

2015 was a challenging year for Merlin. The Company grew revenues by 2.3% (3.9% on a constant currency basis) but, reflecting the lower levels of like for like revenue growth and the significant decline in revenue in the Resort Theme Parks Operating Group, underlying operating profit decreased by £20 million, or 5.6% on a constant currency basis.

As a result of financial performance falling below expectations the threshold for payment of profit-related bonus was not met. As a consequence neither the CEO nor CFO will receive a bonus in relation to 2015 performance.

**Pay decisions for 2016**

The proposed pay structure for the Executive Directors for 2016 is outlined on pages 78 to 79. Key decisions made by the Committee in relation to 2016 include:

- In order to be compliant with the revised UK Corporate Governance Code, the Committee has strengthened the existing provisions relating to the withholding and recovery of incentive awards ('malus' and 'clawback' provisions) so that they can potentially be applied to any element of the Executive Directors' variable pay awarded in respect of 2016. Further details of these provisions are outlined in the 'Implementation of remuneration policy in 2016' section of the Annual Report on Remuneration.
- Both Executive Directors asked not to be considered for an increase in their salaries as part of the review to be effective from 1 January 2016. The average salary increase for the Merlin UK workforce effective 1 January 2016 is 1.5%.
- The Committee has agreed the same basic structure to the bonus plan as 2015 with individual objectives for the Executive Directors appropriately reflecting Company priorities.
- The Committee has also maintained the same basic structure for the PSP with unchanged threshold and maximum performance conditions.
- Following the announcement of the retirement of the current CFO, Andrew Carr, and the appointment of Anne-Francoise Nesmes the remuneration arrangements for Anne-Francoise are set out on page 79 and those for Andrew are set out as follows.

**Retirement of CFO**

As a Committee, we recognise our responsibility to ensure that pay decisions relating to departing Directors are determined fairly both for shareholders and for the departing individuals.

As outlined in our announcements in January and February, Andrew Carr has decided to retire and will step down as a Board Director on 1 August 2016. Andrew will continue to work for the Company until 31 October 2016 in order to provide transitional support to the new CFO.

Andrew will receive no further payments following cessation of employment and will not be eligible for future bonus or LTIP awards and accordingly he will not be a participant in either the 2016 annual bonus plan or the 2016 PSP award. Andrew's outstanding deferred bonus share award will vest upon cessation of employment in accordance with our standard policy for good leavers. His outstanding PSP awards will be time pro rata reduced upon cessation of employment and will remain subject to the existing performance conditions measured over the full three year performance period.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolution relating to remuneration at the AGM. As ever, the Committee welcomes any questions or comments from shareholders.

**Charles Gurassa**

**Chairman of the Remuneration Committee**

24 February 2016

## DIRECTORS' Remuneration Report

## ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2016 Annual General Meeting.

## UNAUDITED INFORMATION

### Implementation of remuneration policy in 2016

This section provides an overview of how the Committee is proposing to implement our remuneration policy (as set out in the Annex to this Remuneration Report) in 2016 for the current Executive Directors. The remuneration arrangements for the new CFO, Anne-Francoise Nesmes, are set out on page 79.

#### Base salary

Salary details for the current Executive Directors are set out below.

	Salary 1 October 2014	Salary 1 October 2015	% increase
Nick Varney	£581,400	£581,400	Zero
Andrew Carr	£351,900	£351,900	Zero

#### Pension and benefits

As in 2015, the current Executive Directors will receive a Company contribution worth 25% of salary. Nick Varney will receive this contribution as a cash allowance and Andrew Carr will receive a contribution to the Group Pension Plan up to the minimum Annual Allowance of £10,000 and a cash allowance in respect of the balance. To the extent that a cash allowance is paid this is reduced by the corresponding amount of employer National Insurance Contributions. They will also receive a standard package of other benefits consistent with those received in 2015.

#### Annual bonus

The structure of the annual bonus plan for 2016 remains broadly consistent with the 2015 plan. Key features are as follows:

- The maximum annual bonus potential will be 150% of salary for the CEO and 135% for the CFO.
- One-third of any bonus earned will be deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.
- Bonus payments and deferred share awards will be subject to potential withholding or clawback during the three year period following the award of the bonus in exceptional circumstances of evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts or an error in the calculation of the extent of payment or vesting of an incentive.

The annual bonus for 2016 for Executive Directors will be determined as detailed below:

#### As a percentage of maximum bonus opportunity

Measure	CEO	CFO
Underlying operating profit	80%	80%
Personal objectives	20%	20%
Total	100%	100%

Payment under the non-financial elements of the bonus will be scaled back to the extent that Group underlying operating profit targets are not fully met. This means that if there is no payment under the Group underlying operating profit element of the bonus scheme, there will also be no payment under this element of the bonus irrespective of performance against the aforementioned individual measures. The targets themselves, as they relate to the financial year 2016, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

## DIRECTORS' Remuneration Report

**Performance Share Plan**

Performance Share Plan (PSP) awards are granted over Merlin shares with the number of shares under award determined by reference to a percentage of base salary. Vesting of the awards is conditional upon satisfaction of performance conditions and is usually also conditional upon continued employment until the awards vest.

The CEO will be amongst the participants in the PSP award to be granted in April 2016. Awards will be over shares worth, at the date of grant, 250% of salary for the CEO. Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to December 2018. Owing to planned retirement the CFO will receive no award under the PSP in 2016.

EPS performance condition (50% of award)			ROCE performance condition (50% of award)		
	Adjusted EPS growth	% of award vesting		Average ROCE	% of award vesting
Below threshold	<7% p.a. cumulative growth	0%	Below threshold	<9%	0%
Threshold	7% p.a. cumulative growth	10%	Threshold	9%	12.5%
Between threshold and maximum	7% - 14% p.a. cumulative growth	10% to 50% on sliding scale	Between threshold and maximum	9% - 13%	12.5% to 50% on sliding scale
Maximum	14% p.a. cumulative growth	50%	Maximum	13%	50%

Adjusted EPS is defined on page 164.

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2018 financial year with Adjusted EPS for the 2015 financial year.

ROCE is defined on page 165.

Average ROCE will be calculated as an average of ROCE for the 2016, 2017 and 2018 financial years.

PSP awards will be subject to potential withholding or clawback during the five year period following the date of award in exceptional circumstances of evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts or an error in the calculation of the extent of payment or vesting of an incentive.

**Employee Share Plan**

Invitations to UK employees (including Executive Directors) to participate in the Employee Sharesave Plan (UK Sharesave Plan) were issued in 2014 and 2015. Similar invitations were issued to relevant employees under the US Employee Stock Purchase Plan and the Overseas Sharesave Plan.

Invitations for the next award under each of these plans commenced in February 2016.

**New CFO pay arrangements**

Anne-Francoise Nesmes will commence employment with Merlin on 1 August 2016. Her pay arrangements will be in line with our policy and will comprise:

- Salary of £385,000 fixed until October 2017.
- Pension contribution worth 25% of salary plus a standard benefits package including relocation support.
- Annual bonus potential of up to 135% of salary paid in a mixture of cash and deferred shares as outlined above. In 2016, Ms Nesmes will have a time pro-rated bonus potential.
- Annual PSP awards. The Committee's current policy is that Ms Nesmes will receive an annual PSP award of shares worth 225% of annual salary, consistent with the award policy for her predecessor. Her first PSP award will be granted in September 2016 shortly after she commences employment with Merlin.
- Twelve month notice period.

For completeness, there are no buy-out arrangements to compensate for forfeited long term incentive awards.

In line with the Merlin shareholding requirement, Ms Nesmes will be expected to retain at least 50% of vested share awards (after selling sufficient shares to satisfy tax liabilities) until she holds Merlin shares worth at least 200% of her salary.

## DIRECTORS' Remuneration Report

### Non-executive Director remuneration

The table below shows the fee structure for Independent Non-executive Directors for 2016. Independent Non-executive Director fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee.

	2016
Basic fee for UK-based Non-executive	£50,000
Basic fee for overseas-based Non-executive	£50,000 plus a travel allowance of £1,000 per Board meeting attended in person
Senior Independent Director additional fee	£10,000
Audit Committee Chairman additional fee	£10,000
Remuneration Committee Chairman additional fee	£10,000
Chairman of the Board all-inclusive fee	£250,000

There are no fees paid for membership of Board Committees nor to the shareholder representative Non-executive Directors.



## DIRECTORS' Remuneration Report

## AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 86 is subject to audit.

## Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for 2015 with prior year comparatives for 2014.

2015							
All figures shown in £000	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long term incentives <sup>(4)</sup>	Other <sup>(5)</sup>	Pension <sup>(6)</sup>	Total
<b>Executive Directors</b>							
Nick Varney	581	21	-	-	3	128	733
Andrew Carr	352	17	-	-	3	82	454
<b>Non-executive Directors</b>							
Sir John Sunderland	250	-	-	-	-	-	250
Charles Gurassa	70	-	-	-	-	-	70
Ken Hydon	60	-	-	-	-	-	60
Miguel Ko <sup>(7)</sup>	21	-	-	-	-	-	21
Fru Hazlitt	50	-	-	-	-	-	50
Trudy Rautio <sup>(8)</sup>	14	-	-	-	-	-	14
Søren Thorup Sørensen	-	-	-	-	-	-	-
Dr. Gerry Murphy <sup>(7)</sup>	-	-	-	-	-	-	-
Rob Lucas <sup>(7)</sup>	-	-	-	-	-	-	-
<b>2014</b>							
All figures shown in £000	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long term incentives <sup>(4)</sup>	Other <sup>(5)</sup>	Pension <sup>(6)</sup>	Total
<b>Executive Directors</b>							
Nick Varney	573	20	859	-	3	127	1,582
Andrew Carr	347	18	444	-	3	81	893
<b>Non-executive Directors</b>							
Sir John Sunderland	250	-	-	-	-	-	250
Charles Gurassa	70	-	-	-	-	-	70
Ken Hydon	60	-	-	-	-	-	60
Miguel Ko	50	-	-	-	-	-	50
Fru Hazlitt <sup>(9)</sup>	38	-	-	-	-	-	38
Søren Thorup Sørensen	-	-	-	-	-	-	-
Dr. Gerry Murphy	-	-	-	-	-	-	-
Rob Lucas	-	-	-	-	-	-	-

## Notes to the table - methodology:

<sup>(1)</sup> **Salary and fees** - this represents the cash paid or receivable in respect of the period.

<sup>(2)</sup> **Benefits** - this represents the taxable value of all benefits paid or receivable in respect of the period. Executive Directors receive a company car or car allowance, phone costs, income protection insurance, an annual medical, private medical insurance and life assurance of four times annual salary.

<sup>(3)</sup> **Annual bonus** - this is the total annual bonus earned in respect of the period. Two-thirds of this bonus is paid in cash and the remaining third is deferred in shares for three years. Further details relating to the 2015 bonus are disclosed below.

<sup>(4)</sup> **Long term incentives** - this column relates to the value of long term awards whose performance period ends in the year under review. The first long term incentive award granted post Listing has a performance period that ends in 2016. As a result, this column has a zero figure in 2014 and 2015.

<sup>(5)</sup> **Other** - this column relates to the value of the grant of options under the UK Sharesave Plan. The grant has been valued for the 2014 and 2015 grants respectively, at 22.6% and 29.8% of the face value of shares under option which is the IFRS 2 valuation for these awards.

<sup>(6)</sup> **Pension** - Executive Directors receive a Company contribution worth 25% of salary. Nick Varney receives this contribution as a cash allowance and Andrew Carr receives this as a contribution to the Group Personal Pension Plan up to the Annual Allowance and, in respect of the balance, as a cash allowance. This figure represents the benefit received by the Directors in respect of the period. The 2014 figures have been amended to reflect the reduction in cash amount paid for the corresponding amount of employer National Insurance Contributions.

<sup>(7)</sup> Miguel Ko, Dr. Gerry Murphy and Rob Lucas stepped down from the Board on 14 May 2015. Fees shown for Miguel Ko are from 28 December 2014 to 14 May 2015.

<sup>(8)</sup> Trudy Rautio joined the Board on 1 October 2015. Fees shown in the table are from that date to 26 December 2015.

<sup>(9)</sup> Fru Hazlitt joined the Board on 1 April 2014. Fees shown in the table are from that date to 27 December 2014.

## DIRECTORS' Remuneration Report

### Additional disclosures in respect of the single figure table

#### Annual bonus

Executive Directors are participants in the central bonus plan. The maximum annual bonus opportunity for the Executive Directors for 2015 was 150% of salary for the CEO and 135% of salary for the CFO. One-third of any bonus earned is deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.

The maximum potential annual bonus that could be paid to Executive Directors in respect of 2015 performance was determined by underlying operating profit performance. 20% of that potential bonus was additionally subject to satisfaction of individual objectives. Performance measures and targets applying to the 2015 annual bonus are set out below.

In 2015 no bonus was payable to employees under the central bonus plan, including the Executive Directors, since the financial threshold for payment of bonus was not achieved.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Underlying operating profit	80%	£310.6 million (0% of bonus payable)	£330.4 million (40% of bonus payable)	£350.2 million (80% of bonus payable)	£291.5 million	0%
Individual objectives	20% <sup>(1)</sup>	Following the year end, the Committee assessed performance against the individual objectives for each Director for 2015. <b>CEO:</b> The CEO met the majority of his personal objectives which covered a range of areas from delivering new openings, new accommodation rooms, customer satisfaction targets and securing future sites. <b>CFO:</b> The CFO met the majority of his personal objectives which covered a range of areas including delivering new finance facilities and implementing new systems.				0% as threshold profit target was not achieved
					<b>TOTAL</b>	0% (CEO) 0% (CFO)

<sup>(1)</sup> The maximum annual bonus payout that can be received as a result of individual objectives is scaled back to the extent that the underlying operating profit target is not fully satisfied.

### Scheme interests awarded during the financial year

#### Performance Share Plan awards

An award was granted under the PSP to selected senior executives, including the Executive Directors, on 2 April 2015. This award is subject to the performance conditions described below and will vest on 2 April 2018.

Type of award	Maximum number of shares	Face value (£) <sup>(1)</sup>	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Nick Varney	Performance shares	328,846	£1,453,500	250%	30 December 2017
Andrew Carr	Performance shares	179,134	£791,772	225%	
				For EPS element 10% of award (max 50%)	
				For ROCE element 12.5% of award (max 50%)	

<sup>(1)</sup> The maximum number of shares that could be awarded has been calculated using the closing share price on 1 April 2015 of £4.42 and is stated before the impact of reinvestment of the dividends paid since grant.

## DIRECTORS' Remuneration Report

EPS performance condition (50% of award)			ROCE performance condition (50% of award)		
	Adjusted EPS growth	% of award vesting		Average ROCE	% of award vesting
Below threshold	<7% p.a. cumulative growth	0%	Below threshold	<9%	0%
Threshold	7% p.a. cumulative growth	10%	Threshold	9%	12.5%
'Mid-point'	10.5% p.a. cumulative growth	27.5%	'Mid-point'	11%	27.5%
Maximum	14% p.a. cumulative growth	50%	Maximum	13%	50%

Based on Adjusted EPS as defined in the 2014 Annual Report and Accounts.

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2017 financial year with Adjusted EPS for the 2014 financial year.

Based on ROCE as defined in the 2014 Annual Report and Accounts.

Average ROCE will be calculated as an average of ROCE for the 2015, 2016 and 2017 financial years.

#### UK Sharesave awards

The Executive Directors participated in the 17 March 2015 grant of options under the Sharesave Plan on the same terms as other UK employees. Details relating to their participation in this grant are set out below. No performance conditions apply to these options.

	Type of award	Maximum number of shares	Face value (£)	Options exercisable
Nick Varney	Share Option	2,780	£8,999	1 April 2018 - 30 September 2018
Andrew Carr	Share Option	2,780	£8,999	

Each option is exercisable at an exercise price of £3.2371. The option exercise price represents a 20% discount to the average closing price of a share (£4.0463) on the three dealing days prior to the invitation to participate in the Company's Plan which was 16 February 2015. The face value of options in the above table is based on the aforementioned exercise price.

#### Deferred Bonus Plan awards

The Executive Directors' annual bonuses are delivered two-thirds in cash and one-third in shares under the Deferred Bonus Plan. On 25 March 2015, the Executive Directors received an award of shares under the Deferred Bonus Plan relating to the 2014 annual bonus. The value of these shares was included in the annual bonus figure in the 2014 single total figure of remuneration. No further performance conditions apply to these shares.

	Type of award	Maximum number of shares <sup>(1)</sup>	Face value (£)	Vesting date
Nick Varney	Deferred shares	64,364	£286,420	25 March 2018
Andrew Carr	Deferred shares	33,308	£148,220	25 March 2018

<sup>(1)</sup> The maximum number of shares awarded has been calculated using the closing share price on 24 March 2015 of £4.45 and is stated before the impact of reinvestment of the dividends paid since grant.

## DIRECTORS' Remuneration Report

### Payments to past Directors

There were no payments to past Directors during 2015.

### Payments for loss of office

There were no payments for loss of office to Directors during 2015.

### Statement of Directors' shareholding and share interests

A shareholding requirement of 200% of base salary applies to the Executive Directors. Both of the current Executive Directors had a shareholding that surpassed that requirement at 26 December 2015.

Executive Directors are expected to achieve the shareholding requirement primarily by retaining at least 50% of any share awards that vest under the PSP and the Deferred Bonus Plan (after selling sufficient shares to satisfy tax liabilities). Individuals are expected to be compliant with their shareholding requirement within five years of that individual becoming subject to the requirement. The Committee reviews ongoing individual performance against the shareholding requirement at the end of each financial year.

Current shareholding requirements and the number of shares held by Directors are set out in the table below.

