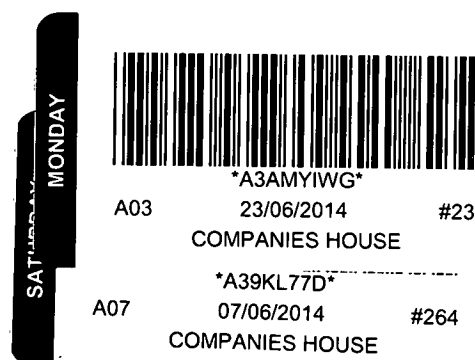


MERLIN

ENTERTAINMENTS

IMAGE REMOVED



ANNUAL REPORT

AND ACCOUNTS 2013

WELCOME TO MERLIN ENTERTAINMENTS

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

MERLIN ENTERTAINMENTS IS EUROPE'S LEADING AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR. AS AT THE END OF DECEMBER 2013, MERLIN OPERATED 99 ATTRACTIONS IN 22 COUNTRIES ACROSS FOUR CONTINENTS. OUR AIM IS TO DELIVER UNIQUE, MEMORABLE AND REWARDING EXPERIENCES TO MILLIONS OF VISITORS ACROSS OUR GROWING ESTATE.

Financial highlights and KPIs ^{(1),(2)}

<table><tr><th>Visitors</th></tr><tr><td>59.8m +10.7%</td></tr><tr><td>GRAPH REMOVED</td></tr></table>	Visitors	59.8m +10.7%	GRAPH REMOVED	<table><tr><th>Revenue</th></tr><tr><td>£1,192m +10.9%</td></tr><tr><td>GRAPH REMOVED</td></tr></table>	Revenue	£1,192m +10.9%	GRAPH REMOVED
Visitors							
59.8m +10.7%							
GRAPH REMOVED							
Revenue							
£1,192m +10.9%							
GRAPH REMOVED							
<table><tr><th>Underlying EBITDA</th></tr><tr><td>£390m +12.8%</td></tr><tr><td>GRAPH REMOVED</td></tr></table>	Underlying EBITDA	£390m +12.8%	GRAPH REMOVED	<table><tr><th>Underlying operating profit ⁽³⁾</th></tr><tr><td>£290m +12.3%</td></tr><tr><td>GRAPH REMOVED</td></tr></table>	Underlying operating profit ⁽³⁾	£290m +12.3%	GRAPH REMOVED
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<table><tr><td>Like for like revenue growth +6.7%</td></tr><tr><td>Return on capital employed 10.2%</td></tr></table>	Like for like revenue growth +6.7%	Return on capital employed 10.2%	<table><tr><td>Basic EPS - 15.1p</td></tr><tr><td>Adjusted EPS - 16.9p</td></tr></table>	Basic EPS - 15.1p	Adjusted EPS - 16.9p		
Like for like revenue growth +6.7%							
Return on capital employed 10.2%							
Basic EPS - 15.1p							
Adjusted EPS - 16.9p							

Non-financial KPIs	2012	2013
Customer satisfaction ⁽⁴⁾	✓	✓
Staff engagement ⁽⁵⁾	✓	✓
Health and safety ⁽⁶⁾	✓	✓

Footnotes (see page 3 for further footnotes to the Annual Report):

(b) The KPIs shown above are Merlin's key financial and non-financial performance indicators.

⁽²⁾ 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.

(3) Underlying operating profit is Merlin's key profit measure. Group profit before tax for 2013 was £172 million (2012: £98 million).

(4) Source - customer satisfaction surveys; measure - 90%+ rating as 'satisfied' or 'very satisfied'.

(5) Source - annual employee surveys; measure - 80%+ (see page 32 for further details).

(6) Source - internal health and safety reports; measure based on 'Business Related Incidents' per 100,000 visits.

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Footnotes to the Annual Report:

- Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', '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 '2013' mean the 52 week period ended 28 December 2013 and references to '2012' or 'previous year' mean the 52 week period ended 29 December 2012.
- References to visitors mean all visitors to Merlin owned or operated attractions.
- The terms 'financial statements', 'consolidated financial statements' and 'accounts' are used interchangeably.
- Like for like growth is based on the 2013 and 2012 figures and includes all businesses owned and opened before 2012, on a constant currency basis using 2013 exchange rates.
- EBITDA is defined as profit before finance income and costs, taxation, depreciation, amortisation and impairment 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 certain exceptional and non-trading items that are classified separately within the financial statements.
- Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

OUR STRATEGY

AND BUSINESS MODEL

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.

We believe that we achieve this objective largely thanks to the commitment and passion of our team and the strength of our brands, which we always want to be distinctive, challenging and innovative. Together they deliver some of the best financial returns in the sector and demonstrate an exceptional record of growth in market share. In every respect and to every group of stakeholders, Merlin will always be an exciting company.

Our passion

WE ARE FIRST AND FOREMOST AN ENTERTAINMENT COMPANY.

We love what we do, namely delivering memorable experiences that put smiles (or screams) on people's faces. We aim to immerse our visitors in our brands, constantly delighting them and often enlightening them through fun learning.

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

Our history

Merlin's business model has developed throughout our history.

- ★ The Company's origins date back to 1979 when the first SEA LIFE Centre was opened in Oban, Scotland.
- ★ Merlin Entertainments was then formed in 1999 as a management buyout from Vardon plc.
- ★ The acquisitions of LEGOLAND Parks (2005), Gardaland (2006) and The Tussauds Group (2007) increased the scale of our business more than tenfold in the three year period to 2007.
- ★ 2010 saw the acquisition of Cypress Gardens Theme Park and Botanical Gardens in Florida, which was subsequently relaunched as LEGOLAND Florida in the following year.
- ★ In 2011 and 2012 Merlin expanded in the Asia Pacific region with the acquisitions of the Sydney Attractions Group (2011) and Living and Leisure Australia (LLA, 2012).
- ★ In 2013 LEGOLAND Malaysia completed its first full year of trading as the first LEGOLAND park to be developed in Asia Pacific; the LEGOLAND California hotel opened; Merlin opened six new midway attractions and acquired a seventh. It also completed an Initial Public Offering (IPO), becoming a listed Company on the London Stock Exchange in November.

★ Following the major acquisitions in the years to 2007, from 2008 to 2012 the Group delivered an average organic annual growth of 10 per cent. in underlying EBITDA.

★ With nearly 60 million visitors in 2013 Merlin continues to be the clear market leader in Europe and second only to Disney worldwide in terms of visitor admissions.

Visitors by Operating Group	2012	2013	Growth %
Midway Attractions	33.0m	37.1m	12.3%
LEGOLAND Parks	10.5m	11.5m	9.9%
Resort Theme Parks	10.5m	11.2m	6.5%
Total	54.0m	59.8m	10.7%

Sites by Operating Group	December 2012	Change 2013	December 2013
Midway Attractions	81	5	86
LEGOLAND Parks	6	-	6
Resort Theme Parks	7	-	7
Total	94	5	99

OUR STRATEGY AND BUSINESS MODEL

Merlin Entertainments delivers two different types of visitor experiences through its portfolio of midway attractions and theme park resorts.

- * **Midway attractions** are predominantly indoor attractions located in city centres or resorts providing visits of shorter duration (typically up to two hours).
- * **Theme park resorts** are outdoor sites with rides and shows as the main attractions, along with themed accommodation offerings:
 - **LEGOLAND Parks** are aimed at families with younger children and have the LEGO product as their central theme.
 - **Resort Theme Parks** are standalone national brands generally aimed at families, teenagers and young adults.

The management of the Merlin business is aligned directly to these two attraction types and organised into three Operating Groups, being Midway Attractions, LEGOLAND Parks and Resort Theme Parks.

Alongside the three Operating Groups sits Merlin Magic Making, the unique creative and production resource which sits at the heart of everything Merlin does.

The Merlin business is driven forward by six highly complementary growth drivers.

- * **Growing the existing estate through planned capital investment cycles** appropriate to each Operating Group and broadly in line with depreciation overall.
- * **Exploiting strategic synergies**, which leverage Group marketing and buying strengths.
- * **Transforming our theme parks into destination resorts** via the addition of themed accommodation and additional attractions.
- * **Rolling out new midway attractions** with an increasing focus on establishing clusters of our brands in the same city or resort location.
- * **Developing new LEGOLAND parks**, for which we hold the global, exclusive licence.
- * **Strategic acquisitions**, where they advance our strategic objectives in key regions and markets.

Merlin's operations are currently divided into four regions being: UK (where our business first began); Continental Europe; North America; and Asia Pacific. Our long term vision is to see the Group derive a third of its revenues from each of Europe, the Americas and Asia Pacific.

GRAPH REMOVED

GRAPH REMOVED

MERLIN

BRANDS

MERLIN'S MIDWAY BRANDS

LOGO REMOVED	SEA LIFE is the world's biggest aquarium brand. There are 44 centres across the UK, Continental Europe, North America and the Asia Pacific region, all of which are built around the notion of Amazing Discoveries . They are home to a variety of creatures from shrimps and starfish to seahorses, rays, sharks and seals. SEA LIFE campaigns tirelessly on a variety of conservation issues prioritised around breeding, rescue and protection of the marine environment. The SEA LIFE Marine Conservation Trust was established in 2013 and raises funding to support these crucial projects.
LOGO REMOVED	Madame Tussauds operates 15 attractions around the globe with five in Europe, four in the USA, five in Asia and one in Australia. In 2011 the brand celebrated 250 years since the birth of Madame Tussaud. Its authentic history and fascinating heritage as well as the breathtaking artistry of the figures differentiate it from other wax attractions. Today, the red ropes are gone and Famous Fun is the heart of the experience, where visitors are encouraged to interact with all the figures from Napoleon to One Direction and everything in between.
LOGO REMOVED	There are currently ten LEGOLAND Discovery Centres (LDCs) across Europe, North America and Asia. LDCs are the ultimate LEGO indoor playground, with over two million bricks under one roof. They create a fun filled and interactive environment where children and parents are inspired to be creative and where children can learn through purposeful play. As with the outdoor LEGOLAND resorts, Playful Learning is at the heart of the experience.
LOGO REMOVED	The Dungeons are a unique mix of dark, historical horror and irreverent humour delivered through set piece shows, rides, spine chillingly themed sets and professional actors. Scary Fun is the goal, delivered daily in eight Dungeons across Europe to our market of families, teenagers and young adults. The first Dungeon outside Europe will open in San Francisco in 2014.
LOGO REMOVED	There are currently three Eye attractions around the world: two in the UK being the iconic London Eye and Blackpool Tower Eye and one in Australia - the Sydney Tower Eye. Each attraction offers the ultimate bird's eye view, unparalleled and different every time, giving an Inspiring Perspective of the location's landscape and iconic landmarks.

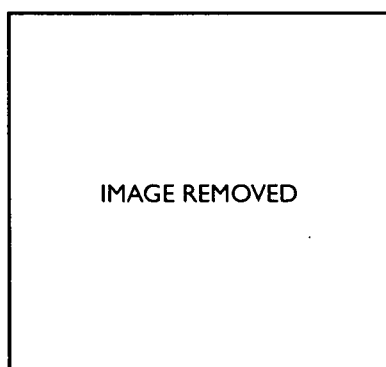
MERLIN BRANDS

MERLIN'S THEME PARK AND RESORT BRANDS

LOGO REMOVED	Six LEGOLAND resorts across Europe, the USA and Asia offer a unique LEGO themed experience for families with children aged two to twelve years, based on interactivity, imagination, family fun and quality. Playful Learning is at the heart of the experience with all family members playing their part for a whole day or longer, with LEGO themed hotels and overnight accommodation at most sites.
LOGO REMOVED	Alton Towers Resort is the UK's number one theme park. Set in 500 acres of beautiful Staffordshire countryside and boasting two themed hotels and an indoor water park, it invites families, teenagers and young adults alike into a world of Fantastical Escapism.
LOGO REMOVED	Wild Adventure is at the heart of Chessington World of Adventures, 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 African themed resort hotel.
LOGO REMOVED	Gardaland Resort is Italy's leading theme park. Located on the edge of Lake Garda between Milan and Venice, 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.
LOGO REMOVED	Heide Park is Germany's third biggest theme park with rides and attractions appealing to all ages, set in four lands of Legendary Adventure. The resort attracts visitors from all over Germany and beyond, who can stay in the Port Royale pirate themed hotel or adjacent Holiday Village.
LOGO REMOVED	Insane fun is on offer at Thorpe Park, the UK's second biggest theme park and acknowledged thrill capital for teenagers, young adults and older families.
LOGO REMOVED	Warwick is in every way the Ultimate Castle experience. Jousting, knights, princesses, the Merlin Dragon Tower, falconry, 'tableaux' by Madame Tussauds and a Dungeon all combine to make this an amazing day out for UK families and overseas tourists alike.

CHAIRMAN'S STATEMENT

IT GIVES ME GREAT PLEASURE TO REPORT ON MERLIN'S PERFORMANCE FOR 2013. THIS WAS A LANDMARK YEAR FOR THE COMPANY AS WE ACHIEVED OUR SUCCESSFUL LISTING ON THE LONDON STOCK EXCHANGE, A REFLECTION OF THE GROUP'S CURRENT STATURE, OUR PROSPECTS FOR FUTURE GROWTH, AND THE REGARD INVESTORS HAVE FOR OUR MANAGEMENT TEAM. WE START THIS NEW JOURNEY WITH AN EXPERIENCED AND HIGH CALIBRE BOARD WHICH WILL ASSIST ME IN THE STEWARDSHIP AND GOVERNANCE OF THE COMPANY.



Sir John Sunderland
Non-executive Chairman

Trading performance

In terms of trading performance, this was another record breaking year for Merlin Entertainments, with growth coming from both new openings and our existing estate of attractions.

The major acquisitions of recent years arising from the Group's expansion into the Asia Pacific region are fully embedded and delivering strong returns. This gives me considerable confidence in our ability to manage future expansion into that region. In addition to the substantial growth we are driving in Asia Pacific, we see North America as the other major area of opportunity. It was also reassuring to see that, despite persistent economic issues in southern Europe in particular, our European businesses overall performed better this year following the one-off challenges of 2012.

Stock exchange listing

On 13 November 2013 Merlin Entertainments plc completed its premium listing on the London Stock Exchange. The IPO was met with significant demand and was oversubscribed amongst both institutional and retail investors. Merlin was admitted to the FTSE 250 index in December 2013 and the shares have continued to perform well.

Governance and board

Part of my work this year has been to ensure that Merlin has a Board of Directors with the experience and calibre appropriate for a company with our ambitions. I am delighted that Charles Gurassa joined the Board in 2013 as Senior Independent Non-executive Director, Ken Hydon and Miguel Ko joined as independent Non-executive Directors and I look forward to welcoming Fru Hazlitt who will join as independent Non-executive Director in April 2014. Alongside the Executive Directors, they join three experienced colleagues Søren Thorup Sørensen, Dr. Gerry Murphy and Rob Lucas. They bring a great variety of strengths, skills and experience to the oversight and governance of the Company.

CHAIRMAN'S STATEMENT

*This was another
record breaking year for
Merlin Entertainments*

At the time of the IPO three colleagues who had previously represented our pre-IPO major shareholders stood aside. Joe Baratta, Thomas Lau Schleicher and Pev Hooper all helped guide Merlin towards its IPO and I thank them for their significant contribution over the years.

Subsequent to the IPO the composition of the Board does not yet fully comply with the recommendation of the UK Corporate Governance Code (2012) in that it stipulates that at least half the Directors excluding the Chairman should be independent of the Group. Merlin is committed to becoming fully compliant during 2014.

Within our evolved governance structure, I chair the Nomination Committee, Charles Gurassa now chairs the Remuneration Committee and Ken Hydon the Audit Committee. Their reports can be found in the Corporate Governance section of this report on pages 60 to 75 and 54 to 59 respectively.

I continue to chair the Health, Safety and Security Committee which ensures that these risk matters are managed properly throughout the Group. Merlin's number one priority is delivering memorable, safe experiences to visitors and the Company puts the health, safety and welfare of both its customers and employees at the forefront of its operations. The Group's approach to safety management is based upon proactivity and continuous improvement to mitigate this risk. All incidents are recorded and reviewed to identify any trends or issues that need addressing and relevant learning points are shared across the business.

Corporate social responsibility

With my Board colleagues I also oversee Merlin's contribution to corporate social responsibility. SEA LIFE campaigns tirelessly on conservation issues prioritised around breeding, rescue and the protection of the marine environment. We launched the SEA LIFE Marine Conservation Trust in 2013 as the focus for our future conservation efforts, and a series of fundraising events and campaigns is planned for 2014. Our own children's charity, Merlin's Magic Wand, had its biggest year yet. We helped more ill, disabled and disadvantaged children than ever to visit our attractions, and continued our outreach programmes with new themed areas installed at children's homes and hospitals at a number of new locations.