Director	Value of shareholding at 26 December 2015 as a % of salary (Shareholding requirement target)	Number of shares			
		Shares owned outright at 26 December 2015	Interests in share incentive schemes, awarded without performance conditions at 26 December 2015		Interests in share incentive schemes, awarded subject to performance conditions at 26 December 2015 <sup>(2)</sup>
			Sharesave	Deferred Bonus <sup>(1)</sup>	
					PSP
Nick Varney <sup>(3)</sup>	5,014% (200%)	6,477,823	5,816	65,346	906,636
Andrew Carr <sup>(3)</sup>	3,625% (200%)	2,835,123	5,816	33,816	494,997
Sir John Sunderland	-	531,044	-	-	-
Charles Gurassa	-	31,746	-	-	-
Ken Hydon	-	31,920	-	-	-
Fru Hazlitt	-	31,746	-	-	-
Trudy Rautio	-	11,250	-	-	-
Søren Thorup Sørensen	-	-	-	-	-

#### Notes to the table:

<sup>(1)</sup> In accordance with the Deferred Bonus Plan rules, the Committee has determined that an additional award of shares will be made in respect of shares which vest under Deferred Bonus Plan awards to reflect the value of dividends which would have been paid on those shares during the deferral period (calculated on the assumption that dividends are reinvested in Company shares on a cumulative basis). The total number of shares shown in this table includes 982 shares and 508 shares for Nick Varney and Andrew Carr respectively which relate to assumed reinvestment of the dividends paid since grant on Deferred Bonus Plan awards.

<sup>(2)</sup> Further details relating to the PSP grants are summarised below.

<sup>(3)</sup> For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 26 December 2015 has been used (£4.50).

Between 26 December 2015 and the date of this report there were no changes in the shareholdings outlined in the above table.

## DIRECTORS' Remuneration Report

## Outstanding awards under the PSP

	Date of grant	Date of vesting	Maximum number of shares	Face value (% of salary)	Dividend equivalent shares <sup>(1)</sup>	Performance condition	End of performance period
Nick Varney	12 November 2013	1 April 2017	560,952	310%	11,822	EPS: 10% vests for 7% p.a. cumulative growth increasing to 50% vesting for 14% p.a. cumulative growth	December 2016
Andrew Carr	12 November 2013	1 April 2017	306,667	280%	6,463	ROCE: 12.5% vests for average ROCE of 9% increasing to 50% vesting for average ROCE of 13%	
	Date of grant	Date of vesting	Maximum number of shares	Face value (% of salary)	Dividend equivalent shares <sup>(1)</sup>	Performance condition	End of performance period
Nick Varney	2 April 2015	2 April 2018	328,846	250%	5,016	EPS: 10% vests for 7% p.a. cumulative growth increasing to 50% vesting for 14% p.a. cumulative growth	December 2017
Andrew Carr	2 April 2015	2 April 2018	179,134	225%	2,733	ROCE: 12.5% vests for average ROCE of 9% increasing to 50% vesting for average ROCE of 13%	

<sup>(1)</sup> In accordance with the PSP rules, the Committee has determined that an additional award of shares will be made in respect of shares which vest under PSP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (calculated on the assumption that dividends are reinvested in Company shares on a cumulative basis). The figures in the table above relate to assumed reinvestment of the dividends paid since grant.

## DIRECTORS' Remuneration Report

## UNAUDITED INFORMATION

The information provided in this section of the Remuneration Report is not subject to audit.

**Performance graph and CEO remuneration table**

The chart below compares the Total Shareholder Return performance of the Company over the period from Listing to 26 December 2015 to the performance of the FTSE 350 Index. This index has been chosen because it is a recognised equity market index of which Merlin is a member. The base point in the chart for Merlin equates to the Offer Price of 315p.

GRAPH REMOVED

The table below summarises the CEO single figure for total remuneration, annual bonus payouts and PSP vesting levels as a percentage of maximum opportunity over this period.

	2013 <sup>(1)</sup>	2014	2015
CEO single figure of remuneration £000	151	1,582	733
Annual bonus payout (as a % of maximum opportunity)	n/a (no maximum limit applied in 2013)	100%	0%
PSP vesting outturn (as a % of maximum opportunity)	n/a (no award vested in 2013)	n/a (no award vested in 2014)	n/a (no award vested in 2015)

<sup>(1)</sup> From Listing on 13 November 2013 to 28 December 2013.

## DIRECTORS' Remuneration Report

**Percentage change in remuneration of the CEO**

The table below indicates the change in the CEO's remuneration between 2014 and 2015 and the change in average remuneration for other UK employees between 2014 and 2015. The Remuneration Committee believes that the UK workforce is the most appropriate comparator for this analysis for the UK based CEO.

	Salary increase <sup>(1)</sup>	Benefits increase/decrease <sup>(2)</sup>	Annual bonus increase/decrease <sup>(3)</sup>
CEO	0%	+ 5%	- 100%
Average for all UK employees	+ 1.5%	+ 1%	- 89%

<sup>(1)</sup> The CEO's salary was increased by 2% effective 1 October 2014. There has been no further increase since that time.

<sup>(2)</sup> The CEO's increase in benefits of 5% reflects the increased cost of company car provision (£1,000).

<sup>(3)</sup> For comparative purposes the annual bonus % for the CEO is compared to the average for the participants in the central bonus plan.

**Relative importance of the spend on pay**

This chart illustrates the total expenditure on pay for all of Merlin's employees compared to distributions to shareholders by way of dividend and share buyback. In order to provide context for these figures, underlying operating profit is also shown.

GRAPH REMOVED

## DIRECTORS' Remuneration Report

### Consideration by the Directors of matters relating to Directors' remuneration

The Committee has been chaired throughout the year by Charles Gurassa. The Committee has comprised the Chairman of the Board, the Chairman of the Committee, Ken Hydon, Fru Hazlitt and Miguel Ko (until he stepped down from the Board on 14 May 2015).

The Committee met four times during 2015. The CEO, CFO, Group HR Director, Group Compensation & Benefits Director, Deputy Company Secretary, Søren Thorup Sørensen and the Group Legal Director (in his role as secretary to the Committee) were also present at some of these meetings by invitation.

The Committee is responsible for determining all aspects of Executive Director pay. It also monitors pay arrangements for other senior executives and oversees the operation of all share plans. Full terms of reference of the Committee are available on our website under Investor Relations - Corporate Governance.

Deloitte LLP was appointed by the Company in 2013 to provide advice on executive remuneration matters. During the year the Committee received independent and objective advice from Deloitte, principally on the drafting of the remuneration report, shareholder consultation and market practice. Deloitte was paid £47,915 in fees during 2015 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided indirect tax advice to the Company during the year.

### Shareholder voting on 2014 remuneration report

At the 2015 Annual General Meeting, strong shareholder support was received for our resolutions on remuneration as summarised below.

	Votes for	Votes against	Votes withheld
Approval of the Annual Report on Remuneration	815 million (98%)	17 million (2%)	0.3 million

### External board appointments

Executive Directors are normally entitled to accept external appointments outside the Company with the consent of the Board. Any fees received may be retained by the Director.

As at the date of this report, neither of the Executive Directors held an external appointment for which they received a fee.

### Annual General Meeting

The Annual Report on Remuneration section of this Remuneration Report will be submitted for an advisory shareholder vote at our Annual General Meeting to be held on 19 May 2016.

On behalf of the Board

**Charles Gurassa**

**Chairman of the Remuneration Committee**

24 February 2016



## DIRECTORS' Remuneration Report

## ANNEX TO THE REMUNERATION REPORT - POLICY REPORT

For the reference of shareholders, this Annex to the Remuneration Report sets out our Directors' Remuneration Policy (Policy) that was approved by a binding shareholder vote at the 2014 AGM in the exact form that it was included in the 2013 Remuneration Report. This Policy applies to payments made from 15 May 2014. The information provided in this section of the Remuneration Report is not subject to audit.

**Policy table**

The following table sets out details of each component of the Executive Director remuneration package. Our aim is to provide pay packages that will:

- Motivate and retain our industry leading employees.
- Attract high quality individuals to join us.
- Encourage and support a high performance culture.
- Reward delivery of our business plan and key strategic goals.
- Align our employees with the interests of shareholders and other external stakeholders.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions <sup>(1)</sup>
<b>Fixed pay</b>			
<b>Base salary</b> To appropriately recognise responsibilities and attract and retain talent by ensuring salaries are market competitive.	Generally reviewed annually with any increase normally taking effect from 1 October although the Committee may award increases at other times of the year if it considers it appropriate.  The review takes into consideration a number of factors, including (but not limited to): <ul style="list-style-type: none"> <li>• The individual Director's role, experience and performance.</li> <li>• Business performance.</li> <li>• Market data for comparable roles in appropriate pay comparators.</li> <li>• Pay and conditions elsewhere in the Group.</li> </ul>	No absolute maximum has been set for Executive Director base salaries. Current Executive Director salaries are set out in the Annual Report on Remuneration section of this Remuneration Report.  Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: <ul style="list-style-type: none"> <li>• Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent employees.</li> <li>• Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group).</li> <li>• Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.</li> </ul>	None
<b>Benefits</b> To provide market competitive benefits.	Benefits are role specific and take into account local market practice.  Benefits currently include a company car or car allowance, phone costs, income protection insurance, an annual medical, private medical insurance and life assurance of four times annual salary. The Committee has discretion, in the event of the appointment of a Director based overseas or in exceptional circumstances, to add to or remove benefits provided to Executive Directors.	There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role.	None

## DIRECTORS' Remuneration Report

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions <sup>(1)</sup>
<b>Pension</b> To provide market competitive retirement benefits.	Current policy is for the Company to either contribute to the Group Pension Plan and/or to provide a cash allowance in lieu of pension.	Executive Directors receive a contribution of up to 25% of salary to the Group Pension Plan and/or as a cash allowance in lieu of pension.	None
<b>Variable pay</b>			
<b>Annual bonus <sup>(2), (3)</sup></b> To link reward to key business targets for the forthcoming year and to individual contribution.  Additional alignment with shareholders' interests through the operation of bonus deferral.	<p>The Executive Directors are participants in the central bonus plan which is reviewed annually to ensure bonus opportunity, performance measures and targets are appropriate and supportive of the business strategy.</p> <p>Two-thirds of an Executive Director's annual bonus is delivered in cash following the release of audited results and the remaining third is deferred into an award over Company shares under The Merlin Entertainments plc Deferred Bonus Plan.</p> <ul style="list-style-type: none"> <li>Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash).</li> <li>Deferred awards usually vest three years after award although may vest early on leaving employment or on a change of control (see later sections).</li> <li>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).</li> <li>Deferred awards will be subject to withholding at the Remuneration Committee's discretion during the deferral period in exceptional circumstances where the Committee finds that the Executive Director has engaged in misconduct justifying summary dismissal or there has been a material misstatement of the financial accounts relating to the relevant bonus year which has led to an overpayment of bonus.</li> </ul>	<p>The maximum award that can be made under the central bonus plan is 150% of salary.</p> <p>Each year the Remuneration Committee determines the maximum bonus opportunity for individual Executive Directors within this limit.</p>	<p>The bonus is based on performance assessed over one year using appropriate financial, strategic and individual performance measures.</p> <p>The majority of the bonus will be determined by measure(s) of Group financial performance. The selected measure(s) for the next financial year are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>A sliding scale of targets is set for each Group financial measure with payout at zero for threshold financial performance increasing to 50% for meeting expectations and 100% for maximum performance.</p> <p>The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director. The selected measures for the next financial year are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>Any bonus payout is ultimately at the discretion of the Committee.</p>

## DIRECTORS' Remuneration Report

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions <sup>(1)</sup>
<b>Performance Share Plan (PSP) <sup>(3), (4)</sup></b> To link reward to key business targets for the longer term and to retain executives.	<p>Awards are usually granted annually under the PSP to Executive Directors and other selected senior executives.</p> <p>Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Remuneration Committee.</p> <p>Awards may be granted as conditional awards of shares, nil-cost options or forfeitable share awards (or, if appropriate, as cash-settled equivalents).</p> <p>Awards normally vest at the end of a period of at least three years following grant although may vest early on leaving employment or on a change of control (see later sections).</p> <p>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under PSP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).</p>	<p>The maximum annual award permitted under the PSP is shares with a market value (as determined by the Committee) of 350% of salary.</p> <p>Each year the Remuneration Committee determines the actual award level for individual Executive Directors within this limit.</p>	<p>Vesting of PSP awards is dependent on measures of Group earnings and return on total investment with the precise measures and weighting of the measures determined by the Committee ahead of each award. These details are disclosed in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>Performance will usually be measured over a three year performance period. For achieving a 'threshold' level of performance against a performance measure, no more than 25% of the portion of the PSP award determined by that measure will vest. Vesting then increases on a sliding scale to 100% for achieving a stretching maximum performance target.</p>
<b>All Employee Share Plan (UK Sharesave Scheme) <sup>(3), (5)</sup></b> To create staff alignment with the Group and promote a sense of ownership.	<p>Tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees.</p> <p>Executive Directors are eligible to participate on the same basis as other employees.</p>	<p>Monthly saving limit of £250 prior to 6 April 2014, £500 thereafter (or such other limit as may be approved from time to time by HMRC) under all savings contracts held by an individual.</p>	<p>The Sharesave scheme is structured in accordance with HMRC requirements so has no performance conditions but requires participants to make regular savings into a savings contract.</p>
<b>Company Share Option Plan (CSOP) <sup>(3)</sup></b> <u>Executive Directors will only receive CSOP awards in exceptional circumstances.</u>	<p>The CSOP permits grants of share options with an exercise price of not less than the market value of a share (as determined by the Committee) at the time of grant.</p> <p>Options are usually exercisable between three and ten years following grant although may have a different exercise period on leaving employment or on a change of control (see later sections).</p> <p>Options that are HMRC unapproved may, if appropriate, be settled in cash or be net-settled.</p>	<p>Annual awards of options over shares worth up to 100% of salary at grant (or, if the Remuneration Committee determines that special circumstances exist, 200% of salary).</p>	<p>If CSOP awards were, in exceptional circumstances, granted to an Executive Director, they would be subject to an appropriate performance condition as determined by the Committee.</p> <p>An individual promoted to the Board may have outstanding CSOP awards (granted prior to their promotion) that have no performance conditions attached to them.</p>
Individuals who are promoted to the Board may have outstanding awards under this plan.			

## DIRECTORS' Remuneration Report

### Notes to the table:

- <sup>(1)</sup> The Committee may vary or waive any performance condition(s) if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.
- <sup>(2)</sup> **Performance measures - annual bonus.** The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year in addition to key strategic or operational goals relevant to an individual. Precise targets for bonus measures are set at the start of each year by the Remuneration Committee based on relevant reference points, including, for Group financial targets, the Company's business plan and are designed to be appropriately stretching.
- <sup>(3)</sup> The Committee may: (a) in the event of a variation of the Company's share capital and (with the exception of HMRC approved options) demerger, super dividend or dividend in specie or any other corporate event which it reasonably determines justifies such an adjustment, adjust; and (b) amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans (which were summarised for shareholders in the Company's IPO Prospectus). Share awards may be settled by the issue of new shares or by the transfer of existing shares. In line with prevailing best practice at the time this Policy Report is approved, any issuance of new shares is limited to 5% of share capital over a rolling ten year period in relation to discretionary employee share schemes and 10% of share capital over a rolling ten year period in relation to all employee share schemes.

- <sup>(4)</sup> **Performance measures - PSP.** The PSP performance measures are chosen to provide alignment with our longer term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. In particular, our use of earnings and return on total investment measures is designed to reward management for delivery of key financial measures of Company success that should result in sustainable value creation. Targets are considered ahead of each PSP grant by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.
- <sup>(5)</sup> Broadly equivalent versions of the UK Sharesave Scheme operate for USA employees (US Employee Stock Purchase Plan) and overseas employees (Overseas Sharesave Scheme). An Executive Director based in the USA or overseas may be eligible to participate in one of these schemes instead of the UK Sharesave Scheme. The monthly contribution limit for the US Employee Stock Purchase Plan would be specified by the Remuneration Committee before each grant.
- <sup>(6)</sup> The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (a) before the policy came into effect or (b) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
- <sup>(7)</sup> The Committee may make minor amendments to the policy set out in this Policy Report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

### Differences in policy from broader employee population

There are differences in the precise components within the pay policy for Executive Directors and for our employees generally and a greater proportion of Executive Directors' pay is 'at risk' and determined by performance than for our employees generally. However, as outlined in the Committee Chairman's statement, common principles underlie the pay policy through the Company including for the Executive Directors. In particular, we place great emphasis throughout the Company on reward being linked to performance (either Group performance or of an employee's particular attraction) and on encouraging share ownership (through participation in the PSP, CSOP or the All Employee Share Plan).

### Non-executive Directors

Purpose and link to strategy	Operation	Opportunity
<b>Non-executive Director (NED) fees</b> To appropriately recognise responsibilities by ensuring fees are market competitive.	NED fees (other than NEDs whose appointment is in respect of their position as representatives of the pre-IPO major shareholders) comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: <ul style="list-style-type: none"> <li>• Senior Independent Director.</li> <li>• Audit Committee Chairman.</li> <li>• Remuneration Committee Chairman.</li> </ul> <p>The Chairman of the Board receives an all-inclusive fee.</p> <p>No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive the grossed-up costs of travel as a benefit.</p> <p>Fees are generally reviewed annually.</p> <p>NEDs whose appointment is in respect of their position as shareholder representatives do not receive a fee.</p>	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. <p>No absolute maximum has been set for individual NED fees. Current fee levels are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>The Company's Articles of Association provide that the total aggregate fees paid to the Chairman and NEDs will not exceed £1,000,000.</p>

## DIRECTORS' Remuneration Report

**Illustrations of application of remuneration policy**

Merlin's remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short term and long term performance targets.

The charts below provide illustrative values of the remuneration package for Executive Directors under three assumed performance scenarios. The charts are for illustrative purposes only and actual outcomes may differ from that shown.

Assumed performance	Assumptions used
All performance scenarios (Fixed pay)	<ul style="list-style-type: none"> <li>• Consists of total fixed pay, including base salary, benefits and pension.</li> <li>• Base salary - salary effective as at 1 January 2014.</li> <li>• Benefits - estimated value of 5% of salary.</li> <li>• Pension - amount expected to be received in 2014 (25% of salary).</li> </ul>
Minimum performance (Variable pay)	<ul style="list-style-type: none"> <li>• No payout under the annual bonus.</li> <li>• No vesting under the PSP.</li> </ul>
Performance in line with expectations (Variable pay)*	<ul style="list-style-type: none"> <li>• 50% of the maximum payout under the annual bonus.</li> <li>• 50% vesting under the PSP.</li> </ul>
Maximum performance (Variable pay)*	<ul style="list-style-type: none"> <li>• 100% of the maximum payout under the annual bonus.</li> <li>• 100% vesting under the PSP.</li> </ul>

\* PSP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded. For the purposes of the illustration, we have, consistent with legislative requirements, included the maximum permitted annual bonus opportunity (150% of salary) and maximum permitted PSP award (350% of salary) as set out in the Policy Table above. We would emphasise that these are the maximum permitted awards under the incentive schemes. The CFO's actual annual bonus opportunity for 2014 (135% of salary) is lower than the scheme maximum and the face value of the PSP awards granted to the CEO and CFO in November 2013 (310% of salary and 280% of salary respectively) was lower than the scheme maximum.

GRAPH REMOVED

## DIRECTORS' Remuneration Report

### Approach to recruitment remuneration

#### Principles

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Committee applies the following principles:

- The Committee takes into consideration all relevant factors, including the calibre of the individual, market data and existing arrangements for other Executive Directors, with a view that any arrangements should be in the best interests of Merlin and our shareholders, without paying more than is necessary.
- Typically, the new appointment will have (or be transitioned onto) the same package structure as the other Executive Directors, in line with the Policy Table presented above.
- Where an Executive Director is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company or business, legacy terms and conditions would be honoured.
- Upon appointment, the Committee may consider it appropriate to offer additional remuneration arrangements in order to secure the appointment. In particular, the Committee may consider it appropriate to 'buy out' terms or remuneration arrangements forfeited on leaving a previous employer (discussed below).
- The Committee may provide costs and support if the recruitment requires relocation of the individual.

#### Maximum level of variable pay

The maximum level of variable remuneration which may be granted to new Executive Directors in respect of recruitment shall be limited to the maximum permitted in the Policy Table, namely 500% of their annual salary. This limit excludes any payments or awards that may be made to buy out the Director for terms, awards or other compensation forfeited from their previous employer (discussed below).

### Buy outs

To facilitate recruitment, the Remuneration Committee may make a one-off award to buy out terms, incentives and any other compensation arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). The overriding principle will be that any replacement buy out award should be of comparable commercial value to the terms, incentives and other compensation which have been forfeited. However such awards would only be considered where there is a strong commercial rationale to do so.

### Components and approach

The remuneration package offered to new appointments may include any element listed in the Policy Table above, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders subject to the limits on variable pay set out above.

In considering which elements to include, and in determining the approach for all relevant elements, the Committee will take into account a number of different factors, including (but not limited to) market practice, existing arrangements for other Executive Directors and internal relativities. If appropriate, different targets may be applied to a new appointee's annual bonus in their year of joining.

The Committee would seek to structure buy out and variable pay awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2 subject to the limits on variable pay set out above. The exact terms of any such awards (e.g. the form of the award, timeframe, performance conditions, and leaver provisions) would vary depending upon the specific commercial circumstances.

### Recruitment of Non-executive Directors

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy Table for Non-executive Directors. However the Committee (or the Board as appropriate) may include any element listed in the Policy Table above, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders.

## DIRECTORS' Remuneration Report

**Service contracts**

Key terms of the current Executive Directors' service agreements and Non-executive Directors' letters of appointment (other than Non-executive Directors whose appointment is in respect of their position as representatives of the pre-IPO major shareholders) are summarised in the table below. It is envisaged that any future appointments would have equivalent contractual arrangements unless otherwise stated in this Policy Report.

Provision	Policy
Notice period	Executive Directors - twelve months' notice by either the Company or the Executive Director. Non-executive Directors - three months' notice by either the Company or the Non-executive Director or no notice period if terminated by shareholders.
Termination payment	There is no payment in lieu of notice clause in the Executive Directors' service agreements. Any payments of compensation on termination would be subject to negotiation in line with general principles which include a duty for the individual to mitigate loss. Non-executive Directors are entitled to receive any fee accruing in respect of their notice period.
Expiry date	Executive Directors have rolling twelve months' notice periods so have no fixed expiry date. All Non-executive Directors have rolling three months' notice periods so have no fixed expiry date.

Each of the Non-executive Directors nominated by the pre-IPO major shareholders are appointed pursuant to the relevant Relationship Agreement with their nominating shareholder and do not have individual letters of appointment with the Company. These Relationship Agreements provide for the aforementioned shareholders to maintain a Non-executive Director as a shareholder representative for so long as they hold 10% of the Company's share capital. The Company has the right to remove these Directors should the relevant shareholding fall below 10% and no fees or termination payments are payable.

Each Director will retire and put themselves forward for re-election at the first Annual General Meeting of the Company.

All Executive Directors' service agreements and Non-executive Directors' letters of appointment are available for inspection at the Company's registered office at 3 Market Close, Poole, Dorset BH15 1NQ.

**Policy on payment for loss of office**

As outlined above, there are no contractual obligations to make any payments to Executive Directors in relation to loss of office and any termination payment would be subject to negotiation although would not be expected in normal circumstances to exceed salary, pension and benefits in relation to the individual's outstanding notice period.

In relation to payments under non-contractual incentive schemes, the Committee would take the following factors into account:

- The Committee may determine that the Executive Director is eligible to receive a bonus in respect of the financial year in which they cease employment. This bonus would usually be time apportioned. In determining the level of bonus to be paid, the Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole.
- The treatment of outstanding share awards is governed by the relevant share plan rules.

The table overleaf summarises the treatment of share awards for leavers and on a change of control in share plans under which Executive Directors could hold awards.

**Consideration of employment conditions elsewhere in the Group**

The Committee does not formally consult with employees as part of its process when determining Executive Director pay. However the Committee is kept informed of general decisions made in relation to employee pay and related issues by the Group HR Director and is conscious of the importance of ensuring that its pay decisions for Executive Directors are regarded as fair and reasonable within the business. As outlined in the Policy Table, pay and conditions in the Group are one of the specific considerations taken into account when the Committee is determining salary levels for the Executive Directors.

**Consideration of shareholders' views**

The Company's three major shareholders each had a representative on the Committee in the pre-Listing period and, accordingly, the structure of our post-Listing remuneration policy has been subject to significant consultation with them. In addition we have sought the views of our largest institutional shareholders and leading advisory bodies post Listing.

## DIRECTORS' Remuneration Report

The following table summarises the treatment of share awards for leavers and on a change of control in share plans under which Executive Directors could hold awards.

Plan	Good leaver categories	Treatment for good leaver	Treatment for any other leaver	Treatment on a change of control / voluntary winding-up
<b>Deferred Bonus Plan</b>	<ul style="list-style-type: none"> <li>• Death.</li> <li>• Injury.</li> <li>• Disability.</li> <li>• Ill-health.</li> <li>• Retirement.</li> <li>• Redundancy.</li> <li>• Transfer of employing company or business to which an individual's employment relates out of the Group.</li> </ul>	Deferred bonus awards vest on cessation of employment / death.	Deferred bonus awards lapse.	Deferred bonus awards vest in full.
<b>Performance Share Plan</b>	<ul style="list-style-type: none"> <li>• Any other scenario in which the Remuneration Committee determines that good leaver treatment is appropriate (other than circumstances justifying summary dismissal).</li> </ul>	<p>PSP awards will usually vest on a time-apportioned basis on the normal vesting date subject to any relevant performance condition(s) measured over the full performance period.</p> <p>However, in the event of death, or special circumstances at the Remuneration Committee's discretion, awards may vest early based on the Committee's determination of the extent to which any relevant performance conditions are satisfied.</p> <p>The Committee has the discretion, acting fairly and reasonably, to dis-apply time apportionment.</p>	Awards lapse.	PSP awards will vest on a time-apportioned basis (unless the performance period is complete or unless the Committee determines otherwise) and subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied.
<b>Company Share Option Plan</b> <u>Executive Directors will only receive CSOP awards in exceptional circumstances.</u>  Individuals who are promoted to the Board may have outstanding awards under this plan.		<p>Options become exercisable for a period of six months after the date on which the Committee determines the extent to which the option becomes exercisable (or twelve months in the event of death).</p> <p>Options will become exercisable subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied and on a time-apportioned basis unless the Committee determines otherwise. In relation to HMRC-unapproved options, options may become exercisable at the normal vesting date or earlier if the Committee determines.</p>	Options lapse.	Options will become exercisable on a time-apportioned basis (unless any performance period is complete or unless the Committee determines otherwise) and subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied.
<b>UK Sharesave Scheme / Overseas Sharesave Scheme</b>	Options become exercisable immediately on death, ceasing employment due to injury, disability, retirement, redundancy, sale of the employing company or business to which an individual's employment relates out of the Group or on a change of control of the Company.			
<b>US Employee Stock Purchase Plan</b>	Options become exercisable on death, ceasing employment due to injury, permanent disability, reaching normal retirement age, sale of the employing company or business to which an individual's employment relates or on a change of control of the Company.			



# NOMINATION

## Committee Report

### STATEMENT FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder

This report describes the activities of the Nomination Committee during 2015. The Committee met three times during the year and focused its attention on Board appointments, succession planning and diversity.

#### Board appointments

One of the primary objectives of the Nomination Committee during the year has been to address the composition of the Board following the departure of the Representative Directors of Blackstone and CVC, having regard to the key markets of the USA and Asia Pacific region in which a significant part of the Group's strategic development is focused.

Following the announcement of the proposed departure of Miguel Ko at the 2015 AGM, the Nomination Committee sought to identify further Non-executive Directors with particular knowledge and experience of the USA and Asia Pacific markets. As a result Trudy Rautio was appointed as a Non-executive Director with effect from 1 October 2015. Trudy's extensive knowledge of the US leisure market will be a valuable addition to the Board. The appointment of Rachel Chiang as a Non-executive Director with effect from 1 January 2016, with her significant experience of the Asia Pacific market, further strengthened the Board, in particular in relation to this important area of development focus.

As a result of the Board changes during the year, the Board is now fully compliant with the Board composition provisions of the Code and reflects a wider diversity of skills, regional knowledge and backgrounds.

Reflecting these changes to the Board, a number of updates have been made to the membership of the Committees, effective after the Nomination Committee meeting on 24 February 2016. Fru Hazlitt has stepped down from the Audit Committee. In addition to both Trudy Rautio and Rachel Chiang joining the Audit Committee, Trudy joined the Remuneration Committee and Rachel joined the Health, Safety and Security Committee.

With effect from 24 February 2016, the Nomination Committee will consist of Sir John Sunderland, Charles Gurassa, Fru Hazlitt

and Ken Hydon.

#### Succession planning

The Board and Nomination Committee have undertaken detailed succession planning reviews during 2015, focused on Executive Director positions as well as other senior manager roles within the Group. This has identified key individuals already in the Group, for whom high level training and development opportunities have been established and implemented.

A number of important changes to the management structure were implemented during the year, including the creation of a New Openings group focused on developing and opening new attractions globally. We continue to discuss the Group's senior management structure and how that might evolve as Merlin continues its international expansion.

The Nomination Committee is satisfied that management have implemented credible and effective succession planning across its senior management and has a management structure which is appropriate to its strategy.

#### Diversity

Merlin's policy is for our leaders to have a diversity of thinking, experience, gender, country of origin and cultural background. We believe a diverse Board and management team is more in touch with our customers, employees and investors. This policy is reflected in the approach we are taking to recruitment at senior manager and Board level.

**Sir John Sunderland**

**Chairman of the Nomination Committee**

24 February 2016

# DIRECTORS'

## Report

### Introduction

This section of the Annual Report and Accounts includes additional information required to be disclosed under the Companies Act 2006, the DTRs, the Code and the Listing Rules.

Certain information required to be included in the Directors' Report is included in other sections of this Annual Report and Accounts.

These sections provide an overview of the strategy, development and performance of the Company's business in the year ended and as at 26 December 2015 together with information on the approach of the Company to Corporate Governance and the constitution, work and effectiveness of the Board and its principal Committees.

The following sections are therefore incorporated by reference into this Directors' Report:

- The Strategic Report on pages 2 to 57.
- The Corporate Governance Statement on page 58.
- The section entitled 'Board of Directors' on pages 59 to 61.
- The Corporate Governance Report on pages 62 to 65.
- The Health, Safety and Security Committee Report on pages 66 to 69.
- The Audit Committee Report on pages 70 to 75.
- The Directors' Remuneration Report on pages 76 to 96.
- The Nomination Committee Report on page 97.

The Company is required to provide disclosures and information in relation to a number of additional matters which are covered elsewhere in this Annual Report and Accounts. These matters and cross-references to the relevant sections of this Annual Report and Accounts are shown in the following table:

Disclosure	Section title	Pages
Future Developments	Strategic Report	2 to 57
Research and Development	Merlin Magic Making	32 to 35
Employee diversity and engagement	Team Merlin	36 to 39
Greenhouse Gas Emissions	'Being a Force for Good' - Corporate Social Responsibility The Merlin Way	51 to 57
Disabled persons	'Being a Force for Good' - Corporate Social Responsibility The Merlin Way	51 to 57

Disclosure	Section title	Pages
Relationship Agreements (additional details)	Corporate Governance Report	62 to 65
Internal Controls	Audit Committee Report	70 to 75
Financial Instruments	Note 4.3 to the Accounts	135 to 138
Share Capital and Movements therein	Note 4.5 to the Accounts	141 to 142
Subsidiary and Associated Undertakings	Note 5.8 to the Accounts	150 to 154

### Directors

The names of the persons who, at any time during the financial year, were Directors of the Company are:

Name
Sir John Sunderland
Nick Varney
Andrew Carr
Charles Gurassa
Ken Hydon
Miguel Ko
Fru Hazlitt
Søren Thorup Sørensen
Dr. Gerry Murphy
Rob Lucas
Trudy Rautio

Miguel Ko, Dr. Gerry Murphy and Rob Lucas were Directors from the start of the financial year until the conclusion of the 2015 AGM. Trudy Rautio was appointed a Director with effect from 1 October 2015.

Rachel Chiang was subsequently appointed a Director with effect from 1 January 2016.

## DIRECTORS' Report

Each Director in post at the time of the AGM (other than Miguel Ko, Dr. Gerry Murphy and Rob Lucas) offered themselves for re-election at the 2015 AGM of the Company and their re-election was approved by shareholders. All Directors (other than Miguel Ko, Dr. Gerry Murphy and Rob Lucas) remained in office at the end of the financial year.

**Directors' indemnities and insurance**

The Articles of Association of the Company permit it to indemnify the Directors of the Company or any Group company against liabilities arising from or in connection with the execution of their duties or powers to the extent permitted by law. The Company has not given any specific indemnity in favour of the Directors during the year but the Company has purchased Directors' and Officers' Liability Insurance during the year, which provides cover for liabilities incurred by Directors in the performance of their duties or powers.

No amount was paid under any Director's indemnity or the Directors' and Officers' Liability Insurance during the year other than the applicable insurance premiums.

**Appointment and removal of Directors**

A Director may be appointed by an ordinary resolution of shareholders in a general meeting following nomination by the Board or a member (or members) entitled to vote at such a meeting or following retirement by rotation if the Director chooses to seek re-election at a general meeting.

In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next AGM. A Director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by a special resolution of the Company. All Directors will stand for re-election on an annual basis, in line with the recommendations of the Code.

Specific details relating to KIRKBI and their rights to appoint Directors are set out in the Corporate Governance section on page 62.

**Share capital and related matters**

The Articles of Association do not contain any restrictions on the transfer of shares in the Company other than customary restrictions applicable where any amount is unpaid on a share (all the issued share capital of the Company as at the date of this Annual Report and Accounts is fully paid). Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company.

**Amendment to the Company's Articles of Association**

The Company's Articles of Association may only be amended by a special resolution of its shareholders passed at a general meeting of its shareholders.

**Power of Directors in respect of share capital**

The Directors may exercise all the powers of the Company (including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares). Since its shares were listed on the London Stock Exchange on 13 November 2013, the Directors have not exercised any of the powers to issue or purchase shares in the Company.

**Related parties**

The only material agreements with related parties during the year were as follows:

- **LEGOLAND Licence and Co-operation Agreement (LCA):**  
This agreement was entered into on 24 August 2005 with KIRKBI and sets out the rights granted to the Group to use the LEGO and LEGOLAND brands in connection with the development, operation and promotion of the Group's present and future LEGOLAND businesses. It includes certain requirements for the Group to develop LEGOLAND attractions, certain operational requirements for those attractions, and the nature of royalties due to KIRKBI for the use of the rights. The LCA includes rights for KIRKBI to terminate the LCA on a change of control of Merlin but only if this would result in a Licensee (as defined in the LCA) being controlled by a LEGO competitor or an inappropriate party. The LCA defines an inappropriate party as any person or entity (other than a financial institution) where one-third of its revenue is derived from the manufacture and sale of tobacco, armaments and/or pornographic material.
- **Relationship Agreements with each of KIRKBI, Blackstone and CVC:** the Blackstone and CVC Relationship Agreements ended when they ceased to be shareholders in March 2015; more details on the KIRKBI Relationship Agreement are provided in the Corporate Governance section on page 62.