We also seek to continually reduce the environmental impact of our business and will report more fully on this important area in future years.

Our people

I would finally like to thank our management and employees around the world for their leadership and dedication respectively during 2013. During this time the Merlin team delivered a significantly improved trading performance whilst simultaneously enabling the Company's Listing on the London Stock Exchange. This is an exceptional achievement and one of which they can all be justifiably proud.

2014 Outlook

With the peak trading season ahead of us, trading to date has been in line with expectations. Merlin has a proven and sustainable growth strategy and an experienced and committed management team. While economic uncertainties remain, particularly in southern Europe, we are confident about the outlook for 2014 and beyond.

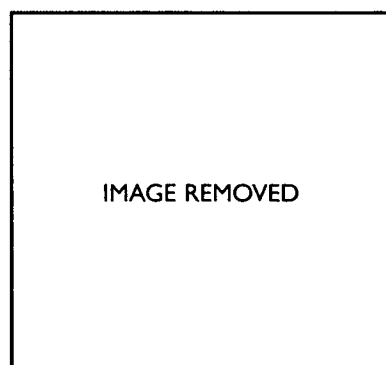
As we noted in our IPO Prospectus, Merlin intends to adopt a progressive dividend policy for its shareholders and to pay our first dividend later this year.

Sir John Sunderland
Non-executive Chairman
26 February 2014

IMAGE REMOVED

CHIEF EXECUTIVE'S REPORT

2013 WAS A YEAR OF SUBSTANTIAL PROGRESS FOR MERLIN ENTERTAINMENTS WITH STRONG GROWTH IN OUR EXISTING ESTATE, CONTINUED ROLL OUT OF OUR BRANDS INTERNATIONALLY AND THE MAJOR MILESTONE OF A SUCCESSFUL LISTING ON THE LONDON STOCK EXCHANGE. THE LATTER HAS BEEN A LONG STANDING OBJECTIVE FOR THE COMPANY AND WE ARE NOW LOOKING FORWARD TO THE LONG TERM STABILITY THAT PUBLIC OWNERSHIP CAN BRING.



Nick Varney
Chief Executive Officer

	2013	2012	Growth
Visitors (m)	59.8	54.0	+10.7%
Revenue (£m)	1,192	1,074	+10.9%
Underlying EBITDA (£m)	390	346	+12.8%
Like for like revenue growth (constant currency basis)			+6.7%

Trading performance

I am pleased with the revenue and EBITDA growth reported by all three Operating Groups in 2013, which has come from both our new business development (NBD) activities as well as from the strength of our existing estate.

As expected, trading in 2013 saw a bounceback in our UK businesses after the negative impact of record wet weather and the London Olympics in 2012. Moreover, while we are not anticipating immediate recovery from the Eurozone crisis in southern Europe, it was encouraging to see Gardaland stabilise and deliver against its targets as a result of successful season pass and marketing initiatives. Elsewhere, our other European and North American businesses delivered a satisfactory result with a particularly strong performance from LEGOLAND California as it continues to develop its resort positioning.

In Asia Pacific, our Australian attraction businesses performed well as a number were relaunched following their acquisition in 2012. However, it was a very difficult year for the two Australian ski fields with very low snow fall significantly affecting business there.

Across Asia our businesses had a very good year with a combination of market growth and the exploitation of cross-selling synergies benefiting the attractions in Bangkok and Shanghai in particular. We also saw the first twelve months of trading in LEGOLAND Malaysia result in attendances well above our original estimates. We see this as a very positive indication of Asian demand for the LEGOLAND brand as we seek to expand in these fast emerging markets.

NBD activity across the year saw us open new midway attractions in Westchester, New York (LDC), Toronto (LDC), Manchester (SEA LIFE Centre), Berlin (Dungeon), Wuhan, China (Madame Tussauds - MT), and Tokyo (MT). In addition, we relocated the LDC in Duisburg, Germany, to Oberhausen and the London Dungeon from Tooley Street to County Hall, next to the London Eye and the SEA LIFE London Aquarium. Both of these moves have significantly enhanced cluster selling opportunities. Towards the end of 2013 we also acquired the Turkuazoo Aquarium in Istanbul, Turkey. This will be rebranded to SEA LIFE for relaunch in 2015 and our intention is to develop a cluster of our midway brands in this fast growing city.

CHIEF EXECUTIVE'S REPORT



IMAGE REMOVED

One Direction - one of our most successful touring exhibits ever

*We welcomed a record
59.8 million visitors
across the Merlin
Entertainments portfolio*

Finally, we continued to add imaginative and highly appealing new accommodation to our theme parks, including a new 250 bedroom hotel at LEGOLAND California and a Knight's Castle hotel at LEGOLAND Deutschland.

Taken together, the strong like for like performance and continuing NBD expansion saw Group revenue rise 10.9 per cent. from £1,074 million to £1,192 million. This in turn continued our long track record of high single digit or double digit growth in underlying EBITDA which totalled 12.8 per cent. with an underlying operating profit growth of 12.3 per cent. It is also pleasing that while welcoming a record 59.8 million visitors across the Merlin Entertainments portfolio, our visitor satisfaction scores remained well above our target of 90 per cent. satisfied or very satisfied. Moreover, health and safety remain a top priority and while this can never be taken for granted it was good to see Business Related Incidents per 100,000 visits falling again in 2013.

Market trends

Merlin operates in an attractive and growing marketplace.

Globally, leisure spending is expected to grow by approximately five per cent. per annum from 2011-2016, driven by rising incomes and increasing leisure time. The Company considers this to be a fundamental driver of its business.

A key focus for Merlin has been on developing its footprint in emerging markets, where a growing middle class, enjoying improving wealth and living standards, expands the market opportunity. Not only can Merlin reap this benefit in these local economies, but increasing wealth is driving international tourism, particularly in key 'gateway' cities such as London, New York and Hong Kong. Merlin currently operates in twelve of the cities listed in the world's top 30 cities by tourist arrivals.

The Company believes that there is a significant shift in demand away from the typical two week family holiday, towards short breaks or 'staycations'. This has informed the strategy of repositioning the theme park businesses as short break resorts, which has the effect of increasing the catchment area, and increasing visitor spend and satisfaction.

The marketplace remains highly fragmented with a significant proportion of independent, or non-natural owners of assets. The estimated global market share held between Merlin and its largest competitor is less than five per cent.

The strength of the Merlin brands and the diversification of our portfolio leaves the Company well placed to benefit from these attractive market trends and opportunities.

Given our long term vision to ultimately derive a third of our revenue from each of Europe, the Americas and Asia Pacific, the predominant focus of our NBD will continue to be in North America and increasingly Asia Pacific, currently representing 21 per cent. and 14 per cent. of revenue respectively.

Strategic developments

Merlin has six highly complementary strategic growth drivers and we have exciting developments planned against each for 2014 and beyond.

Growing the existing estate through planned investment cycles

Capital expenditure is a key driver of like for like growth and all of our attractions have pre-set capital investment cycles comprising three or four lower years followed by a high year. These cycles are carefully managed so as to smooth capital expenditure across the portfolio of attractions; to ensure the investments are funded out of operating free cash flow; and to provide attractions with the visibility and autonomy to plan effectively. In each case the investment over the cycle is broadly in line with depreciation and follows a pre-set ratio to revenue (typically 8-10 per cent).

In 2014, high year investments in Heide Park and LEGOLAND California will be key contributors of growth in the Resort Theme Parks and LEGOLAND Parks Operating Groups respectively. In addition, Alton Towers will launch a new CBeebies Land as a result of a partnership with BBC Worldwide. All attractions, whether in high or low years, will offer something new to see or experience as this is a key component of driving repeat visitation.

Exploiting strategic synergies

As the Group expands and achieves critical mass in key markets, we are able to leverage buying economies of scale and particularly marketing activity through such things as third party promotions and the Merlin Annual Pass loyalty programme. These secure both incremental sales and market share. In 2014 we will continue to focus on e-commerce initiatives, pushing more transactions through our own websites to both improve the customer purchase journey and provide longer term opportunities for closer yield management. Over the last two years, our major initiatives in this area have led to online bookings increasing as a percentage of our admissions revenue, up from twelve per cent. in 2011 to 19 per cent. in 2013.

CHIEF EXECUTIVE'S REPORT

Since 2004 we have launched nearly 40 midway attractions

Transforming our theme parks into destination resorts

By moving our theme parks from day trip venues to two or three day short break destinations we can expand market catchment and revenue opportunities. The key driver of this is the presence of on-site themed accommodation. To date, all recent investments whether themed hotels or Holiday Villages have been highly successful, comfortably delivering against our investment criteria and driving multi-day stays.