There were no contracts of significance during the year to which the Company, or any of its subsidiary undertakings, is a party and in which a Director is or was materially interested.

## DIRECTORS' Report

### Change of control

The only other significant agreements to which the Company is a party that takes effect, alters or, terminates upon a change of control of the Company following a takeover bid, are:

- (i) a Multi-currency Facilities Agreement entered into by the Group dated 25 February 2015 which replaced the Group's existing debt facilities. This includes provisions in relation to a change of control or the sale of all or substantially all of the Group's assets, the occurrence of which will, after a negotiation period, give the lenders under the Agreement the right to accelerate outstanding loans and terminate commitments. The outstanding senior unsecured facilities comprise approximately £648 million in floating rate term debt and a £300 million revolving credit facility, both to mature in 2020.
- (ii) an Indenture dated as of 19 March 2015 in relation to an issue of €500 million 2.75% fixed rate notes due in 2022 (the notes) under which, in the event of a change of control of the Company and a ratings event, the holders of the notes may have the right to require that those notes be repurchased at 101% of their principal nominal amount plus any accrued and unpaid interest.

Further details on the Group's banking facilities are shown in note 4.2 to the financial statements.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a change of control.

### Branches outside the UK

Merlin Entertainments plc has no branches outside the UK.

### Dividend

An interim dividend of 2.1 pence per share was paid on 24 September 2015 to shareholders on the Register on 14 August 2015. A final dividend for the year ended 26 December 2015 of 4.4 pence per share will be recommended for payment to shareholders. The final dividend will be proposed to shareholders for approval at the next Annual General Meeting of the Company.

### Political donations

No political donations were made during the year.

### Subsequent events

On 24 February 2016 the Group invested \$34.4 million (£24.6 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The consideration will be settled in cash and will provide Merlin with a minority equity holding and an investment in loan notes.

### Going concern

The Directors consider that the Group has adequate financial resources to continue operating for the next twelve months and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

The Directors have satisfied themselves that the Group is in a sound financial position and that it has access to sufficient cash funds and borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

The process followed by the Group in the preparation of the Viability Statement is set out in the Risks and uncertainties section on page 42.

### Audit information

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

### Re-appointment of auditors

As recommended by the Audit Committee, a resolution for the re-appointment of KPMG LLP as auditors to the Company will be proposed at the 2016 Annual General Meeting.

### Approval of annual report

The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 24 February 2016.

For and on behalf of the Board

**Colin N. Armstrong**  
Group Company Secretary  
24 February 2016

**Merlin Entertainments plc**  
Registered number 08700412

# DIRECTORS'

## Responsibilities Statement

### Directors' responsibilities statement

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

The Directors are required to prepare Group and parent Company financial statements for each financial year. For this purpose, the Company is the parent Company of the Group. The Group financial statements are required to be prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and applicable law. The Company has elected to prepare the Company financial statements in accordance with UK Accounting Standards including FRS 101 'Reduced Disclosure Framework'.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with Adopted IFRS.
- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Having taken advice from the Audit Committee, the Remuneration Committee and the Health, Safety and Security Committee as well as from its legal and other professional advisers, the Board considers the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Neither the Company nor the Directors accept (and they hereby exclude) any liability to any person in relation to this report except to the extent that such liability is imposed by law and may not be validly excluded.

The Board confirms to the best of its knowledge that:

- The Group financial statements contained in this report (which have been prepared in accordance with IFRSs as adopted by the EU), when taken as a whole, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Company financial statements (which have been prepared in accordance with applicable UK Accounting Standards), give a true and fair view of the state of affairs of the Company.
- The Directors' Report and the other sections of this report referred to therein together represent a fair review of the strategy, development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

**Nick Varney**  
Chief Executive Officer  
24 February 2016

**Andrew Carr**  
Chief Financial Officer  
24 February 2016

# INDEPENDENT

## Auditor's Report

### TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC ONLY

#### Opinions and conclusions arising from our audit

##### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 52 week period ended 26 December 2015 set out on pages 108 to 161. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 26 December 2015 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

##### 2 Our assessment of risks of material misstatement

The context for our audit is that there has been:

- a generally stable environment in which the Group has operated, though parts of the Resort Theme Parks business have been affected by a major accident at Alton Towers in the year, which increased the risk over carrying values of certain associated assets;
- no significant changes to the Group's strategy and operations that our audit has had to consider. The accesso® admissions system has not had a significant bearing on our audit this year; and
- a slight, but not significant lowering in our assessed materiality given the increasing public profile of the Group.

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of significance were as set out below. While these risks are the same as in the prior year, we have noted changes in the nature and emphasis of these risks and in our responses to them below.

#### OUR AUDIT APPROACH

##### Materiality

- £14.3 million, representing 6.0% of profit before tax.

##### Scope

- 75% of total profits before tax arise in audited components.
- All other components are subject to specified audit procedures or analysis at an aggregated level.

##### Key risks

- valuation of non-current assets; and
- revenue recognition.

Carrying value of non-current assets £2,475 million (2014: £2,414 million); Risk vs 2014: ▲

Refer to page 73 (Audit Committee Report) and pages 129 to 131 (accounting policy and financial disclosures).

- **The risk** - A history of business combinations and the capital intensive nature of the business model means that the Group has significant balances of goodwill, intangible assets and property, plant and equipment. There is a risk that the future performance of these assets may lead to their carrying values not being recoverable in full. When impairment testing is required there are inherent uncertainties in estimating the value of assets to the business through discounted cash flows. These uncertainties arise principally in the inputs used in forecasting future cash flows (for example expected changes in visitation at existing attractions, particularly where there have been recent changes in the overall offering, new and ongoing promotions or planned customer experience improvements).

## INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

Uncertainty arises partly due to the unpredictable impact of factors such as competition, the weather, and the political and economic environment on trading performance but also as the Group's new attractions are often in unproven locations. Additionally and specifically in relation to the Resort Theme Parks goodwill, events during the year at Alton Towers have meant that previous trading patterns have been disrupted and greater uncertainty exists over forecasting visitor numbers. The reduced EBITDA since June 2015 and the risk that a return to previous levels of performance may not be achieved immediately has reduced valuation headroom. This increases the risk over this asset's valuation. There is also uncertainty around the most appropriate rate at which to discount these expected future cash flows.

- **Our response** - Our audit procedures included, amongst others, an analysis of the Group's previous ability to forecast cash flows accurately and challenging the reasonableness of current forecasts. These current forecasts include assumptions such as the expected change in visitation and revenues arising from activities such as new and ongoing promotions and customer experience improvements, as well as the response to specific events, including the accident at Alton Towers. Our challenge of the forecasts included an assessment of the Group's assumptions around these activities, including a comparison of expected changes against the past results of similar activities carried out by the Group. In addition, specific to Alton Towers, we considered historic peer group data for incident recovery rates and their applicability to Merlin's business model and visitor market. We corroborated major assumed cost reductions to detailed plans and wherever possible contractual agreements. This allowed us to assess the level of the risk inherent in the current cash flow forecasts.

The data used by the Group to determine its earnings multiple and calculate its discount rates was benchmarked against market data, including publicly available analysts' reports and peer comparisons. We were supported by our valuation specialists in this work. We performed a sensitivity analysis of the long term growth rate, discount rates and forecast cash flows to show the effect of possible downside scenarios and considered the resulting headroom across the valuations, as well as the appropriateness of the related disclosures. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of non-current assets.

**Revenue recognition £1,278 million (2014: £1,249 million):****Risk vs 2014:** ◀▶

Refer to page 73 (Audit Committee Report) and page 116 (accounting policy).

- **The risk** - Merlin's revenues come from a number of different channels, such as admissions ticketing income, annual passes, spend in attractions on items such as food and drink and accommodation revenues. These revenues arise across a large portfolio of sites that due to the different jurisdictions in which the Group operates, and the Group's decentralised nature, use a number of different revenue systems or system configurations, many of which require manual processes to transfer data to the finance systems.

Manual, rather than automated, processes across multiple decentralised income systems increase the risk of error. Such errors could arise through the under or over recording of outputs from these systems, or due to the need for the separate recording and appropriately timed release of deferred revenue, which arises when tickets are either bought in advance or bought to allow access to multiple attractions. Although the low value of individual transactions means an individual error would be both difficult to detect and insignificant, the high volume of transactions mean systemic failure could lead to errors that aggregate into material balances.

- **Our response** - As described in 'Our application of materiality and an overview of the scope of our audit' we selected sites for audit to ensure appropriate coverage of key financial measures, including revenue.

At certain sites we performed testing of the general IT control environment of the systems used to record revenue, followed by testing of the processes to assess the completeness and accuracy of revenue entries arising from these systems. At other sites, we performed testing of the design, implementation and operating effectiveness of manual controls supporting these systems, including reconciliations of till records to revenue journal entries in the accounting records.

This controls testing was supported by substantive audit procedures including, amongst others, performing reconciliations of total cash received to revenue recorded, predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation), confirmation of the appropriate timing of sales cut-off by checking the specific posting of revenue for days either side of the period end; and substantive testing of deferred and accrued revenue balances through agreeing back to ticketing system records and checking underlying calculations, corroboration of ticket usage terms to underlying contracts and predictive analytical procedures based on revenue movements.

## INDEPENDENT AUDITOR'S REPORT

*To the members of Merlin Entertainments plc only*

### 3 Our application of materiality and an overview of the scope of our audit

#### Scope of our work

#### GRAPHS REMOVED

The materiality for the Group financial statements as a whole was set at £14,300,000 for 2015 (2014: £15,500,000). This was determined with reference to a benchmark of profit before tax, of which it represents 6.0% (2014: 6.9%). This is lower than the benchmark percentage used in 2014, because our view of the increasing public profile of the Group meant we considered a lower percentage to be appropriate. We initially planned a higher materiality using 6.0% of budgeted profits and then lowered this in line with the Group's revised profit expectations following the Alton Towers accident, adjusting our audit procedures accordingly.

We agreed with the Audit Committee that following this revision to materiality, we would report all corrected and uncorrected misstatements identified through our audit with a value in excess of £715,000 (2014: £750,000), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We audited 75% (2014: 84%) of the total profits and losses that made up Group profit before tax, 75% (2014: 70%) of total Group revenue and 72% (2014: 67%) of total Group assets. This included the audit, for group reporting purposes, of the financial information of certain components. It also included audit procedures on finance costs and assets arising on consolidation; the total of these balances were audited at group level. Audits for group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: UK, USA, Australia, Denmark, Germany, Italy, Hong Kong and China.

Our coverage of profits has decreased year on year as the results at some larger sites (particularly Alton Towers) has reduced their relative contribution.

The remaining 25% of total profits and losses that made up Group profit before tax, 25% of total Group revenue and 28% of total Group assets was represented by a large number of smaller reporting components. None of these components individually represent more than 4.4% of any of the total profits or losses that made up Group profit before tax, total Group revenue or total Group assets. We obtained further coverage by performing specified risk-focused audit procedures over the reasonableness of the financial result and position at 17 of these reporting components covering a further 7% of total profits or losses that made up Group profit before tax. We have refined our scoping compared to the approach we have followed in the past to include more Midway attractions as, although each site tends to be relatively small, this is an area where the Group is growing via the roll out of new attractions. We adjusted the sites selected for these procedures during the course of our work in response to a change in perceived risk resulting from findings of Merlin's Internal Audit function. For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these components.



## INDEPENDENT AUDITOR'S REPORT

*To the members of Merlin Entertainments plc only*

GRAPHS REMOVED

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 39% of the total profits and losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, gaining coverage over a further 6% of the total profits and losses that made up Group profit before tax. The largest component audited by a component audit team represented 12% of the total profits and losses that made up Group profit before tax.

**Materiality of the Group financial statements**

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component by the Group audit team and ranged from £440,000 to £4,500,000 having regard to the mix of size and risk profile of the Group across components. Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team. The Group audit team visited three key component locations in Hong Kong, China and Australia, which included assessing the audit risk and strategy. Teleconferences were also held with these component auditors and all key reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail, with any further work required by the Group audit team then performed by the component auditor.

## INDEPENDENT AUDITOR'S REPORT

*To the members of Merlin Entertainments plc only*

### **4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- 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.
- information given in the Corporate Governance Statement set out on pages 58 to 65 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### **5 We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer term viability on page 42, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group continuing in operation over the four years to 2019; or
- the disclosures in note 1.1 of the financial statements concerning the use of the going concern basis of accounting.

### **6 We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 100, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on page 58 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### **Scope and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 101, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a) which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### **Hugh Green (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
Gateway House, Tollgate  
Chandlers Ford  
Southampton  
SO53 3TG

24 February 2016

## FINANCIAL STATEMENTS

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# CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	2015			2014		
		Underlying trading £m	Exceptional items <sup>(1)</sup> £m	Total £m	Underlying trading £m	Exceptional items <sup>(1)</sup> £m	Total £m
Revenue	2.1	1,278	-	1,278	1,249	-	1,249
Cost of sales	2.1	(193)	-	(193)	(181)	-	(181)
Gross profit		1,085	-	1,085	1,068	-	1,068
Staff expenses	2.1	(327)	-	(327)	(312)	-	(312)
Marketing		(68)	-	(68)	(62)	-	(62)
Rent		(87)	-	(87)	(83)	-	(83)
Other operating expenses		(201)	-	(201)	(200)	-	(200)
EBITDA <sup>(1)</sup>	2.1	402	-	402	411	-	411
Depreciation and amortisation	3.1, 3.2	(111)	-	(111)	(100)	-	(100)
Operating profit		291	-	291	311	-	311
Finance income	2.3	5	1	6	2	-	2
Finance costs	2.3	(46)	(14)	(60)	(64)	(23)	(87)
Profit before tax		250	(13)	237	249	(23)	226
Taxation	2.4	(70)	3	(67)	(70)	6	(64)
Profit for the year <sup>(2)</sup>		180	(10)	170	179	(17)	162
Earnings per share							
Basic and diluted earnings per share (p)	2.5			16.8			16.0

<sup>(1)</sup> EBITDA - this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

<sup>(2)</sup> Profit for the year for 2015 and 2014 is wholly attributable to the owners of the Company.

<sup>(3)</sup> Details of exceptional items are provided in note 2.2.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	2015 £m	2014 £m
<b>Profit for the year</b>		<b>170</b>	<b>162</b>
<b>Other comprehensive income</b>			
<i>Items that cannot be reclassified to the consolidated income statement</i>			
Defined benefit plan remeasurement gains and losses	5.2	(1)	(1)
Recognition of the assets and liabilities of the defined contribution section of the defined benefit scheme	5.2	-	(1)
		(1)	(2)
<i>Items that may be reclassified to the consolidated income statement</i>			
Exchange differences on the retranslation of net assets of foreign operations		(36)	(23)
Exchange differences relating to the net investment in foreign operations		3	7
Cash flow hedges - effective portion of changes in fair value		(2)	(9)
Cash flow hedges - reclassified to profit and loss	2.2	14	-
Income tax on items relating to components of other comprehensive income	2.4	(2)	-
		(23)	(25)
<b>Other comprehensive income for the year net of income tax</b>		<b>(24)</b>	<b>(27)</b>
<b>Total comprehensive income for the year <sup>(1)</sup></b>		<b>146</b>	<b>135</b>

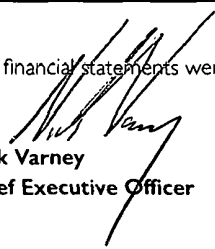
<sup>(1)</sup> Total comprehensive income for 2015 and 2014 is wholly attributable to the owners of the Company.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 26 December 2015 (2014: 27 December 2014)

	Note	2015 £m	2014 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.1	1,495	1,410
Goodwill and intangible assets	3.2	923	942
Investments	5.1	11	6
Other receivables	3.4	11	7
Deferred tax assets	2.4	35	49
		2,475	2,414
<b>Current assets</b>			
Inventories	3.4	30	26
Trade and other receivables	3.4	76	60
Derivative financial assets		2	1
Cash and cash equivalents	4.1	152	285
		260	372
<b>Total assets</b>		<b>2,735</b>	<b>2,786</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	4.2	4	5
Derivative financial liabilities		1	12
Trade and other payables	3.4	235	226
Tax payable		22	27
Provisions	3.5	4	4
		266	274
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	4.2	1,003	1,131
Finance leases	4.4	82	84
Other payables	3.4	24	23
Provisions	3.5	51	50
Employee benefits	5.2	5	5
Deferred tax liabilities	2.4	155	156
		1,320	1,449
<b>Total liabilities</b>		<b>1,586</b>	<b>1,723</b>
<b>Net assets</b>		<b>1,149</b>	<b>1,063</b>
<b>Issued capital and reserves attributable to owners of the Company</b>			
		1,145	1,059
<b>Non-controlling interest</b>		<b>4</b>	<b>4</b>
<b>Total equity</b>	<b>4.5</b>	<b>1,149</b>	<b>1,063</b>

The financial statements were approved by the Board of Directors on 24 February 2016 and were signed on its behalf by:

  
**Nick Varney**  
 Chief Executive Officer

  
**Andrew Carr**  
 Chief Financial Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	Share capital £m	Share premium £m	Capital reserve £m	Trans- lation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non- controlling interest £m	Total equity £m
At 29 December 2013		10	3,183	(2,250)	(85)	(2)	84	940	4	944
Profit for the year		-	-	-	-	-	162	162	-	162
Other comprehensive income for the year net of income tax		-	-	-	(16)	(9)	(2)	(27)	-	(27)
Total comprehensive income for the year		-	-	-	(16)	(9)	160	135	-	135
Equity dividends	4.5	-	-	-	-	-	(20)	(20)	-	(20)
Capital restructure	4.5	-	(3,183)	2,250	-	-	933	-	-	-
Equity-settled share-based transactions	4.6	-	-	-	-	-	4	4	-	4
At 27 December 2014		10	-	-	(101)	(11)	1,161	1,059	4	1,063
Profit for the year		-	-	-	-	-	170	170	-	170
Other comprehensive income for the year net of income tax		-	-	-	(34)	11	(1)	(24)	-	(24)
Total comprehensive income for the year		-	-	-	(34)	11	169	146	-	146
Equity dividends	4.5	-	-	-	-	-	(64)	(64)	-	(64)
Equity-settled share-based transactions	4.6	-	-	-	-	-	4	4	-	4
At 26 December 2015	4.5	10	-	-	(135)	-	1,270	1,145	4	1,149

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	2015 £m	2014 £m
<b>Cash flows from operating activities</b>			
Profit for the year		170	162
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	111	100
Finance income	2.3	(6)	(2)
Finance costs	2.3	60	87
Taxation	2.4	67	64
		402	411
Working capital changes		(19)	(4)
Changes in provisions and other non-current liabilities		1	4
		384	411
Tax paid		(59)	(54)
<b>Net cash inflow from operating activities</b>		<b>325</b>	<b>357</b>
<b>Cash flows from investing activities</b>			
Interest received		1	2
Acquisition of investments	5.1	(5)	(3)
Acquisition of property, plant and equipment		(215)	(192)
<b>Net cash outflow from investing activities</b>		<b>(219)</b>	<b>(193)</b>
<b>Cash flows from financing activities</b>			
Equity dividends paid	4.5	(64)	(20)
Proceeds from bank loans		1,002	-
Financing costs		(14)	-
Interest paid		(42)	(58)
Settlement of interest rate swaps	2.2	(13)	-
Repayment of borrowings		(1,112)	(70)
<b>Net cash outflow from financing activities</b>		<b>(243)</b>	<b>(148)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(137)</b>	<b>16</b>
Cash and cash equivalents at beginning of year	4.1	285	264
Effect of movements in foreign exchange		4	5
<b>Cash and cash equivalents at end of year</b>	<b>4.1</b>	<b>152</b>	<b>285</b>



## SECTION I BASIS OF PREPARATION

52 weeks ended 26 December 2015

**1.1 Basis of preparation**

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom and its registered office is 3 Market Close, Poole, Dorset, BH15 1NQ.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The accounting policies set out in the sections below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries and joint ventures.