In 2014 a second hotel product (the Azteca Hotel) will be added to the Chessington World of Adventures Resort, while LEGOLAND Deutschland will add a 68 bedroom extension to the Knight's Castle hotel. The LEGOLAND Billund Resort continues to add further accommodation with a new wing to the current hotel and standard rooms are being upgraded and themed across the existing hotel estate. In addition, we will build on the successful pilots of 'Medieval Glamping' at Warwick Castle and of 'Crash Pad' at Thorpe Park. Going forward, we are seeking to add an average 200 'keys' to our estate each year across the portfolio and are also actively developing additional 'second gate' attractions that are located next to the resort and give our guests even more to do during their visit.

Rolling out new midway attractions

A key element of Merlin's NBD programme is the roll out of our midway brands. We are able to open new Madame Tussauds, SEA LIFE Centres, Dungeons and LEGOLAND Discovery Centres, typically for £5-8 million each, always with a target of 20 per cent. ROIC. Since 2004 we have launched nearly 40 midway attractions and are planning to open six or seven a year from 2014. Increasingly, our focus is on opening multiple attractions in the same locations to form clusters from which we can derive operating cost, marketing and cross-selling advantages.

2014 has already seen us open our 100th site, a SEA LIFE Centre in Charlotte, USA. Later this year we will also open a Madame Tussauds and our first North American Dungeon in San Francisco; Madame Tussauds attractions in Beijing and Singapore; and an LDC in Boston, USA. Beyond this the pipeline for 2015 is also largely in place with the Orlando I-Drive cluster of the SEA LIFE Centre, Madame Tussauds and Orlando Eye already under construction in the USA and further projects secured in Asia.

In addition, the recent announcement of our agreement with DreamWorks to launch a new midway brand, 'Shrek's Far Far Away Adventure' is a hugely exciting development and the start of what we hope will become a wider strategic partnership.

Developing new LEGOLAND parks

We see significant potential for expansion of LEGOLAND parks due to the LEGO brand's worldwide popularity and the proven success of the six parks open to date. Our aim is to open at least one new park every three years under one of three ownership models: operated and owned; operated and leased; and management contracts. In the last three years we have opened both LEGOLAND Florida (owned) and Malaysia (contract) and are already engaged on a further park, Dubai (contract), with opening targeted in 2016. Beyond this, our focus is again very much on Asia and North America with projects currently under negotiation in Japan and South Korea and further preliminary discussions ongoing in China and the USA.

IMAGE REMOVED

LEGOLAND Florida

CHIEF EXECUTIVE'S REPORT

Our central mission is to deliver memorable experiences to our millions of visitors

Strategic acquisitions

Merlin Entertainments operates in a fragmented market and has a highly successful track record of making and integrating acquisitions. In 2011 and 2012 the acquisitions of Sydney Attractions Group and Living and Leisure Australia accelerated our expansion into Asia Pacific and have facilitated further new openings in this region. Our primary focus going forward is on midway-type operations in Asia and North America where the assets can be rebranded to Merlin's brands (or provide new brand opportunities) and complement our expansion strategy. Merlin's future growth is not dependent on acquisitions but we are in the favourable position of having the free cash flow to make them should suitable opportunities arise.

Merlin Magic Making

Supporting our three Operating Groups and the six growth drivers is our unique in-house creative and development resource: Merlin Magic Making (MMM). This is the part of Merlin responsible for finding new sites; creating new attractions; producing our core product of wax figures, marine displays and LEGO models; and project managing all major capital expenditure projects to bring them in on time and on budget. What it gives Merlin, in a growing market, is the ability to cost effectively and imaginatively exploit opportunities on a global scale.

2013 was also the year that saw the introduction of our dedicated creative research and development team whose sole focus is to develop innovative concepts for extending the Merlin portfolio with new midway opportunities and 'second gates' for our resorts.

Allied with our unrivalled brand portfolio MMM represents a clear competitive advantage over other operators and is consequently a resource we will nurture and build on over the coming years.

Memorable experiences and our teams

At the heart of Merlin Entertainments is our central mission to deliver memorable experiences to our millions of visitors. We achieve this through the high quality of our attractions, constant innovation and most of all through the passion of our teams. As ever, it is our people that are the driving force behind Merlin's success and as such we will continue to focus on their recruitment, retention and training and development. At its most fundamental level, happy and motivated staff mean happy and satisfied customers and as such there is, I believe, a very high correlation between the 95 per cent. of staff who say they 'enjoy working here' and the consistent 90%+ customer satisfaction scores the Group receives.

IMAGE REMOVED

Delivering memorable experiences

Looking ahead

As we embark on another year, our first as a public company, we regard the future with confidence. While external events, particularly the weather, are always capable of surprises, our continued diversification means that Merlin is increasingly resilient to the impact of these. Our existing estate is well placed to continue to deliver and our NBD programme extending out over the next three to five years gives cause for optimism. We have multiple levers to drive growth and a skilled management team to exploit them.

Stand by for more Merlin magic ahead!

Nick Varney
Chief Executive Officer
 26 February 2014

OPERATIONAL REVIEW - MIDWAY ATTRACTIONS

	2013	2012	Growth
Visitors (m)	37.1	33.0	+12.3%
Revenue (£m)	524	458	+14.3%
Underlying EBITDA (£m)	212	179	+18.7%
Like for like revenue growth (constant currency basis)			+9.3%

2013 WAS ANOTHER SUCCESSFUL YEAR FOR THE MIDWAY ATTRACTIONS OPERATING GROUP, WITH STRONG GROWTH IN OUR LONDON AND ASIAN MARKETS; THE CONTINUATION OF OUR MIDWAY ROLL OUT PLAN; THE SUCCESSFUL RELAUNCH OF PARTS OF LIVING AND LEISURE AUSTRALIA AND THE ACQUISITION OF TURKUZZOO AQUARIUM IN ISTANBUL.

The existing estate saw good growth with strong performances coming from Asia and London. The Eurozone crisis continues to have an impact on our southern European businesses and a lower than usual level of snow had a negative impact on our ski businesses in Australia. Visitation to London post the Royal Wedding and London Olympics continued to be very strong in 2013 which benefited our central London attractions.

Our existing estate growth was underpinned by our strategy of planned capital investment cycles across each brand. Each midway attraction has a high investment once every five years, and those in 2013 included a significant expansion of Madame Tussauds Hong Kong; the addition of a ride to the SEA LIFE Centre in Oberhausen, Germany; a new Marvel 4D cinema at Madame Tussauds in Las Vegas; a 'Shark Mission' attraction in the SEA LIFE Centre in Munich and a new 'Jurassic Seas' area in the SEA LIFE Centre in Königswinter, Germany.

In the intervening years, most attractions receive 'mobile features' which we move around the world to several different locations maximising capital efficiency. During 2013, Madame Tussauds had touring figure sets of The Beatles, Michael Jackson (three different figures at different stages of his life), Bollywood, Abba, One Direction, William and Kate, the Duke and Duchess of Cambridge, and four Whitney Houston figures. SEA LIFE has five mobile features ('Octopus Hideout', 'Jellyfish Disco', 'Claws', 'Turtle Shelter' and 'Sea Stars'). LEGOLAND Discovery Centres have four Star Wars themed mobile features. Typically these attractions stay for one year and then move to a new location to refresh the experience.

In 2013 the rapid expansion of midway attractions continued around the world with the launch of a further six new attractions, although the planned SEA LIFE Centre in Rome remains delayed due to external circumstances specific to that location. A new Dungeon in Berlin was launched to join the strong Berlin cluster which now consists of four attractions. We developed the cluster in Tokyo with the launch of a full Madame Tussauds following the successful trial of a temporary attraction in 2012. In Asia we added a new Madame Tussauds to the emerging market of Wuhan in central China. In North America a new cluster in New York was created by adding a LEGOLAND Discovery Centre in Westchester and we completed our first attraction opening in Canada in Toronto with another LEGOLAND Discovery Centre.

In the UK, we created another cluster with the launch of a new SEA LIFE Centre in Manchester adjacent to the existing LEGOLAND Discovery Centre. In addition, the London Dungeon was relocated from Tooley Street, near London Bridge to County Hall next to the London Eye and SEA LIFE London Aquarium. This move was instigated by Network Rail due to the expansion of London Bridge station; however, it has strengthened the London cluster with three attractions now adjacent to each other in the popular South Bank area. We also relocated the LEGOLAND Discovery Centre from Duisburg in Germany to Oberhausen to enable us to form a strong cluster alongside the existing SEA LIFE Centre. During 2013, cluster attractions have continued to represent more growth than standalone midway attractions due to cross-selling and shared costs in support functions. Clustering will continue to be central to our midway roll out strategy.

The relaunch of the LLA attractions which we acquired during 2012 also commenced in 2013. We successfully relaunched Melbourne Aquarium and Mooloolaba Underwater World in Australia as SEA LIFE Centres in September and December respectively. We exited the management contract in Dubai which we acquired as part of the Living and Leisure acquisition to enable us to focus on our core assets. We will continue to relaunch the Living and Leisure assets in Asia and Australia over the next three years. In September we acquired Turkuazoo Aquarium in Istanbul which has great potential to be relaunched as a SEA LIFE Centre and we hope will form a platform for a strong new cluster city.

Midway sites	December 2012	Change* 2013	December 2013
UK	22	1	23
Continental Europe	25	1	26
North America	13	2	15
Asia Pacific	21	1	22
Total	81	5	86

*The 2013 change in the table above reflects the addition of six new midway attractions launched in 2013 and the acquisition of the Turkuazoo aquarium, offset by the terminated Dubai management contract referred to above and the disposal of a small non-core attraction in Belgium. The other relaunches and site moves had no effect on the site numbers or the geographical analysis.

OPERATIONAL REVIEW - MIDWAY ATTRACTIONS

CASE STUDY: BERLIN DUNGEON

WHAT DID WE DO?

We opened a new attraction in central Berlin in March 2013, approximately 200 metres from the SEA LIFE Centre. This expanded the Berlin cluster to four attractions: Madame Tussauds; LEGOLAND Discovery Centre; SEA LIFE Centre; and the Berlin Dungeon.

IMAGE REMOVED

HOW DID WE DO IT?

We developed the attraction with our in-house team with Merlin Magic Making responsible for finding the site, creating the experience and project managing the on-site teams to build the attraction.

We integrated the marketing, finance and HR functions with the existing cluster teams thereby enabling us to launch the attraction with much lower operating costs than if we had launched a standalone Dungeon.

We introduced significant cross-selling between the new Dungeon and all the other Merlin attractions in the cluster. This provided discounts to those customers wanting to visit more than one.

IMAGE REMOVED

WHAT WAS THE RESULT?

The Berlin Dungeon has had an excellent first year and is on course to achieve our 20 per cent. ROIC target.

Efficient development by our in-house creative and project management teams have helped keep capital costs relatively low.

Operating costs are also relatively low as many of the functions are fulfilled by our existing Berlin cluster team.

We have achieved a higher level of cross-sales in Berlin as a consequence of the Dungeon's launch. Total cross-sales in 2013 accounted for 14 per cent. of all revenue in Berlin.

IMAGE REMOVED

The Berlin Dungeon Boat Ride ►

OPERATIONAL REVIEW - LEGOLAND PARKS

	2013	2012	Growth
Visitors (m)	11.5	10.5	+9.9%
Revenue (£m)	352	308	+14.2%
Underlying EBITDA (£m)	127	113	+12.8%
Like for like revenue growth (constant currency basis)			+5.3%

2013 WAS AGAIN A VERY GOOD YEAR FOR THE LEGOLAND PARKS OPERATING GROUP. THREE OF THE FOUR ORIGINAL PARKS DELIVERED RECORD REVENUE AND EBITDA; LEGOLAND MALAYSIA, WHICH OPENED IN SEPTEMBER 2012, HAD A FANTASTIC FIRST FULL YEAR OF TRADING - THE HIGHEST ATTENDANCE FOR ANY LEGOLAND PARK DURING ITS FIRST TWELVE MONTHS; AND THE LEGOLAND CALIFORNIA HOTEL OPENED IN APRIL AND HAS PROVED VERY POPULAR.

The repositioning of the parks as short break destinations took a major step forward during 2013, led by the opening in April of our 250 bedroom LEGOLAND hotel on the doorstep of LEGOLAND California. This generated the most PR coverage since the park opened 14 years ago and has increased our penetration outside the local market. In April, we also opened a 34 bedroom LEGO Castle in the LEGOLAND Deutschland Holiday Village, which exceeded 90 per cent. occupancy during its first season. The first season of the LEGOLAND Billund Holiday Village also went well and we completed the year with a December opening of the 249 bedroom LEGOLAND Malaysia hotel. This hotel is owned by our Malaysian partners, Themed Attractions and Resorts, and is managed by Merlin. The resort focus will continue in the years to come. In 2014 we will open a 68 bedroom Castle Hotel in LEGOLAND Deutschland and in Billund a new wing of 24 bedrooms will be added to our hotel, where we will also re-theme the Holiday Village.

At the heart of our existing estate strategy is our capital investment cycle, allied with innovative product development. In 2013, the highlight of this was the investment in a new 'Land of Chima' in LEGOLAND Florida and the addition of 'Land of Adventure' to LEGOLAND Deutschland. With a warm summer in Windsor the timing was perfect for the addition of 'DUPLO Valley', a water play area for younger children.

Both new LEGOLAND parks in Florida and Malaysia continue to trade well, although the exceptionally strong opening year for LEGOLAND Florida in 2012 provided a slight drag on the Operating Group's like for like performance in 2013.

We added a new Chima 4D show to all LEGOLAND parks and Discovery Centres in line with the newest IP from the LEGO Company, underlining our strong continued cooperation with them.

IMAGE REMOVED

The new DUPLO Valley at LEGOLAND Windsor

Alongside the commercial performance and resort expansion it is also particularly pleasing to report that the parks were able to maintain their high customer satisfaction scores.

We have three alternative strategies to enable us to achieve our goal of adding a new LEGOLAND park approximately every third year:

- ★ **Operated and owned.** We have five parks operating under this model and expect to identify more locations where this model can be applied.
- ★ **Operated and leased.** This is where Merlin has an operating company that undertakes a portion of total park investment, with the majority of park investment made by a local third party.
- ★ **Management contracts.** We have developed LEGOLAND Malaysia under this model and expect, with our local partners, to open LEGOLAND Dubai in 2016.

Further developments are being progressed in Asia and the USA where we see opportunities in the medium to long term. We expect to announce more details on our LEGOLAND development plans during 2014.

OPERATIONAL REVIEW - LEGOLAND PARKS

CASE STUDY: LEGOLAND

CALIFORNIA HOTEL

WHAT DID WE DO?

In April we continued our programme of transforming our theme parks into destination resorts when we opened our first LEGOLAND hotel in America, at the entrance to LEGOLAND California. The 250 bedroom hotel is the third LEGOLAND hotel, after LEGOLAND Billund and LEGOLAND Windsor. The hotel represented an investment of approximately \$45 million and has been financed entirely from Merlin's cash flow.

HOW DID WE DO IT?

Merlin's expert hotel team, combined with local architects and project management experts, was responsible for building on the plans and experiences from the LEGOLAND Windsor hotel, which opened a year earlier. We supplemented the team with strong local hotel expertise and integrated the hotel operation into the LEGOLAND California Resort. This has secured the optimal leverage of the hotel for sales and marketing of the resort; created a seamless guest experience; ensured the cost effective use of operating facilities; and enabled us to deploy our combined team in an efficient way.

WHAT WAS THE RESULT?

The project was delivered two months ahead of schedule and within budget. The excitement for the LEGOLAND hotel led to its becoming the biggest PR story since the opening of the park in 1999. Financial performance has been stronger than expected, outperforming the business case for developing the hotel. Guest satisfaction scores have been very high and, in line with our experience in other resorts, even higher than for visitors not using the hotel, thus underlining the logic of continuing to reposition the parks as short break destinations.

IMAGE REMOVED

Pirate themed room at the LEGOLAND hotel ►

OPERATIONAL REVIEW - RESORT THEME PARKS

	2013	2012	Growth
Visitors (m)	11.2	10.5	+6.5%
Revenue (£m)	314	290	+8.4%
Underlying EBITDA (£m)	81	73	+11.2%
Like for like revenue growth (constant currency basis)			+5.2%

RESORT THEME PARKS OPERATING GROUP DELIVERED A BOUNCEBACK ACROSS THE PORTFOLIO IN 2013 FOLLOWING THE MARKET CHALLENGES FACED DURING 2012. SOLID GROWTH WAS ACHIEVED THROUGH THE SUCCESSFUL DELIVERY OF MAJOR CAPITAL PROJECT LAUNCHES IN THE UK, IMPROVED WEATHER CONDITIONS DURING THE KEY SUMMER TRADING PERIOD AND ACTIONS TAKEN TO MITIGATE DIFFICULT TRADING CONDITIONS IN THE ITALIAN MARKET.