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

The consolidated financial statements are presented in Sterling.

All values are stated in £ million (£m) except where otherwise indicated.

**Going concern**

The Group reported a profit for the year of £170 million (2014: £162 million) and generated operating cash inflows of £325 million (2014: £357 million). Following a refinancing in March 2015, extending maturities and diversifying the Group's sources of funding, the Group is now funded by bank facilities due for repayment in 2020 and fixed rate notes due for repayment in 2022. The Group has access to a £300 million revolving credit facility to support its liquidity needs of which £nil was drawn down at the year end. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.2.

After reviewing the Group's statement of financial position, available facilities, cash flow forecasts and trading budgets and making appropriate enquiries, the Directors believe the Group to be operationally and financially robust and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next twelve months. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc, its subsidiaries and branches at the end of each reporting period and include its share of its joint ventures' results using the equity method.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated.

Where subsidiaries enter into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, these are considered to be insurance arrangements and accounted for as such. In this respect, the subsidiary concerned treats the guarantee contract as a contingent liability until such time as it becomes probable that it will be required to make a payment under the guarantee.

## SECTION I BASIS OF PREPARATION *(continued)*

52 weeks ended 26 December 2015

### I.1 Basis of preparation *(continued)*

#### **Foreign currency**

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

The results and financial position of those Group companies that do not have a Sterling functional currency are translated into Sterling as follows:

- Assets and liabilities are translated at the closing rate at the end of the reporting period.
- Income and expenses are translated at average exchange rates during the year.
- All resulting exchange differences are recognised in equity in the translation reserve.

#### **Classification of financial instruments issued by the Group**

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

- (i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

#### **Judgements and estimates**

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In this regard the impairment testing (note 3.3) involves a higher degree of judgement or complexity and is explained in more detail in the related note.

#### **New standards and interpretations**

A full list of new accounting standards and interpretations that have been implemented in the year or will be implemented next year, and which have no significant impact, can be found in note 5.5.

## SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 26 December 2015

## 2.1 Profit before tax

## Segmental information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group is managed through its three Operating Groups, which form the operating segments on which the information shown below is prepared. The Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker. An operating segment's results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m
<b>2015</b>				
Segment revenue	561	429	285	1,275
Segment profit, being segment EBITDA <sup>(1)</sup>	221	169	47	437
Segment depreciation and amortisation	(54)	(23)	(29)	(106)
Segment operating profit <sup>(1)</sup>	167	146	18	331
<b>2014</b>				
Segment revenue	529	386	331	1,246
Segment profit, being segment EBITDA <sup>(1)</sup>	214	142	87	443
Segment depreciation and amortisation	(47)	(22)	(27)	(96)
Segment operating profit <sup>(1)</sup>	167	120	60	347

## Reconciliation to statutory items included in the consolidated income statement

	Revenue £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m
<b>2015</b>				
Segment results	1,275	437	(106)	331
Other items <sup>(1),(2)</sup>	3	(35)	(5)	(40)
<b>Total per consolidated income statement</b>	<b>1,278</b>	<b>402</b>	<b>(111)</b>	<b>291</b>
<b>2014</b>				
Segment results	1,246	443	(96)	347
Other items <sup>(1),(2)</sup>	3	(32)	(4)	(36)
<b>Total per consolidated income statement</b>	<b>1,249</b>	<b>411</b>	<b>(100)</b>	<b>311</b>

<sup>(1)</sup> During 2015 the Group has revised how certain costs are internally allocated to its three Operating Groups. There has been no change to the operating segments or their composition. This change does not affect the 2014 figures. The effect has been to increase the 2015 reported segment EBITDA and operating profit in Midway Attractions, LEGOLAND Parks and Resort Theme Parks by £4 million, £1 million and £2 million respectively, with an equivalent increase in costs of £7 million reported within 'Other items' in the tables above.

<sup>(2)</sup> Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

**SECTION 2 RESULTS FOR THE YEAR** *(continued)*

52 weeks ended 26 December 2015

**2.1 Profit before tax** *(continued)***Geographical areas**

While each Operating Group is managed on a worldwide basis, part of our strategy is to diversify geographically across the four regions shown below. The information presented is based on the geographical locations of the visitor attractions concerned.

**Geographical information**

	Revenues 2015 £m	Non-current assets 2015 £m	Revenues 2014 £m	Non-current assets 2014 £m
United Kingdom	467	851	490	811
Continental Europe	300	764	318	794
North America	336	481	274	429
Asia Pacific	175	333	167	325
	1,278	2,429	1,249	2,359
Deferred tax		35		49
Investments		11		6
		2,475		2,414

**Revenue****Accounting policy**

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts (excluding VAT and similar taxes) received from customers for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Ticket revenue is recognised at point of entry.

From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in the current and previous years is not material.

**Cost of sales**

Cost of sales of £193 million (2014: £181 million) represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Retail inventory and food and beverage consumables are the principal expenses included under this category.

## SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

### 2.1 Profit before tax *(continued)*

#### Operating expenses

##### Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2015	2014
Operations	16,980	15,567
Attraction management and central administration	1,841	1,760
	18,821	17,327

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	279	266
Share-based payments (note 4.6)	4	4
Social security costs	34	32
Other pension costs	10	10
	327	312

#### Auditor's remuneration

	2015 £m	2014 £m
Audit of these financial statements	1.2	1.2
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services	0.4	0.4
Other services relating to taxation	0.4	0.4
	2.3	2.3

**SECTION 2 RESULTS FOR THE YEAR** *(continued)*

52 weeks ended 26 December 2015

**2.2 Exceptional items****Accounting policy**

Due to their nature, certain one-off and non-trading items have been classified separately as exceptional items in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying performance of the Group more accurately.

**Exceptional items**

The following items are exceptional and have been shown separately on the face of the consolidated income statement:

	2015 £m	2014 £m
<i>Within finance income and costs</i>		
Foreign exchange gain <sup>(1)</sup>	(1)	-
Cash flow hedges - reclassified to profit and loss <sup>(1)</sup>	14	-
Loss on re-measurement of financial liabilities measured at amortised cost <sup>(2)</sup>	-	23
Exceptional items before income tax	13	23
Income tax credit on exceptional items above	(3)	(6)
<b>Exceptional items for the year</b>	<b>10</b>	<b>17</b>

<sup>(1)</sup> As part of the refinancing undertaken during the year (see note 4.2), the Group incurred net exceptional financing costs of £13 million. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities, and paid a net £13 million to cash settle certain swaps. In respect of these swaps, £14 million had previously been hedge accounted through equity and was therefore recycled through the income statement. This was then offset by foreign exchange gains of £1 million as part of the wider refinancing. These have been separately presented in order to better present the underlying finance cost for the Group. Further details of the Group's borrowings are presented in note 4.2.

<sup>(2)</sup> The Group determined at 27 December 2014 that a more reliable estimate could be formed of the likelihood and timeframe for an earlier refinancing of its existing bank facilities than the contractual repayment date of July 2019. This was determined following reviews undertaken by management and external advisors of refinancing options. As a result the Group accelerated the amortisation of financing costs and the resulting adjustment was recognised as a loss on re-measurement and separately presented in the income statement as an exceptional charge as it was not part of the Group's underlying finance cost.

**2.3 Finance income and costs****Accounting policies****Income and costs**

Finance income comprises interest income, applicable foreign exchange gains and gains on hedging instruments that are recognised in the income statement. Finance costs comprise interest expense, finance charges on finance leases, applicable foreign exchange losses and losses on hedging instruments that are recognised in the income statement. Interest income and interest expense are recognised as they accrue, using the effective interest method.

**Capitalisation of borrowing costs**

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of assets taking a substantial period of time to get ready for their intended use as part of the cost of that asset.

## SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

### 2.3 Finance income and costs *(continued)*

#### Finance income and costs

##### Finance income

	2015 £m	2014 £m
<b>Underlying trading</b>		
<i>In respect of assets not held at fair value</i>		
Interest income	2	2
<i>Other</i>		
Net foreign exchange gain	3	-
	5	2
<b>Exceptional items</b>		
<i>Other</i>		
Net foreign exchange gain (note 2.2)	1	-
	6	2

##### Finance costs

	2015 £m	2014 £m
<b>Underlying trading</b>		
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	44	62
Other interest expense	2	2
	46	64
<b>Exceptional items</b>		
<i>In respect of liabilities not held at fair value</i>		
Loss on re-measurement of financial liabilities measured at amortised cost (note 2.2)	-	23
<i>In respect of liabilities held at fair value</i>		
Cash flow hedges - reclassified to profit and loss (note 2.2)	14	-
	14	23
	60	87

Capitalised borrowing costs amounted to £2 million in 2015 (2014: £2 million), with a capitalisation rate of 3.2% (2014: 4.2%). Tax relief on capitalised borrowing costs amounted to £nil in 2015 (2014: £1 million).

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

**2.4 Taxation****Accounting policies**

The tax charge for the year is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

**Recognised in the income statement**

	2015 £m	2014 £m
<i>Current tax expense</i>		
Current year	60	56
Adjustment for prior periods	(4)	3
Total current income tax	56	59
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	7	4
Changes in tax rate	-	(1)
Adjustment for prior periods	4	2
Total deferred tax	11	5
<b>Total tax expense in income statement</b>	<b>67</b>	<b>64</b>



SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

**2.4 Taxation** *(continued)***Reconciliation of effective tax rate**

	2015 %	2015 £m	2014 %	2014 £m
Profit before tax		237		226
Income tax using the domestic corporation tax rate	20.3%	48	21.5%	48
Non-deductible expenses	3.8%	9	2.5%	6
Income not subject to tax	(1.9)%	(4)	(1.9)%	(4)
Effect of tax rates in foreign jurisdictions	7.6%	18	7.1%	16
Effect of changes in tax rate	-	-	(0.4)%	(1)
Unrecognised temporary differences	(0.1)%	-	(0.5)%	(1)
Effect of recognising deferred tax assets previously unrecognised	(1.6)%	(4)	(2.0)%	(5)
Adjustment for prior periods	-	-	2.1%	5
<b>Total tax expense in income statement</b>	<b>28.1%</b>	<b>67</b>	<b>28.4%</b>	<b>64</b>

The effective tax rate (ETR) reflects updates to the headline UK rate, including the effect on the measurement of deferred tax.

The difference between the reported ETR of 28.1% and the UK standard weighted tax rate of 20.3% is mainly due to the different tax rates that apply in the various jurisdictions the Group operates in around the world.

The ETR based on underlying trading, excluding exceptional items, was 27.9% in 2015 (2014: 28.0%).

**Recognised directly in equity through the statement of other comprehensive income**

	2015 £m	2014 £m
Foreign exchange translation differences relating to the net investment in foreign operations	1	-
Effective portion of changes in fair value of cash flow hedges	1	-
<b>Total tax expense in statement of other comprehensive income</b>	<b>2</b>	<b>-</b>

## SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

### 2.4 Taxation *(continued)*

#### Deferred tax assets and liabilities

##### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Property, plant and equipment	21	30	(123)	(114)	(102)	(84)
Other short term temporary differences	32	31	(6)	(7)	26	24
Intangible assets	-	-	(47)	(47)	(47)	(47)
Tax value of loss carry-forwards	3	-	-	-	3	-
Tax assets/(liabilities)	56	61	(176)	(168)	(120)	(107)
Set-off tax	(21)	(12)	21	12	-	-
<b>Net tax assets/(liabilities)</b>	<b>35</b>	<b>49</b>	<b>(155)</b>	<b>(156)</b>	<b>(120)</b>	<b>(107)</b>

Other short term temporary differences primarily relate to financial assets and liabilities and various accruals and prepayments.

Set-off tax is separately presented to show deferred tax assets and liabilities by category before the effect of offsetting these amounts in the statement of financial position where the Group has the right and intention to offset these amounts.

#### Movement in deferred tax during the current year

	28 December 2014 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	26 December 2015 £m
Property, plant and equipment	(84)	(18)	-	-	(102)
Other short term temporary differences	24	4	(2)	-	26
Intangible assets	(47)	-	-	-	(47)
Tax value of loss carry-forwards	-	3	-	-	3
<b>Net tax liabilities</b>	<b>(107)</b>	<b>(11)</b>	<b>(2)</b>	<b>-</b>	<b>(120)</b>

In 2015 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to movements in financial assets and liabilities, accruals and prepayments in the USA.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

**2.4 Taxation** *(continued)*

Movement in deferred tax during the previous year

	29 December 2013 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	27 December 2014 £m
Property, plant and equipment	(72)	(10)	-	(2)	(84)
Other short term temporary differences	13	8	2	1	24
Intangible assets	(48)	-	-	1	(47)
Tax value of loss carry-forwards	3	(3)	-	-	-
<b>Net tax (liabilities)/assets</b>	<b>(104)</b>	<b>(5)</b>	<b>2</b>	<b>-</b>	<b>(107)</b>

In 2014 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to increases in financial assets and liabilities, principally in the UK.

## Unrecognised deferred tax assets

	2015 £m	2014 £m
Property, plant and equipment	3	4
Other short term temporary differences	16	23
Intangible assets	1	3
Tax value of loss carry-forwards	47	51
<b>Net unrecognised tax assets</b>	<b>67</b>	<b>81</b>

The unrecognised deferred tax assets relating to loss carry-forwards include £1 million (2014: £1 million) which expire within five years and £1 million (2014: £nil) which expire within ten years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be utilised.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 26 December 2015

**2.5 Earnings per share**

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share is calculated in the same way except that the profit for the year attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2015 £m	2014 £m
Profit attributable to ordinary shareholders	170	162
Exceptional items net of tax (see note 2.2)	10	17
<b>Adjusted profit attributable to ordinary shareholders</b>	<b>180</b>	<b>179</b>

	2015	2014
Basic weighted average number of shares	1,013,746,032	1,013,746,032
Dilutive potential ordinary shares	1,720,789	434,077
<b>Diluted weighted average number of shares</b>	<b>1,015,466,821</b>	<b>1,014,180,109</b>

Share incentive plans (see note 4.6) are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2015, the PSP has a dilutive effect as the performance measures have been partially achieved, whereas the DBP, CSOP and AESP are dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

In 2014 the PSP had a dilutive effect as the performance measures had been partially achieved, whereas the DBP was not dilutive as the awards had not yet been issued, and the CSOP was not dilutive as the options were 'out of the money' after accounting for the value of services rendered in addition to the option price.

**Earnings per share**

	2015 Pence	2014 Pence
Basic and diluted earnings per share on profit for the year	16.8	16.0
Exceptional items net of tax	1.0	1.7
<b>Adjusted and diluted earnings per share on adjusted profit for the year</b>	<b>17.8</b>	<b>17.7</b>

## SECTION 3 OPERATING ASSETS AND LIABILITIES

52 weeks ended 26 December 2015

**3.1 Property, plant and equipment****Accounting policies**

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses.

Where components of an item of PPE have different useful lives, they are accounted for separately.

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

**Assets acquired through business combinations**

At the time of a business combination PPE is separately recognised and valued. Given the specialised nature of the PPE acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out below. Residual values are based on industry specific indices.

**New sites**

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

On inception of a lease for a new site, the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

**Existing sites**

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction or which extends the operational life of, or enhances existing items of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and useable state and to maintain the useful life of items of PPE is charged to the income statement as incurred. Examples of such expenditure include regular servicing and maintenance of buildings, rides and displays and ongoing repairs to items of PPE.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Land is not depreciated. Assets under construction are not depreciated until they come into use, when they are transferred to buildings or plant and equipment as appropriate. No residual values are typically considered.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold / long leasehold buildings	50 years
Leasehold buildings	20 - 50 years
Plant and equipment	5 - 30 years

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

3.1 Property, plant and equipment *(continued)*

## Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
<i>Cost</i>				
Balance at 29 December 2013	862	861	62	1,785
Additions	29	46	123	198
Movements in asset retirement provisions	3	2	-	5
Disposals	(1)	(3)	-	(4)
Transfers	37	57	(94)	-
Effect of movements in foreign exchange	(11)	(9)	-	(20)
Balance at 27 December 2014	919	954	91	1,964
Additions	25	42	151	218
Movements in asset retirement provisions (note 3.5)	3	-	-	3
Disposals	(6)	(10)	-	(16)
Transfers	53	88	(141)	-
Effect of movements in foreign exchange	(17)	(16)	(1)	(34)
Balance at 26 December 2015	977	1,058	100	2,135
<i>Depreciation</i>				
Balance at 29 December 2013	161	303	-	464
Depreciation for the year - owned assets	26	69	-	95
Depreciation for the year - leased assets	1	3	-	4
Disposals	(1)	(3)	-	(4)
Effect of movements in foreign exchange	-	(5)	-	(5)
Balance at 27 December 2014	187	367	-	554
Depreciation for year - owned assets	28	78	-	106
Depreciation for year - leased assets	1	3	-	4
Disposals	(6)	(10)	-	(16)
Effect of movements in foreign exchange	-	(8)	-	(8)
Balance at 26 December 2015	210	430	-	640
<i>Carrying amounts</i>				
At 29 December 2013	701	558	62	1,321
At 27 December 2014	732	587	91	1,410
At 26 December 2015	767	628	100	1,495

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

**3.1 Property, plant and equipment** *(continued)*

PPE was tested for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. No impairment charges have been made in the current or prior year.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 26 December 2015 the net carrying amount of leased buildings was £16 million (2014: £18 million) and the net carrying amount of leased plant and equipment was £30 million (2014: £34 million). Further details in respect of leases and lease obligations are provided in note 4.4.

**Capital commitments**

At the year end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions and for Midway attractions that are under construction. These are expected to be settled within two financial years of the reporting date. These amount to £32 million (2014: £50 million) for which no provision has been made.

In addition, at year end foreign exchange rates, the Group is expecting to invest a further £98 million in LEGOLAND Japan and LEGOLAND Korea over the period from 2016 to 2018.

**3.2 Goodwill and intangible assets****Accounting policies**

Goodwill represents the difference between the cost of an acquisition and the fair value of the identifiable net assets acquired less any contingent liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands have been valued based on discounted future cash flows using the relief from royalty method, including amounts into perpetuity. Currently all such brands held are regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the demonstrable 'chaining' of brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a finite life on the brands. The brands are tested annually for impairment.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets, comprise software licences, sponsorship rights and other contract based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

3.2 Goodwill and intangible assets *(continued)*

## Goodwill and intangible assets

	Intangible assets			
	Goodwill £m	Brands £m	Other £m	Total £m
<i>Cost</i>				
Balance at 29 December 2013	942	191	25	1,158
Additions	-	-	1	1
Effect of movements in foreign exchange	(17)	(5)	-	(22)
Balance at 27 December 2014	925	186	26	1,137
Additions	-	-	3	3
Effect of movements in foreign exchange	(19)	(4)	(1)	(24)
Balance at 26 December 2015	906	182	28	1,116
<i>Amortisation</i>				
Balance at 29 December 2013	174	12	11	197
Amortisation for the year	-	-	1	1
Effects of movements in foreign exchange	(3)	-	-	(3)
Balance at 27 December 2014	171	12	12	195
Amortisation for the year	-	-	1	1
Effect of movements in foreign exchange	(2)	-	(1)	(3)
Balance at 26 December 2015	169	12	12	193
<i>Carrying amounts</i>				
At 29 December 2013	768	179	14	961
At 27 December 2014	754	174	14	942
At 26 December 2015	737	170	16	923

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result of these tests, no impairment charges have been made in the year (2014: £nil).

**Goodwill**

Goodwill is allocated to the Group's operating segments which represent the lowest level at which it is monitored and tested for impairment. It is denominated in the relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2015 £m	2014 £m
Midway Attractions	524	530
LEGOLAND Parks	37	38
Resort Theme Parks	176	186
	737	754



## SECTION 3 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 26 December 2015

**3.2 Goodwill and intangible assets (continued)****Brands**

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2015 £m	2014 £m
<i>Midway Attractions</i>		
Madame Tussauds	26	26
SEA LIFE	15	15
London Eye	10	10
Other	8	8
	59	59
<i>Resort Theme Parks</i>		
Gardaland Resort	42	45
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	10	11
Other	12	12
	111	115
	170	174

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. The London Eye, Gardaland Resort, Alton Towers Resort, THORPE PARK and Heide Park brands all arise from those specific visitor attractions.

**3.3 Impairment testing****Accounting policies**

The carrying amounts of the Group's goodwill, intangible assets and PPE are reviewed annually to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss whenever the carrying amount of those assets exceeds the recoverable amount.

The level at which the assets concerned are reviewed varies as follows:

Asset	
Goodwill	Goodwill is reviewed at an Operating Group level, being the relevant grouping of cash-generating units (CGUs) at which the benefit of such goodwill arises. A CGU is the smallest identifiable group of assets that generates largely independent cash inflows, being the Group's individual attractions.
Brands	Brands are reviewed individually.
PPE	PPE is reviewed at an attraction level.

## SECTION 3 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 26 December 2015

**3.3 Impairment testing** (continued)

For assets that are in continuing use but do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the assets belong.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of goodwill, and then to reduce the carrying amount of other intangible assets and other assets on a pro rata basis.

**Calculation of recoverable amount**

In accordance with accounting standards the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. The Group uses a multiple of EBITDA to estimate fair value which is based on the Group's average market capitalisation as a multiple of the Group's underlying EBITDA. The Group's internally approved five year business plans, being the current year and four future years, are used as the basis for these calculations, with cash flows beyond the four year outlook period then extrapolated using a long term growth rate.

Common assumptions have been adopted for the purpose of testing goodwill across the business and for testing brand values as their risk profiles are similar. The key assumptions and estimates used when calculating the net present value of future cash flows from the Group's businesses are as follows:

<b>Estimate</b>	
<b>Future cash flows</b>	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure. The Group uses EBITDA as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
<b>Growth in EBITDA</b>	EBITDA is forecast by an analysis of both projected revenues and costs. Visitor numbers and revenue projections are based on market analysis, including the total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions as well as marketing activity.  Operating costs projections are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities as well as general market conditions.
<b>Timing and quantum of future capital and maintenance expenditure</b>	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
<b>Long term growth rate</b>	A growth rate of 2.5% (2014: 2.5%) was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.
<b>Discount rates to reflect the risks involved</b>	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Net present values are calculated using an appropriate pre-tax discount rate of between 9.1% and 12.7% (2014: 9.4% and 13.1%), derived from the Group's post-tax weighted average cost of capital of between 7.2% and 9.4% (2014: 7.4% and 9.7%).

**Sensitivity analysis**

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions of EBITDA, discount rate and long term growth rate in relation to value in use calculations.

When reviewing the outputs of the sensitivity analysis, particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £55 million. The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

**3.3 Impairment testing** *(continued)*

For RTP, where recoverable amount was based upon value in use, testing was performed on forward looking data extracted from the Group's strategic plan. As this plan was prepared before the accident at Alton Towers in June, revised amounts have been included in the four year outlook period reflecting significant cost saving initiatives implemented at Alton Towers during 2015, as well as to consider future performance of the Operating Group including, but not limited to, the anticipated recovery in trading for Alton Towers in 2016 and beyond.

In undertaking sensitivity analysis for RTP, consideration has been given to increases in discount rates and movements in EBITDA. It has also specifically considered the short and long term downside risks to EBITDA at Alton Towers. These calculations do not take account of further potential operational cost or capital expenditure controls which would be possible were they required.

At the year end the Directors consider that the forecasts used reflect the current best estimate of future trading in RTP. It is noted however that the calculations are inherently sensitive to the pace of the recovery at Alton Towers. While in the short term a delay in the pace of the recovery would be highly unlikely to affect valuations by a substantial amount, longer term shortfalls that affect the outlook for the fourth year of the plan (which drive the terminal value) would have a more significant impact. If EBITDA for RTP as a whole were forecast to be 6% lower than currently anticipated for 2020, headroom would be absorbed in full. While it is not impossible for such a shortfall to occur, the Directors do not consider it to be probable based on the strength of the product development, diversity across the businesses in RTP and our proven track record in scaling our cost base to respond to changing demand.

Discount rates have been derived from market data. As these rates are intended to be long term in nature they are expected to be reasonably stable in the short term, however market discount rates could increase in future. If the discount rate used across RTP had been higher by a factor of 6%, headroom would have been absorbed in full. The Directors have formed their best estimate of the discount rate and do not consider that such a move in the rate is appropriate, but it is not impossible that a different view of discount rates could be required in the future.

The long term growth rate, which is applied to the cash flows of the final year in the business plan, was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth. The Directors do not consider it probable that this rate will prove to be inappropriate in the future, but note that if circumstances caused the rate to lower to 1.7%, headroom would be absorbed in full.

**3.4 Working capital****Accounting policies****Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

**Trade and other receivables**

Trade receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

**Inventories**

	2015 £m	2014 £m
Maintenance inventory	7	6
Goods for resale	23	20
	30	26

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

3.4 Working capital *(continued)*

## Trade and other receivables

	Current assets		Non-current assets	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade receivables	20	16	-	-
Other receivables	25	17	-	-
Prepayments and accrued income	31	27	11	7
	76	60	11	7

## Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for uncollectible amounts, is as follows:

	2015 £m	2014 £m
Neither past due nor impaired	10	10
Up to 30 days overdue	8	4
Between 30 and 60 days overdue	1	1
Over 60 days overdue	1	1
	20	16

## Trade and other payables

	Current liabilities		Non-current liabilities	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade payables	41	31	-	-
Accruals	108	115	2	2
Deferred income	72	69	-	-
Other payables	14	11	22	21
	235	226	24	23

## Accruals

Accruals comprise balances in relation to both operating and capital costs incurred at the reporting date but for which an invoice has not been received and payment has not yet been made.

## Deferred income

Deferred income comprises revenues received or invoiced at the reporting date which relate to future periods. The main components of deferred income relate to advanced ticket revenues in respect of online bookings and annual pass purchases; pre-booked accommodation; and certain sponsorship and similar arrangements.

## SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 26 December 2015

### 3.5 Provisions

#### Accounting policy

Provisions are recognised when the Group has legal or constructive obligations as a result of past events and it is probable that expenditure will be required to settle those obligations. They are measured at the Directors' best estimates, after taking account of information available and different possible outcomes.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Provisions

	Asset retirement provisions £m	Other £m	Total £m
Balance at 28 December 2014	36	18	54
Provisions made during the year	3	3	6
Utilised during the year	-	(3)	(3)
Unused amounts reversed	-	(2)	(2)
Unwinding of discount	1	-	1
Effect of movements in foreign exchange	-	(1)	(1)
Balance at 26 December 2015	40	15	55
<b>2015</b>			
Current	-	4	4
Non-current	40	11	51
	40	15	55
<b>2014</b>			
Current	-	4	4
Non-current	36	14	50
	36	18	54

#### Asset retirement provisions

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term. These leases are typically of a duration of between ten and 60 years.

They are established on inception and discounted back to present value with the discount then being unwound through the income statement as part of finance costs. They are reviewed at least annually.

#### Other

Other provisions largely relate to the estimated cost arising from open insurance claims, tax matters and legal issues.

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

## SECTION 4 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 26 December 2015

## 4.1 Net debt

## Analysis of net debt

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	28 December 2014 £m	Net cash flows £m	Non-cash movement £m	Effect of movements in foreign exchange £m	26 December 2015 £m
Cash and cash equivalents	285	(137)	-	4	152
Interest-bearing loans and borrowings (note 4.2)	(1,136)	124	(3)	8	(1,007)
	(851)	(13)	(3)	12	(855)
Finance leases (note 4.4)	(84)	-	-	2	(82)
<b>Net debt</b>	<b>(935)</b>	<b>(13)</b>	<b>(3)</b>	<b>14</b>	<b>(937)</b>

Restricted funds of £nil (2014: £6 million) are included in cash and cash equivalents.

## 4.2 Interest-bearing loans and borrowings

## Accounting policy

Interest-bearing loans and borrowings are initially recognised at fair value less attributable fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate). If the Group subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

## Interest-bearing loans and borrowings

	2015 £m	2014 £m
<i>Non-current</i>		
Floating rate bank facilities due 2020	640	-
Floating rate bank facilities due 2019 (repaid March 2015)	-	1,131
€500 million fixed rate notes due 2022	363	-
£300 million floating rate revolving credit facility due 2020	-	-
£150 million floating rate revolving credit facility due 2019 (cancelled March 2015)	-	-
	1,003	1,131
<i>Current</i>		
Interest payable	4	5
	1,007	1,136

## SECTION 4 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 26 December 2015

**4.2 Interest-bearing loans and borrowings (continued)**

In 2015 the Group refinanced its long term debt.

The new committed facilities are:

- Bank facilities comprising £250 million, \$540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.59%, 0.57% and (0.13)% respectively at 26 December 2015. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and is currently 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and would currently be at a margin when drawn of 1.75% over the same floating interest rates.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

These new facilities enabled the repayment of the existing secured facilities due to mature in 2019. The fees related to the new facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term.

All 2014 facilities were secured by fixed charges over the shares in certain Group companies and certain intra-group receivables. This security was released in 2015. The borrowings under the new bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

**4.3 Financial risk management****Liquidity risk**

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury Department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or other short term liquid investments such as money market funds. In some jurisdictions bank cash pooling arrangements are in place to optimise the use of cash.

As at the reporting date the Group had £152 million of cash and cash equivalents (2014: £285 million) and a £300 million revolving credit facility, of which £nil was drawn down (2014: £150 million of which £nil drawn down), in order to meet its obligations and commitments that will fall due.

The following table sets out the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
<b>2015</b>					
Floating rate bank facilities due 2020	(17)	(17)	(685)	-	(719)
€500 million fixed rate notes due 2022	(10)	(10)	(31)	(382)	(433)
Finance lease liabilities	(6)	(6)	(19)	(162)	(193)
Trade payables and derivatives	(45)	(4)	(8)	-	(57)
	(78)	(37)	(743)	(544)	(1,402)
<b>2014</b>					
Floating rate bank facilities due 2019	(42)	(45)	(1,237)	-	(1,324)
Finance lease liabilities	(6)	(6)	(19)	(171)	(202)
Trade payables and derivatives	(40)	(8)	(4)	-	(52)
	(88)	(59)	(1,260)	(171)	(1,578)

## SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

### 4.3 Financial risk management *(continued)*

#### Interest rate risk

The Group is exposed to interest rate risk on both interest bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt and interest rate swaps.

At 26 December 2015 the Group had €500 million of fixed rate debt. Taken together with the floating rate bank facilities, that have been swapped to a fixed rate using interest rate swaps (the accounting of which is set out below), in aggregate 75% (2014: 80%) of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 5.2 years (2014: 2.1 years).

Interest rate swaps are recognised at fair value which is determined by reference to market rates. It is the estimated amount that the Group would receive or pay to exit the swap, taking into account current interest rates, credit risks and bid/ask spreads. Following initial recognition, changes in fair value are recognised immediately in the income statement, except where the Group adopts hedge accounting.

When hedge accounting, the Group formally documents the relationship between the hedging instruments and hedged items. It makes an assessment, at inception and on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the life of the hedge. The effective portion of changes in fair value is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value is recognised immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income would be recognised immediately in profit or loss. All interest rate swaps held by the Group are hedge accounted.

#### Sensitivity analysis

Based on the net debt position as at 26 December 2015, taking into account interest rate swaps, each 100 basis points (bp) fall or rise in market interest rates would result in an increase or decrease in net interest paid of £nil (2014: £1 million). This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

#### Foreign currency risk

As the Group operates internationally the performance of the business is sensitive to movements in foreign exchange rates. The Group's potential currency exposures comprise transaction and translation exposures:

##### Transaction exposures

The revenue and costs of the Group's operations are denominated primarily in the currencies of the relevant local territories. Any significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts.

##### Translation exposures

The Group's results, as presented in Sterling, are subject to fluctuations as a result of exchange rate movements. The Group does not hedge this translation exposure to its earnings but, where material, may carry out net asset hedging by borrowing in the same currencies as the currencies of its operating units. The Group's debt is therefore denominated in Euros, US Dollars and Sterling and at 26 December 2015 consisted of €550 million, \$540 million and £250 million.

Gains or losses arise on the retranslation of foreign currency denominated borrowings designated as effective net investment hedges of overseas net assets. These are offset in equity by corresponding gains or losses arising on the retranslation of the related hedged foreign currency net assets. The Group also treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

The Group ensures that its net exposure to foreign currency balances is kept to a minimal level by using foreign currency swaps to exchange balances back into Sterling or by buying and selling foreign currencies at spot rates when necessary. The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates. At 26 December 2015 the fair value of foreign currency swaps was £1 million (2014: £nil).



SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

4.3 Financial risk management *(continued)*

## Sensitivity analysis on foreign currency risk

	Carrying value				Total £m
	Sterling £m	Euro £m	US Dollar £m	Other £m	
<b>2015</b>					
Cash and cash equivalents	90	7	10	45	152
Floating rate bank facilities due 2020	(247)	(36)	(357)	-	(640)
€500 million fixed rate notes due 2022	-	(363)	-	-	(363)
Finance lease liabilities	(54)	(28)	-	-	(82)
	(211)	(420)	(347)	45	(933)
<b>2014</b>					
Cash and cash equivalents	202	8	47	28	285
Floating rate bank facilities due 2019	(408)	(332)	(318)	(73)	(1,131)
Finance lease liabilities	(54)	(30)	-	-	(84)
	(260)	(354)	(271)	(45)	(930)

A 10% strengthening of all currencies against Sterling would increase net debt by £72 million. As described above, gains or losses in the income statement and equity are offset by the retranslation of the related foreign currency net assets or specific intercompany loan balances.

A 10% strengthening of all currencies against Sterling would reduce the fair value of foreign exchange contracts and result in a charge to the income statement of £4 million (2014: £9 million).

**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. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit. There are credit policies in place with regard to its trade receivables with credit evaluations performed on customers requiring credit over a certain amount.

The Group manages credit exposures in connection with financing and treasury activities including exposures arising from bank deposits, cash held at banks and derivative transactions, by appraisal, formal approval and ongoing monitoring of the credit position of counterparties. Counterparty exposures are measured against a formal transaction limit appropriate to that counterparty's credit position.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

4.3 Financial risk management *(continued)*

## Fair values

## Fair value hierarchy

The Group analyses financial instruments in the following ways:

- Level 1: uses unadjusted quoted prices in active markets.
- Level 2: uses inputs that are derived directly or indirectly from observable prices (other than quoted prices).
- Level 3: uses inputs that are not based on observable market data.

## Fair value versus carrying amounts

The fair values of financial assets and liabilities are presented in the table below, together with the carrying amounts shown in the statement of financial position. Short term receivables, payables and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

	2015		2014	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Held at amortised cost</i>				
Floating rate bank facilities due 2020	(640)	(631)	-	-
Floating rate bank facilities due 2019	-	-	(1,131)	(1,128)
€500 million fixed rate notes due 2022	(363)	(358)	-	-
Finance lease liabilities	(82)	(82)	(84)	(84)
<i>Held at fair value</i>				
Derivative financial instruments	1	1	(11)	(11)
Investments	11	11	6	6
	(1,073)	(1,059)	(1,220)	(1,217)

The bank facilities, loan notes and finance leases are held at amortised cost. The fair values shown above for the bank facilities and loan notes have been calculated using market values and are classified as Level 2 and Level 1 respectively. The fair values of the finance leases are determined by reference to similar lease agreements.

Of the financial assets and liabilities held at fair value, the derivative financial assets or liabilities are classified as Level 2 and the investments are classified as Level 3.

There have been no transfers between levels in 2015 or 2014.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

**4.4 Lease obligations****Accounting policies**

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

**Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term. This therefore excludes the potential impact of future performance or rent increases based on inflationary indices.

**Lease arrangements**

The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the PPE of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

Each of these sale and leaseback agreements runs for a period of 35 years from inception and allows for annual rent increases based on the inflationary index in the United Kingdom and fixed increases in Continental Europe. The Group has the option, but is not contractually required, to extend each of the lease agreements individually for two further terms of 35 years, subject to an adjustment to market rates at that time.

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten and 60 years, with rent increases determined based on local market practice. In addition to a fixed rental element, rents within the Midway Attractions Operating Group can also contain a performance related element, typically based on turnover at the site concerned. Options to renew leases exist at these sites in line with local market practice in the territories concerned.

The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. The potential impact on rent charges of future performance or increases based on inflationary indices are each excluded from these calculations.

There are no significant operating restrictions placed on the Group as a result of its lease arrangements.

**Lease costs and commitments**

During 2015 £89 million (2014: £86 million) was recognised as an expense in the income statement in respect of operating leases. Of this £12 million (2014: £12 million) was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

4.4 Lease obligations *(continued)*

## Finance leases

These tables provide information about the future minimum lease payments and contractual terms of the Group's finance lease liabilities, as follows:

	Future minimum lease payments 2015 £m	Interest 2015 £m	Present value of minimum lease payments 2015 £m	Future minimum lease payments 2014 £m	Interest 2014 £m	Present value of minimum lease payments 2014 £m
Less than one year	6	6	-	6	6	-
Between one and five years	25	25	-	26	25	1
More than five years	244	162	82	254	171	83
	275	193	82	286	202	84

	Currency	Nominal interest rate	Year of maturity	2015 £m	2014 £m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	28	30
				82	84

The nominal interest rate for finance leases in the table above represents the weighted average effective interest rate. This is used because the table above aggregates finance leases with the same maturity date and currency.

## Operating leases

The minimum rentals payable as lessee under non-cancellable operating leases are as follows:

	2015 £m	2014 £m
Less than one year	76	76
Between one and five years	291	297
More than five years	1,271	1,326
	1,638	1,699

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases from the date the parks start operating depending on the specific circumstances of each lease and the nature of the assets at the attractions.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

**4.5 Equity and capital management****Capital management**

The capital structure of the Group consists of debt which includes borrowings (see note 4.2), cash and cash equivalents and equity attributable to equity holders of the parent Company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Directors monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and the requirements of the Group's debt covenants are met.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance to fund significant acquisitions or developments intended to increase the overall value of the Group.

Share plans have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market.

**Share capital and reserves****Share capital**

	2015 Number	2014 Number	2015 £m	2014 £m
<i>Ordinary shares of £0.01 each</i>				
On issue and fully paid at beginning and end of year	1,013,746,032	1,013,746,032	10	10

**Ordinary shares**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

The Company has entered into a Relationship Agreement with its major shareholder, KIRKBI, in connection with the exercise of its rights as a major shareholder in the Company and the right to appoint Directors to the Board. Relationship Agreements with Blackstone and CVC (which were described in the Annual Report and Accounts for the year ended 27 December 2014) terminated in March 2015 when they ceased to hold any shares in the Company.

The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

**4.5 Equity and capital management** *(continued)***Dividends**

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

	2015 £m	2014 £m
Interim dividend for the 52 weeks ended 27 December 2014 of 2.0 pence per share	-	20
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	43	-
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	21	-
<b>Total dividends paid</b>	<b>64</b>	<b>20</b>

The Directors of the Company propose a final dividend of 4.4 pence per share for the year ended 26 December 2015 (2014: 4.2 pence per share). The total dividend for the current year, subject to approval of the final dividend, will be 6.5 pence per share (2014: 6.2 pence per share).

**Capital reserve**

Balances arose in the capital reserve when the Group's previous parent company, Merlin Entertainments S.à r.l. arranged its own acquisition by Merlin Entertainments plc, a new legal parent. The balances represented the difference between the value of the equity structure of the previous and new parent companies.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million. When the capital position of the parent Company was rearranged the capital reserve was adjusted appropriately such that the equity balances presented in the Group accounts best reflected the underlying structure of the Group's capital base.

**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**4.6 Share-based payment transactions****Accounting policy**

The fair value of the share plans is recognised as an expense over the expected vesting period with a corresponding entry to retained earnings, net of deferred tax. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest, which is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive plans for employees in certain territories. The issues and resulting charges of these plans are not material to the financial statements.

**Equity-settled plans**

The Group operates four employee share incentive plans: the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP) as set out in the Directors' Remuneration Report and the tables below. A summary of the rules for the plans and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

4.6 Share-based payment transactions *(continued)*

## Analysis of share-based payment charge

	2015 £m	2014 £m
PSP	1	2
CSOP	1	1
AESP	2	1
	4	4

## Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2015	Number of shares 2014
PSP	November 2013 - December 2015	-	2017 - 2025	8.7	5,633,093	3,611,209
DBP	March 2015	-	2018 - 2025	9.2	361,734	-
CSOP	November 2013 - September 2015	3.15 - 4.42	2016 - 2025	8.4	3,192,347	2,305,252
AESP	January 2014 - March 2015	2.96 - 3.43	2016 - 2018	2.2	5,502,199	3,180,962
<b>Total</b>					<b>14,689,373</b>	<b>9,097,423</b>

The weighted average exercise prices (WAEF) over the year were as follows:

	PSP <sup>(1)</sup> Number	DBP <sup>(1)</sup> Number	CSOP Number	WAEF (£)	AESP Number	WAEF (£)
At 29 December 2013	3,633,489	-	2,298,375	3.15	-	-
Granted during the year	120,577	-	206,850	3.64	3,555,062	2.98
Forfeited during the year	(142,857)	-	(199,973)	3.17	(374,100)	2.99
At 27 December 2014	3,611,209	-	2,305,252	3.19	3,180,962	2.98
Granted during the year	2,426,028	383,843	1,083,850	4.38	2,823,813	3.24
Forfeited during the year	(404,144)	(22,109)	(196,755)	3.46	(473,366)	3.11
Exercised during the year	-	-	-	-	(4,213)	2.98
Expired during the year	-	-	-	-	(24,997)	2.98
At 26 December 2015	5,633,093	361,734	3,192,347	3.58	5,502,199	3.10
<i>Exercisable at end of year</i>						
At 27 December 2014	-	-	-	-	-	-
At 26 December 2015	-	-	-	-	-	-

<sup>(1)</sup> Nil cost options

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 26 December 2015

4.6 Share-based payment transactions *(continued)*

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2014 and 2015 are as follows:

Scheme	Date of grant	Exercise price (£)	Share price at grant date (£)	Fair value per award (£)	Expected dividend yield	Expected volatility	Award life (years)	Risk free rate
PSP	2 April 2015	-	4.47	4.47	n/a	n/a	3.0	n/a
DBP	25 March 2015	-	4.45	4.45	n/a	n/a	3.0	n/a
CSOP	1 April 2015	4.42	4.42	0.99	1.4%	24%	4.7	1.0%
AESP	13 January 2014	3.17	3.73	0.70	0.7%	20%	2.2	0.8%
	7 February 2014	2.96	3.54	0.84	0.7%	22%	3.3	1.2%
	17 February 2015	3.43	4.04	0.71	1.5%	18%	2.2	0.7%
	17 March 2015	3.23	4.38	1.20	1.4%	20%	3.3	0.9%

A description of the key assumptions used in calculating the share-based payments is as follows:

- The binomial valuation methodology is used for the PSP, CSOP and DBP. The Black-Scholes model is used to value the AESP.
- Due to limited trading history in the Group's shares, the expected volatility is based on a portfolio of comparator companies.
- The risk free rate is equal to the prevailing UK Gilts rate at grant date, which is commensurate with the expected term.
- Expected forfeiture rates are based on recent experience of staff turnover levels.
- Behavioural expectations have been estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.



## SECTION 5 OTHER NOTES

52 weeks ended 26 December 2015

## 5.1 Investments

**Accounting policy**

As no observable market data is available for the Group's existing investments, fair value is determined by reference to discounted future cash flows, with movements recorded in other comprehensive income. No fair value movements have been recorded and there is no material sensitivity to the assumptions used.

	2015 £m	2014 £m
At beginning of year	6	3
Additions	5	3
At end of year	11	6

**LEGOLAND Malaysia**

In 2013 the Group acquired 16,350,300 shares in IDR Resorts Sdn. Bhd. (IDR) for the consideration of £3 million. During the year the Group acquired an additional 26,149,700 shares for the consideration of £5 million.

IDR is accounted for at fair value and is not consolidated. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 5.3).

**LEGOLAND Korea**

In 2014 the Group made a £3 million investment in the consortium company developing LEGOLAND Korea. The investment is accounted for at fair value and is not consolidated.

## 5.2 Employee benefits

**Accounting policies****Defined contribution pension schemes**

In the case of defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to them. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

**Defined benefit pension schemes**

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Group's net obligation is calculated for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and offset by the fair value of any scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses are recognised in the period they occur directly in equity through other comprehensive income.

**Defined contribution pension schemes**

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £10 million (2014: £10 million).

**Defined benefit pension schemes**

The principal scheme that the Group operates is a closed scheme for certain former UK employees of The Tussauds Group, which was acquired in 2007. The scheme entitles retired employees to receive an annual payment based on a percentage of final salary for each year of service that the employee provided. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.2 Employee benefits (continued)

The most recent full actuarial valuation of the scheme was carried out as at 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 which was paid in 2014.

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2015. The weighted average duration of the defined benefit obligation at 26 December 2015 was 20 years.

The assets and liabilities of the schemes are:

	2015 £m	2014 £m
Equities	23	23
Corporate bonds and cash	5	5
Fair value of scheme assets	28	28
Present value of defined benefit obligations	(33)	(33)
Net pension liability	(5)	(5)

## Movement in the net pension liability

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 29 December 2013	17	(21)	(4)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement gain/(loss)	2	(3)	(1)
Recognition of defined contribution section assets and liabilities	8	(9)	(1)
At 27 December 2014	28	(33)	(5)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement loss	(1)	-	(1)
At 26 December 2015	28	(33)	(5)

The amount recognised in the income statement was £nil (2014: £nil). The amount recognised in the statement of comprehensive income was a loss of £1 million (2014: loss of £2 million).

The closed Tussauds Group scheme operated a defined contribution section underpinned by a minimum level of benefit. Recent experience has indicated that this minimum level of benefit is now giving rise to a deficit; consequently the assets and liabilities of the defined contribution section of the scheme were recognised in 2014.

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

**5.2 Employee benefits** (continued)**Actuarial assumptions**

Principal actuarial assumptions (expressed as weighted averages) at the year end were:

	2015	2014
Discount rate	3.9%	3.9%
Future salary increases	3.5%	3.5%
Rate of price inflation	3.2%	3.2%

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is SIPA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 85 and a female would have a life expectancy to age 88.

**5.3 Related party transactions****Identity of related parties**

The Group has related party relationships with a major shareholder, key management personnel, joint ventures and IDR Resorts Sdn. Bhd.

All dealings with related parties are conducted on an arm's length basis.

**Transactions with shareholders**

During the year the Group entered into transactions with a major shareholder, KIRKBI Invest A/S, and the LEGO Group, a related party of KIRKBI Invest A/S. During the year Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.) ceased to hold any shares.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 26 December 2015, were as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases £m	Amounts owed to related party £m
<b>2015</b>				
KIRKBI Invest A/S	-	-	9	2
LEGO Group	1	1	47	2
	1	1	56	4
<b>2014</b>				
KIRKBI Invest A/S	1	-	7	2
LEGO Group	1	-	37	2
	2	-	44	4

Prior to the refinancing in March 2015 (see note 4.2) KIRKBI Invest A/S, as a member of a banking syndicate, owned an element of the Group's bank loan portfolio. The balance outstanding at 26 December 2015 is £nil (2014: £49 million).

**SECTION 5 OTHER NOTES** *(continued)*

52 weeks ended 26 December 2015

**5.3 Related party transactions** *(continued)***Transactions with key management personnel**

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.7% (2014: 2.1%) of the voting shares of the Company.

The compensation of key management was as follows:

	2015 £m	2014 £m
Key management emoluments including social security costs	4.2	7.7
Contributions to money purchase pension schemes	0.3	0.5
Share-based payments and other related payments	1.4	0.8
	5.9	9.0

**Transactions with other related parties**

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park. On this basis, IDR and its subsidiaries are deemed to be related parties. At 26 December 2015 the Group had subscribed for 42,500,000 shares in IDR (2014: 16,350,300 shares).

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 26 December 2015, are as follows:

	2015 £m	2014 £m
Sales to related party	5	5
Amounts owed by related party	3	3

**5.4 Contingent liabilities**

On 2 June 2015 an accident occurred at Alton Towers Resort on 'The Smiler' ride. The Group responded immediately to support those who were injured, and maintains appropriate insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive (HSE) as they undertake their investigation. It is possible that additional uninsured costs and, depending on the outcome of the HSE investigation, financial penalties may be incurred. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

The Group has contingent liabilities arising from local planning obligations and other obligations. The total liability under these obligations could amount up to £1 million (2014: £1 million).

## SECTION 5 OTHER NOTES *(continued)*

52 weeks ended 26 December 2015

### 5.5 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IAS 19 (Amendment) 'Employee benefits' - defined benefit plans: employee contributions.
- IFRS 2 (Amendment) 'Share-based payment' - definition of 'vesting condition'.
- IFRS 3 (Amendment) 'Business combinations' - classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements.
- IFRS 8 (Amendment) 'Operating segments' - disclosures on the aggregation of operating segments.
- IFRS 13 (Amendment) 'Fair value measurement' - measurement of short term receivables and payables and scope of portfolio exception.
- IAS 16 (Amendment) 'Property, plant and equipment'.
- IAS 24 (Amendment) 'Related party disclosures' - definition of 'related party'.

EU endorsed IFRS and interpretations with effective dates after 26 December 2015 relevant to the Group will be implemented in the financial year when the standards become effective.

The IASB has issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2016. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IFRS 11 'Joint arrangements' - accounting for acquisitions of interests in joint operations.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' - clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements' - equity method.
- IFRS 5 'Non-current assets held for sale and discontinued operations' - changes in method for disposal.
- IFRS 7 'Financial Instruments: Disclosures' - continuing involvement for servicing contracts.
- IAS 19 'Employee Benefits' - discount rate in a regional market sharing the same currency - e.g. the Eurozone.
- IAS 1 'Presentation of financial statements' - disclosure initiative.

During 2014 the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2018 accounting period. The Group's revenue is generated by high volumes of low value transactions, thereby requiring limited judgement on accounting for revenue compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

In January 2016 the IASB issued IFRS 16 'Leases', which will become effective from the 2019 accounting period. It is anticipated that this will require many of the Group's leases to be accounted for 'on balance sheet' and will result in significant changes to the presentation of the Group's consolidated financial statements. It will therefore be a key area of focus.

### 5.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

### 5.7 Subsequent events

On 24 February 2016 the Group invested \$34.4 million (£24.6 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The consideration will be settled in cash and will provide Merlin with a minority equity holding and an investment in loan notes.