The strategic focus of the Resort Theme Parks Operating Group (RTP) is to create a portfolio of differentiated short break destinations that are centred around unique and compelling theme park propositions.

2013 saw the continued implementation of our planned capital investment cycle to deliver new experiences at each of our attractions. Major launches such as 'The Smiler' at Alton Towers and 'Zufari: Ride into Africa' at Chessington World of Adventures delivered significant volume and revenue growth. At the same time the cost effective introduction of attractions leveraging third party Intellectual Property such as 'Madagascar Live: Prepare to Party' at Gardaland and Heide Park, and 'Horrible Histories Foul Fayres' at Warwick Castle, enabled strong marketing messages in a low capital investment year. Thorpe Park continued to broaden its customer base and focus on digital technology with the introduction of a new mobile ticketing platform and social media/digital marketing initiatives. Thorpe Park also continued its strategy of extending its trading day with successful 'Ministry of Sound' club nights and evening only park events during the summer.

Trading conditions in Italy remained difficult during 2013, however actions taken by management enabled Gardaland to deliver year on year EBITDA growth. A continued focus on targeting international tourists to visit Gardaland for a short break, as well as capturing tourists visiting the Lake Garda area both proved successful. The introduction of a value season pass offer also delivered a significant increase in season pass sales during the year, supporting our strategy to grow pre-booked and repeat visitation.

During 2013 each of the six RTP resorts had accommodation on site. Alongside existing accommodation offers, Thorpe Park, with on-site 'Crash Pad', and Warwick Castle, with 'Medieval Glamping', completed accommodation trials. Both of these were invaluable test-beds for these innovative concepts, with the Thorpe Park Crash Pad trial in particular providing insight into the marketing, operating and financials of running this type of accommodation, with these learnings being built into the planned expansion of both concepts for 2014. Plans have also been completed for the relaunch of the Chessington World of Adventures hotel in 2014

with the removal of the Holiday Inn brand, and the addition of a new 69 bed highly themed 'Azteca' hotel including a unique 284 cover themed restaurant and indoor kids' water play area.

Longer term plans are also well advanced for a new unique accommodation concept at Alton Towers and a second hotel at Gardaland. In addition to new accommodation offerings, the marketing of our resorts as short break destinations plays an important role in raising awareness and encouraging advanced booking. During 2013 Alton Towers and Chessington trialled TV advertising for short breaks during January, the key industry period. Both trials proved successful and will be extended into 2014 including an extension of the trial to include Heide Park.

IMAGE REMOVED

The Smiler – the World's first 14 looping roller coaster

OPERATIONAL REVIEW - RESORT THEME PARKS

CASE STUDY: SHORT BREAK POTENTIAL AT WARWICK CASTLE

WHAT DID WE DO?

In order to establish the potential for Warwick Castle as a short break destination we carried out a six week trial of a unique 'Medieval Glamping' village adjacent to the castle.

HOW DID WE DO IT?

Based on customer research indicating the appeal of staying overnight in the grounds of the castle, our attraction team worked with Merlin Magic Making to create a magical medieval village in the grounds of the castle comprising 35 themed tents. The offering also included medieval activities and food for children and adults as well as a two day ticket to visit the castle.

WHAT WAS THE RESULT?

During the six week trial, the overall occupancy reached 98 per cent. and received extremely strong customer satisfaction and value for money scores. As a result, plans are under way to enhance the offering and extend the trading period. We are exploring further accommodation options to provide a more permanent and year round resort offering.

IMAGE REMOVED

MERLIN MAGIC MAKING

MERLIN MAGIC MAKING 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.



IMAGE REMOVED

MERLIN MAGIC MAKING

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

FINDING THE MAGIC

'ANOTHER SUCCESSFUL YEAR SECURING THE PIPELINE'

Another successful year within the Business Development team has seen us secure the pipeline in 2013/2014 and things are looking positive into 2015.

Asia, and China in particular, remain a priority, with the opening of Madame Tussauds Wuhan and attraction agreements already in place for Madame Tussauds attractions in Singapore and Beijing. We also recently saw the successful opening of Madame Tussauds in Tokyo, creating our first Japanese cluster alongside the existing LEGOLAND Discovery Centre.

Our North American roll out also continues to progress well. LEGOLAND Discovery Centre Toronto sees our first venture into Canada and we have continued our success in securing new attractions in the USA with confirmed locations in Orlando, Charlotte, Boston and San Francisco all progressing well for openings in 2014/15.

CREATING THE MAGIC

'WE HAVE INTRODUCED A DEDICATED CREATIVE RESEARCH AND DEVELOPMENT TEAM'

2013 has been busier than ever in the existing portfolio, with the teams creating and designing hotels; new midway concepts; mobile features; new shows; and stunning roller coasters. Particular attention should be drawn to the new concepts in SEA LIFE Manchester; with a ground breaking projection mapping introduction show and the UK's first underwater walking experience, 'Sea Trek', as well as the phenomenal 'marmalising' roller coaster, 'The Smiler', at Alton Towers.

Intellectual Property relationships continue to strengthen with two 'DreamWorks' shows in Heide Park and Gardaland opening during the year; as well as a further strengthening of our relationship with the LEGO Company through Star Wars and Ninjago.

This was also the year that saw the introduction of our dedicated creative research and development function. Made up of a small group of in-house creative directors, they are complemented by a roster of external specialists from many different disciplines. This allows us to develop some free thinking as we seek to extend the Merlin portfolio with new midway opportunities and 'second gates' for our resorts.

IMAGE REMOVED

PRODUCING THE MAGIC

'OUR BUSIEST EVER YEAR...NEW TECHNIQUES...ENHANCED QUALITY AND AMAZING LIKENESS'

We have had our most active ever year in the production of wax figures for our Madame Tussauds business. We are now able to create over 200 figures per year, with the same quality and amazing likeness. New techniques in the use of materials and digital scanning have allowed us to create more dynamic poses for our figures and ensure that quality is enhanced even further.

As well as launching two new Madame Tussauds attractions in Tokyo and Wuhan and supporting the other 13 existing Madame Tussauds attractions, we also produced one of our most successful touring exhibits ever, with the world number one boy band 'One Direction'.

IMAGE REMOVED

'AN ACTIVE ROLE IN CONSERVATION'

Husbandry and the care of creatures remains the number one priority for our aquarium displays development team which works across all of our 44 worldwide SEA LIFE attractions.

Research and development in this area has seen us increase our capacity to breed a wider variety and greater numbers of creatures in-house across the globe. Notable successes have included our first ever squid breeding programme and a continuation of our worldwide seahorse breeding programme.

The team have played an active role out in the wider world of marine aquariums and conservation, championing a number of outside 'think groups' and conferences. The most noteworthy was the organisation and hosting of the 40th EUAC (European Union of Aquarium Curators) congress in LEGOLAND Billund, where SEA LIFE presentations were strong and numerous.

'OUR FIVE MODEL SHOPS GO FROM STRENGTH TO STRENGTH'

We have continued to invest in our five LEGO model building facilities (model shops). This enables them to continue to grow and to produce ever more intricate and detailed designs and LEGO models to entertain our visitors. During the year most demand has been driven by the expansion of our LEGOLAND hotels and Holiday Villages, as well as two new LEGOLAND Discovery Centres and Water Parks, alongside our existing estate attractions.

DELIVERING THE MAGIC

'WELL PLACED TO MEET THE NEXT SET OF CHALLENGES'

Another record breaking year in project management has seen us involved in 35 major projects, in ten countries, with the projects in total representing a capital investment of over £190 million.

Projects have been as diverse as hotels (LEGOLAND California) and Holiday Villages (LEGOLAND Deutschland), supporting our resort strategy; six midway roll outs; continuing our organic growth; an animal Zufari; a mind bending roller coaster; and a fantastic 'Land of Chima'. Oh and in our spare time we moved the London Dungeon!

Innovative thinking across the whole of Merlin Magic Making, remains our number one philosophy. This, along with delivering compelling propositions that our customers just can't wait to come and visit, and our ability to drive great value from everything we produce, means that we are well placed to meet the next set of challenges...bring on the fun!

IMAGE REMOVED

IMAGE REMOVED

CASE STUDY: MADAME TUSSAUDS WUHAN

WHAT DID WE DO?

We teamed up with one of the biggest companies in China, the Wanda Corporation, to deliver this important project as we continue our Chinese roll out programme. We secured a prime space in their flagship mixed use development. Forming close partnerships with both the main developer and the local authority helped to enable a successful fast track of the licences and approvals. We were particularly pleased that we matched the capital cost to the market opportunity, continuing our core skill of delivering excellent value, whilst maintaining our compelling reasons to visit.

HOW DID WE DO IT?

We worked closely with all partners to ensure a smooth build and launch, in an impressive time scale. The attraction had a great mix of local and national Chinese figures, as well as the cornerstone international 'A list' stars that make up every Madame Tussauds. We recruited a local project management team, providing support through our national Chinese management team and our international experts, to develop something that we are all proud of.

WHAT WAS THE RESULT?

A magnificent addition to our Madame Tussauds portfolio, opened ahead of time for the very important Chinese Golden Week. Initial customer reaction and satisfaction have been hugely encouraging, underlining our ability to deliver the right attraction, at the right cost, with the right quality.

IMAGE REMOVED

MERLIN

PEOPLE

WE DESCRIBE OUR COMPANY'S CULTURE AND VALUES AS THE MERLIN WAY. IT CAPTURES THE ESSENCE OF HOW OUR EMPLOYEES ARE ALIGNED WITH THE ONE ULTIMATE GOAL OF DELIVERING MEMORABLE EXPERIENCES TO OUR GUESTS. OUR PEOPLE STRATEGY IS SUPPORTED BY THREE PILLARS: EMPLOYEE ENGAGEMENT; TALENT AND DEVELOPMENT; AND COMPENSATION AND BENEFITS. IT ENABLES US TO ACHIEVE OUR AMBITIONS TO BE THE BEST COMPANY TO WORK FOR IN OUR INDUSTRY, NURTURE OUR GLOBAL LEADERS AND REWARD PERFORMANCE. THE MEASURE OF OUR SUCCESS IS SHOWN IN OUR OUTSTANDING EMPLOYEE ENGAGEMENT SCORE FROM OUR ANNUAL EMPLOYEE SURVEY.

Employee engagement

The Wizard Wants to Know, our annual online employee survey, is distributed to more than 20,000 global employees. It is our opportunity to measure engagement and receive feedback on what it's like to work for this unique company. An amazing 97 per cent. of our employees completed the survey and 95 per cent. told us that they enjoy working here. Our overall engagement increased once again and was way above our 80 per cent. target, a score we are all proud of. The results are a key mechanism to continually drive improvements.

IMAGE REMOVED

Delivering memorable experiences to our LEGOLAND guests

We care about our people and this year we asked over 200 employees around the world what they wanted from their staff areas. We developed guidelines 'The Magic Touch' to help managers create the inspirational space our people deserve. We provided guidance on safety, cleanliness, creating a relaxing environment and providing a place for sharing all Merlin news.

In order to gain staff commitment it is essential that we inform our teams of Merlin's goals and objectives so all our employees understand their importance. The intranet provides an effective platform where attraction newsfeeds are published.

The traditional methods of newsletters, team briefs and noticeboards are still vitally important to ensure the messages are received by all our front line employees.

STAR is our online global recognition scheme. It enables employees to celebrate success by nominating colleagues with a 'Star' for outstanding contribution or a 'Thank You' to recognise the little things they do. With over 87,000 Stars sent to employees worldwide this year, and over 200,000 since the launch in April 2011, this great initiative has been really embraced by our global employee population.

Spark an Idea is our online initiative that allows employees the opportunity to share their ideas, however big or small. Employees can view the ideas on the website; search; 'like' ideas; or simply look for inspiration. 'Spark an Idea' also allows us to give feedback, thanking staff for their contribution and letting them know how it will be taken forward. Local Creativity and Innovation Forums review ideas and can escalate the truly outstanding ones. These are shared with other attractions and passed to Merlin's Creativity Board, who can support and fund exceptional ideas. More than 2,500 ideas have been submitted since we launched the initiative in 2012, with many being implemented within our attractions.

Recruitment

Our aim is to attract the best talent and our recruitment strategy sets out our approach to technology, candidate experience and diversity. The introduction of our online recruitment system has seen an increase in the usage of social media platforms, giving a more structured and positive candidate experience and a consistent selection process to reflect The Merlin Way. Fairness and equality remain key priorities and we ensure our approach to recruitment is transparent to all our applicants. Where they need support we will do as much as we can to give everyone the opportunity to demonstrate their skills and capabilities.

MERLIN PEOPLE

Diversity

We constantly strive to make a positive difference to life at Merlin and are promoting gender diversity with a number of initiatives to support our female employees in achieving their ambitions and career progression. Our strategy is designed to ensure we have the best people for the right roles, with equality of opportunity for both men and women. Research shows that companies with a more gender diverse workforce perform better. Our objective is to achieve a more inclusive working environment, particularly with respect to gender balance, whilst promoting females on merit. With the appointment of Fru Hazlitt to the Board in 2014, females will then be represented at all levels of the business. Of our entire permanent workforce, approximately 4,000 (48 per cent.) are female and ten women leaders occupy 20 per cent. of senior leadership roles within the Company.

Talent and development

The opportunity for our employees to learn and develop is paramount. In the past year we have introduced several new concepts to enhance our virtual training and to complement our existing face to face learning.

We launched Merlin's School of Magic, our new online collection of learning materials, provided by the renowned Ashridge Business School. Wherever they are located, our employees are able to access resources designed to enhance their personal and professional development. These include learning guides, pocketbooks, audios, videos, books and knowledge maps. We have also rolled out webinars to focus on a variety of leadership topics.

IMAGE REMOVED

Growing our leadership pipeline is a priority, so we can provide the right people with the right experience at the right time. 2013 initiatives to further strengthen this pipeline included:

- * Launching virtual training through Merlin's School of Magic and subject specific webinars.
- * Delivering leadership training locally within Asia, USA, Australia and across Europe, enabling different languages and cultures to be taken into consideration.
- * Driving a global succession planning programme for all senior managers, and revitalising induction programmes for new senior managers.
- * Reviewing our global mobility policy to better support country to country moves.
- * Delivering high potential training and development programmes for individuals identified as future leaders.

XLR8 is our graduate programme tailored to fast track high academic achievers to marketing and general management positions. Now in its eighth year, its success continues to grow, with graduates from top universities around the world being recruited in the UK, USA, Germany, Australia and China.

We are committed to the long term career development of our XLR8 graduates, supporting their tailored career path from entry into Merlin, up through the business and on to senior leadership positions. Over the last three years we have climbed the Guardian Top 300 graduate employers list, coming second for our industry in 2013.

Compensation and benefits

We are committed to providing competitive compensation and benefit programmes which reflect the diverse needs of our global employees and support the culture and business needs.

Share plans

The CEO Award Plan was aimed at extending equity participation to employees as recognition for long service and/or outstanding contribution and was extended to more than 1,700 employees. With the flotation of Merlin on the London Stock Exchange this plan came to an end but the essence of the scheme, wanting all employees to own a part of Merlin, is represented in our new share plans.

As described elsewhere in this report, a number of long term incentive plans have been introduced to align share incentives to long term goals and performance. These include an All Employee Sharesave Plan which provides all permanent employees with the opportunity to make savings over a three year period and buy shares in Merlin. This is a key step to further enhance the engagement of our employees with the success of the Group.

Benefits

We continue to harmonise local benefit programmes on a territory by territory basis. Within the UK we held benefits fairs at all of our attractions to increase awareness and understanding of our benefit offering, resulting in a considerable uptake in the voluntary benefit schemes. It was also an ideal opportunity to start communicating about the implementation of workplace pensions to our UK workforce. Our objective is to develop the benefits fair package and make this globally available over the coming years.

Mobility

We have made significant advances in refining our international mobility programme which allows us to continue to support both the global expansion of our attractions as well as succession, through the ability of our people to gain international experience.