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.8 Subsidiary and joint venture undertakings

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
AAE Unit Trust	Australia	-	100.0%	100.0%
AQDEV Pty Limited	Australia	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	Australia	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia	Ordinary	65.0%	65.0%
Illawarra Tree Topps Pty Ltd	Australia	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd	Australia	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia	-	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia	-	100.0%	100.0%
LLA Aquariums Pty Limited	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia	-	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia	-	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia	-	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia	-	100.0%	100.0%
Oceanis NB Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia	-	100.0%	100.0%
Oceanis Unit Trust	Australia	-	100.0%	100.0%
Parkthorn Properties Pty Ltd <sup>(3)</sup>	Australia	Ordinary	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
Sydney Tower Observatory Pty Limited	Australia	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia	-	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia	Ordinary	100.0%	100.0%
US Fly Trust	Australia	-	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China	Ordinary	100.0%	-
Merlin Entertainments Hong Kong Limited	China	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China	Ordinary	100.0%	-
Shanghai Chang Feng Oceanworld Co. Ltd	China	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited	India	Ordinary	100.0%	-
Merlin Entertainments Ireland 1 Limited	Ireland	Ordinary	100.0%	-
Merlin Entertainments Ireland 2 Limited	Ireland	Ordinary	100.0%	-
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy	Ordinary	100.0%	100.0%

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy	Ordinary	<sup>(1)</sup> 49.4%	<sup>(1)</sup> 49.4%
Ronchi S.p.A.	Italy	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l. <sup>(2)</sup>	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited (formerly Aquaria Twenty-One Co. Ltd)	South Korea	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand	Ordinary	100.0%	100.0%
Istanbul Sualti Dnyasi Turizm Ticaret A.S	Turkey	Ordinary	100.0%	100.0%
Alton Towers Limited	UK	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited (company limited by guarantee)	UK	-	100.0%	100.0%
Charcoal CLG 2 Limited (company limited by guarantee)	UK	-	100.0%	100.0%
Charcoal Holdco Limited	UK	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK	Ordinary	100.0%	100.0%
Iconic Images International Limited	UK	Ordinary	100.0%	100.0%
KZ China Holdco Limited <sup>(3)</sup>	UK	Ordinary	100.0%	100.0%
KZ Mexico Holdco Limited <sup>(3)</sup>	UK	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK	Ordinary	100.0%	100.0%



## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
LEGOLAND Windsor Park Limited	UK	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK	Ordinary	100.0%	100.0%
London Dungeon Limited	UK	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%
M.E.G.H. Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited (formerly Tussauds (NBD) Limited)	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK	Ordinary	100.0%	-
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
SEA LIFE Trust Trustees Limited	UK	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	100.0%
Tussauds Holdings Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
Tussauds Hotels Limited	UK	Ordinary	100.0%	100.0%
Tussauds Limited	UK	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited <sup>(2)</sup>	UK	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK	Ordinary	100.0%	100.0%

## SECTION 5 OTHER NOTES (continued)

52 weeks ended 26 December 2015

## 5.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
Wizard AcquisitionCo Limited <sup>(1)</sup>	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited <sup>(1)</sup>	UK	Ordinary	100.0%	100.0%
Wizard EquityCo Limited <sup>(1)</sup>	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited <sup>(1)</sup>	UK	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA	-	100.0%	100.0%
LEGOLAND California LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA	-	100.0%	-
LEGOLAND Discovery Centre US LLC	USA	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA	-	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA	Ordinary	100.0%	-
Merlin Entertainments Group Florida LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA	-	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA	-	100.0%	100.0%
San Francisco Dungeon LLC	USA	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA	-	100.0%	100.0%
SEA LIFE Michigan LLC	USA	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA	-	100.0%	100.0%
SEA LIFE US LLC	USA	-	100.0%	100.0%
The Tussauds Group LLC	USA	-	100.0%	100.0%
<b>Joint venture</b>				
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

<sup>(1)</sup> Merlin Entertainments plc has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity.

<sup>(2)</sup> Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries.

<sup>(3)</sup> Company sold or dissolved between 27 December 2015 and 24 February 2016.

## MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Statement of Financial Position at 26 December 2015 (2014: 27 December 2014)

	Note	2015 £m	2014 £m
<b>Non-current assets</b>			
Investments	iii	3,115	3,111
Other receivables	iv	1,062	-
		4,177	3,111
<b>Current assets</b>			
Other receivables	iv	31	58
		31	58
<b>Total assets</b>		<b>4,208</b>	<b>3,169</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	vi	4	-
Other payables	v	91	2
		95	2
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	vi	1,003	-
<b>Total liabilities</b>		<b>1,098</b>	<b>2</b>
<b>Net assets</b>		<b>3,110</b>	<b>3,167</b>
Issued capital and reserves attributable to owners of the Company	vii	3,110	3,167
<b>Total equity</b>		<b>3,110</b>	<b>3,167</b>

The notes on pages 157 to 161 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 24 February 2016 and were signed on its behalf by:

**Nick Varney**  
Chief Executive Officer

**Andrew Carr**  
Chief Financial Officer

## MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Statement of Changes in Equity at 26 December 2015 (2014: 27 December 2014)

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 29 December 2013		10	3,183	(11)	3,182
Profit for the year		-	-	1	1
Total comprehensive income for the year		-	-	1	1
Equity dividends		-	-	(20)	(20)
Capital restructure	vii	-	(3,183)	3,183	-
Share incentive schemes: Movement in reserves for employee share schemes	iii	-	-	4	4
At 27 December 2014		10	-	3,157	3,167
Profit for the year		-	-	3	3
Total comprehensive income for the year		-	-	3	3
Equity dividends		-	-	(64)	(64)
Share incentive schemes: Movement in reserves for employee share schemes	iii	-	-	4	4
At 26 December 2015	vii	10	-	3,100	3,110

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

### i Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. The policies applied under the entity's previous accounting framework are not materially different to FRS 101 and have not impacted on equity or profits for the year.

The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 3 Market Close, Poole, Dorset, BH15 1NQ. Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Merlin Entertainments plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 'Share-based payment' in respect of group settled share-based payments;
- Certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS statement of financial position at 29 December 2013 for the purposes of the transition to FRS 101 Adopted IFRSs.

These financial statements have been prepared for the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014).

The Directors have taken advantage of the exemption available under s408 of the Companies Act 2006 and have not presented a profit and loss account of the Company.

A summary of the Company's significant accounting policies is set out below.

#### Investments in subsidiaries

Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the income statement.

#### Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

(continued)

### i Accounting policies (continued)

#### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

#### Share-based payments

The fair value of equity-settled share-based payments is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and charged as the employees become unconditionally entitled to the rights.

The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. The fair value of the share plans is recognised as an expense over the expected vesting period net of deferred tax with a corresponding entry to retained earnings. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are not material to the financial statements.

#### Loans to group undertakings

Loans to group undertakings are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

#### Classification of financial instruments issued by the Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

- (i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

(continued)

### i Accounting policies (continued)

#### Interest-bearing loans and borrowings

These are initially recognised at the principal value of the loan concerned, less any related fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate).

If the Group subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

#### Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

### ii Employees

The average number of employees of the Company during the year was seven (2014: seven). All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report on pages 76 to 96. One Director accrued benefits under defined contribution schemes during the year (2014: two).

### iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking £m
<b>Cost and carrying value</b>	
At 29 December 2013	3,107
Capital contributions to subsidiaries	4
At 27 December 2014	3,111
Capital contributions to subsidiaries	4
At 26 December 2015	3,115

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the year end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Holding company	Luxembourg	100.0%	Ordinary

A full list of Group companies is included in note 5.8 of the consolidated financial statements on page 150.

# NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

(continued)

## iv Other receivables

	Current assets		Non-current assets	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts owed by group undertakings	31	58	1,062	-

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. The non-current loans have maturities of 2020 and 2022 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

## v Other payables

	2015 £m	2014 £m
Amounts owed to group undertakings	90	-
Accruals	1	2
	91	2

## vi Borrowings

	2015 £m	2014 £m
<i>Non-current</i>		
Floating rate bank facilities due 2020	640	-
€500 million fixed rate notes due 2022	363	-
£300 million floating rate revolving credit facility due 2020	-	-
	1,003	-
<i>Current</i>		
Interest payable	4	-
	1,007	-

In 2015 the Group refinanced its long term debt.

The new committed facilities are:

- Bank facilities comprising £250 million, \$540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.59%, 0.57% and (0.13)% respectively at 26 December 2015. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and is currently 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and would currently be at a margin when drawn of 1.75% over the same floating interest rates.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.



## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

(continued)

### vi Borrowings (continued)

The fees related to the new facilities are being amortised to the maturity of the debt.

The borrowings under the new bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

### vii Equity

#### Share capital

	2015 Number	2015 £m	2014 Number	2014 £m
<i>Ordinary shares of £0.01 each</i>				
At beginning and end of the year	1,013,746,032	10	1,013,746,032	10

#### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

#### Retained earnings

The profit after tax for the year in the accounts of Merlin Entertainments plc is £3 million (2014: profit after tax of £1 million).

#### Dividends

	2015 £m	2014 £m
Interim dividend for the 52 weeks ended 27 December 2014 of 2.0 pence per share	-	20
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	43	-
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	21	-
<b>Total dividends paid</b>	<b>64</b>	<b>20</b>

The Directors of the Company propose a final dividend of 4.4 pence per share for the year ended 26 December 2015 (2014: 4.2 pence per share). The total dividend for the current year, subject to approval of the final dividend, will be 6.5 pence per share (2014: 6.2 pence per share).

In making this proposal the Directors have considered the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits, as noted above, as well as the position and liquidity of the Group disclosed in the consolidated statement of financial position as explained in the Group going concern disclosures on page 113.

## SHAREHOLDER Information

### Share listing

The Company's shares are listed on the London Stock Exchange.

### Share register and registrars

The Company's share register is maintained and administered in the UK by Computershare Investor Services PLC (Computershare) at the following address:

Computershare	Telephone:
Investor Services PLC	<b>+44 (0)370 703 6259</b>
The Pavilions	Investor Centre:
Bridgwater Road	<b><a href="http://www.investorcentre.co.uk/contactus">www.investorcentre.co.uk/contactus</a></b>
Bristol	Website:
BS99 6ZZ	<b><a href="http://www.computershare.com">www.computershare.com</a></b>

Computershare operates a portfolio service for Merlin shareholders called Investor Centre. This provides our shareholders with online access to information about their investments as well as a facility to help manage their holdings online, such as being able to:

- Update dividend mandate bank instructions and review dividend payment history.
- Update member details and address changes.
- Register to receive Company communications electronically.

Computershare also offers an internet and telephone share dealing service to existing shareholders which can also be accessed through the Investor Centre.

### Dividends

An interim dividend of 2.1 pence per share was paid on 24 September 2015 to shareholders on the Register on 14 August 2015.

A final dividend for the year ended 26 December 2015 of 4.4 pence per share will be recommended to shareholders for approval at the 2016 Annual General Meeting of the Company.

### Dividend Re-Investment Plan

The Company has introduced a Dividend Re-Investment Plan (DRIP) which allows holders of ordinary shares, who choose to participate, to use their cash dividends to acquire additional shares in the Company which will be purchased on their behalf by the DRIP administrator. Further information in relation to the DRIP will be sent to shareholders in advance of the 2016 Annual General Meeting.

### Financial calendar

The principal dates in our financial calendar for 2016 are as follows:

Preliminary Announcement of Results	25 February
Trading Update	19 May
Annual General Meeting	19 May
Interim Results Announcement	28 July
Trading Update	29 September
Pre-Close Trading Update	29 November

### Shareholder communications

We encourage our shareholders to receive their communications from the Company electronically using email and web-based communications. This means that information about the Company can be received as soon as it is available. The use of electronic communications also reduces costs and the impact on the environment. Shareholders can register for electronic communications through Investor Centre or by contacting Computershare.

Shareholders with any queries regarding their shareholding should contact Computershare. The Investor Relations section of our corporate website also contains information which shareholders may find helpful ([www.merlinentertainments.biz/investor-relations](http://www.merlinentertainments.biz/investor-relations)).

### Annual General Meeting (AGM)

The AGM of the Company will be held on 19 May 2016 at Safari Hotel, Chessington World of Adventures, Leatherhead Road, Chessington, Surrey, KT9 2NE at 11.00am. The Notice of AGM will be sent to shareholders separately.

<b>Registered in</b>	<b>Company number</b>
England and Wales	08700412

<b>EPIC/TIDM</b>	<b>ISIN</b>
MERL	GB00BDZT6P94

### Registered office

Merlin Entertainments plc  
3 Market Close  
Poole  
Dorset  
BH15 1NQ  
United Kingdom

Telephone:	<b>+44 (0)1202 440082</b>
Email:	<b><a href="mailto:investor.relations@merlinentertainments.biz">investor.relations@merlinentertainments.biz</a></b>
Website:	<b><a href="http://www.merlinentertainments.biz">www.merlinentertainments.biz</a></b>

<b>Company secretary</b>	<b>Investor relations director</b>
Colin N. Armstrong	Alistair Windybank

### External auditors

KPMG LLP	
Gateway House, Tollgate	
Chandlers Ford	
Southampton, SO53 3TG	Telephone
United Kingdom	<b>+44 (0)23 8020 2000</b>

### Joint Corporate Brokers

Barclays Bank PLC	Citigroup Global Markets Limited
5 North Colonnade	Citigroup Centre, Canada Square
Canary Wharf	Canary Wharf
London	London
E14 4BB	E14 5LB

## FINANCIAL Record

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
<b>Results</b>					
Revenue	1,278	1,249	1,192	1,074	946
Underlying EBITDA	402	411	390	346	306
Underlying operating profit	291	311	290	258	232
Operating profit	291	311	260	199	230
Profit before tax	237	226	172	98	96
<b>Consolidated statement of financial position</b>					
Property, plant and equipment	1,495	1,410	1,321	1,290	1,112
Intangible assets	923	942	961	970	970
Cash and cash equivalents	152	285	264	142	60
Non-current interest-bearing loans and borrowings	1,003	1,131	1,179	1,333	1,178
Total equity	1,149	1,063	944	617	555
<b>Consolidated statement of cash flows</b>					
Net cash flow from operating activities	325	357	365	348	292
Changes in working capital	(19)	(4)	30	24	3
Net (decrease)/increase in cash and cash equivalents	(137)	16	125	81	(4)

## GLOSSARY

Key terms	Definition
Adjusted EPS	Adjusted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders, adjusted for exceptional items, by the weighted average number of ordinary shares in issue during the year.
Blackstone	Was one of the three pre-IPO major shareholders of the Company.
Capex	Capital Expenditure.
Cluster	A group of attractions located in a city close to one another.
Constant currency growth	Using 2015 exchange rates.
CVC	Was one of the three pre-IPO major shareholders of the Company.
DreamWorks Tours - Shrek's Adventure!	This is a new attraction opened in 2015. It is part of the Midway Attractions Operating Group.
EBITDA	Profit before finance income and costs, taxation, depreciation and amortisation and after taking account of attributable profit after tax of joint ventures.
EPS	Earnings per share.
Exceptional items	Due to their nature, certain one-off and non-trading items have been classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
Existing estate (EE)	EE comprises all attractions other than new openings.
High year	Year of high spend in capital investment cycle of an attraction.
IP	Intellectual Property.
IPO	Initial Public Offering.
KIRKBI	KIRKBI owns 75% of LEGO AVS and owns 29.89% of the share capital of Merlin Entertainments plc.
KPI	Key Performance Indicator.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Lead price	Face value of a ticket, which may then be discounted.
Like for like (LFL)	2015 LFL growth refers to the growth between 2014 and 2015 on a constant currency basis using 2015 exchange rates and includes all businesses owned and operated before the start of 2014.
Listing	Listing on the London Stock Exchange.

## GLOSSARY

Key terms	Definition
LLP	LEGOLAND Parks Operating Group.
Merlin Magic Making (MMM)	MMM is the unique resource that sits at the heart of everything Merlin does. Employing over 300 people, this specialist in-house business development; creative; production; and project management group constantly raises the bar in innovative thinking.
Merlin's Magic Wand (MMW)	MMW forms a key element of Merlin's Corporate Social Responsibility commitment. Our very own children's charity delivers magical experiences around the world to children who are disadvantaged through sickness and disability.
Midway or Midway attractions	The Midway Attractions Operating Group and/or the Midway attractions within it. Midway attractions are typically smaller, indoor attractions located in city centres or resorts.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
New Business Development (NBD)	NBD relates to attractions that are newly opened or under development for future opening, together with the addition of new accommodation at existing sites. New openings can include both Midway attractions and new theme parks. NBD combines with the existing estate to give the full estate of attractions.
ROCE	Return on Capital Employed. The profit measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, financial assets and liabilities, and net debt.
ROIC	Return on Invested Capital. Incremental EBITDA divided by the capital invested.
Rooms	A single accommodation unit at one of our theme parks, for example a hotel room, lodge or 'glamping' tent.
RPC	Revenue per capita, defined as visitor revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
Turkuazoo	Turkuazoo Aquarium was a standalone acquisition that has since been relaunched as a SEA LIFE Centre. This is part of the Midway Attractions Operating Group.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements.
Visitors	Represents all individual visits to Merlin owned or operated attractions.
Wizard Wants to Know (WWTK)	WWTK is our annual online employee survey.

## NOTES

LOGO REMOVED

LOGOS  
REMOVED

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*The Madame Tussauds* images shown depict wax figures created and owned by Madame Tussauds.

**Registered office**

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Registered number: 08700412  
Registered in England and Wales

[www.merlinentertainments.biz](http://www.merlinentertainments.biz)

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