RISKS AND UNCERTAINTIES

MERLIN HAS A PROACTIVE APPROACH TO THE MANAGEMENT OF POTENTIAL RISKS AND UNCERTAINTIES WHICH COULD HAVE A MATERIAL IMPACT ON THE GROUP'S BUSINESS PERFORMANCE AND DELIVERY OF ITS STRATEGY AND INVOLVES MANAGEMENT ACROSS THE GROUP. THIS IS AN INTEGRATED 'BOTTOM UP' AND 'TOP DOWN' APPROACH, WITH BUSINESS RISKS IDENTIFIED, EVALUATED AND MONITORED BY THE OPERATING, CENTRAL SUPPORT AND CORPORATE MANAGEMENT TEAMS. THE PROCESS IS OVERSEEN BY THE GROUP'S EXECUTIVE BOARD MEMBERS VIA THE GROUP'S CORPORATE RISK MANAGEMENT COMMITTEE, WHICH MEETS FOUR TIMES A YEAR. CORPORATE RISK MANAGEMENT REPORTS ARE CIRCULATED FOR ALL EXECUTIVE COMMITTEE AND MAIN BOARD MEETINGS. THE HEALTH, SAFETY AND SECURITY COMMITTEE, CHAIRED BY OUR NON-EXECUTIVE CHAIRMAN, MEETS QUARTERLY AND FOCUSES SPECIFICALLY ON SAFETY RELATED RISKS AND PERFORMANCE.

The Board believes that appropriate processes are in place to monitor and mitigate risks and their potential adverse consequences to Merlin. Such risks are categorised under three headings; health, safety and security risks; operational and strategic risks; and financial risks.

Health, safety and security risks

Merlin's number one priority is delivering memorable, safe experiences to visitors and the Company puts the health, safety and welfare of both its customers and employees at the forefront of its operations. The Group's approach to safety management is based upon proactivity and continuous improvement to mitigate this risk. All incidents are recorded and reviewed to identify any trends or issues that might need to be addressed and relevant learning points are shared across the business.

Operational and strategic risks

*** Brands and offerings**

Merlin's brand offerings have been built upon a reputation for innovation, consistency in quality and excellence in delivery. Revenues may be adversely affected by serious incident, accident or an occurrence such as a food-borne illness at the Group's restaurants or a problem with an item sold in its retail outlets. Merlin mitigates these risks by maintaining industry leading standards of operating procedures and training, safety and security systems, safety audits and supplier auditing and intelligence.

*** Competition**

Merlin competes for consumer time and expenditure with other offers in the attractions sector and also with other leisure and recreational activities. The strength of the Group's brands and the Group's significant marketing leverage help to mitigate this risk. The Group's thorough market and competitor research programmes provide insight and understanding of its relative competitive position and its customers' expectations and whether their needs are being met.

*** General economic environment**

The disposable income of customers and their leisure activity preferences are affected by changes in the general economic environment. The Group regularly engages with its customers through research and visitor feedback and acts upon the findings in reviewing its product and service offering to ensure that it provides reasons to visit, compelling and memorable experiences and value for money. The Group's spread of businesses across different locations and economies reduces its exposure to the economic variability of any one country.

*** Information technology**

IT systems are integral to the Group's operations and secure, reliable and resilient IT systems performance is critical to Merlin's operational delivery and to our financial reporting processes.

For example, the Group relies significantly on credit and debit card transactions by customers in many locations and particularly for online bookings. Our strategy of driving pre-booking transactions via the internet depends upon 24/7 accessibility and guest friendly functionality. Failure to deliver

RISKS AND UNCERTAINTIES

and maintain appropriate systems availability, or to apply strict 'Payment Card Industry' controls to card transactions, would hamper the Group's ability to trade and to report on performance. The Group has business continuity procedures, systems security measures, and procedural controls and processes in place to mitigate these risks.

* Key personnel

Merlin is a 'people business' and the Group's performance depends largely on recruiting and retaining its employees and senior managers. Merlin mitigates the risk of losing key personnel through innovative recruitment, training and personal development programmes, proactively managed succession planning and through incentive schemes, including share ownership, to attract, develop, motivate and retain employees and senior managers.

* Legal and regulatory

Merlin operates in many different jurisdictions and must comply with a variety of international, national, regional and local laws and regulations. The risk of non-compliance with material laws and regulations is mitigated through the appointment of specialist legal advisers in every jurisdiction in which the Group operates or is in the process of developing attractions. Together with the Group Legal Director, these resources ensure that the Board, Executive Committee, other committees and operational management are kept updated on material legal developments and risks and legal and regulatory compliance across the Group.

* New site and attraction developments

The Group's ability to grow its business is dependent on securing new sites in the right locations and on the right terms as well as on obtaining the necessary planning permissions both for existing sites and new developments. Merlin's business development and site search teams are continuously identifying and evaluating options for new site locations, working closely with developers and planners in key cities and other locations around the world. They are building a pipeline of potential locations to mitigate this risk, whilst existing locations have developed site master plans to assist the securing of the necessary planning approvals. Through Merlin Magic Making, the Group's centre of excellence for innovation, creativity and product development, the Group is continually seeking out new and innovative products and means of delivering memorable experiences to its customers, including through new IP partnerships.

* Property and the environment

With the increased focus on environmental laws and regulations in many jurisdictions around the world, the Group's ability to operate is subject to meeting local environmental laws and regulations. There is a clear focus on meeting legal requirements, in order to mitigate this risk.

The Group's ability to maintain its operations at its leasehold sites is dependent on securing periodic lease renewals. Merlin's Property Director works proactively with site management and legal advisors in order to anticipate and manage such risks. The Group's spread of businesses across different locations and jurisdictions also reduces its exposure to any one site or jurisdiction.

* Seasonality and weather

Many of Merlin's businesses are seasonal and extreme weather conditions at peak trading times could have an impact on business performance. Merlin seeks to maintain a balance in its portfolio between activities which are broadly indoor and outdoor. The Group's strategy of increasing its geographical spread of businesses, particularly across North America and the Asia Pacific region, further reduces the potential impact of this risk.

Additionally, Merlin continues to grow its annual pass revenues and encourages pre-booked business through online dynamic pricing and targeted promotions. Each of these strategies protects the business from the impact of adverse weather that can influence impulse visits.

Financial risks

The Group's finance teams manage Merlin's financial risks in accordance with documented and communicated internal control procedures. All significant financing transactions are authorised by either the Executive Committee or the Board according to the scale of commitment. The four key financial risks affecting the Group are:

* Credit risk

Counterparty credit ratings are regularly monitored, and there is no significant concentration of credit risk with any single counterparty.

* Foreign currency risk

Merlin's borrowings are predominantly denominated in Sterling, Euros, US Dollars and Australian Dollars to broadly match the currencies of the underlying business revenues. Merlin keeps its currency exposure under review and mitigates this with hedging where it considers this to be appropriate.

* Interest rate risk

Merlin finances its operations through a combination of debt and equity. Merlin's debt currently comprises floating rate bank debt. The resulting exposure to changing interest rates is managed by fixing an appropriate proportion of its bank debt through the use of interest rate swaps, transacted with its bank counterparties.

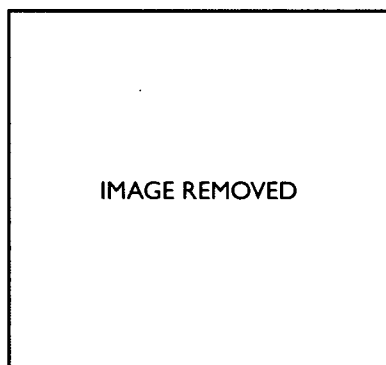
* Liquidity risk

Cash forecasts identifying the liquidity requirements of the Group are produced frequently and are regularly reviewed to ensure that sufficient financial headroom exists for at least a twelve month period. Financial covenants relating to the Group's lending facilities include a requirement to maintain certain ratios of EBITDA to both net interest payable and net debt, and these are monitored regularly, with certificates of compliance provided to lenders on a quarterly basis. In addition, this review process includes reviewing the forecast liquidity position of the Group for at least the next three years.

GROUP

FINANCIAL REVIEW

2013 WAS ANOTHER SUCCESSFUL YEAR FOR MERLIN. THE COMPANY GREW REVENUES BY 10.9 PER CENT, DRIVING AN INCREASE IN UNDERLYING EBITDA OF 12.8 PER CENT, AND GENERATED OPERATING CASH FLOW OF £365 MILLION. THE GROUP CONTINUED TO DE-LEVER THROUGH BOTH STRONG CASH FLOW GENERATION AND £200 MILLION OF PRIMARY EQUITY ISSUANCE RAISED AS PART OF THE SUCCESSFUL IPO IN NOVEMBER 2013.



Andrew Carr
Chief Financial Officer

Trading summary

	2013 £m	2012 £m	Growth +/- £m	Change %
Revenue	1,192	1,074	118	+10.9%
EBITDA ⁽¹⁾	390	346	44	+12.8%
Operating profit ^{(1),(2)}	290	258	32	+12.3%
Net finance costs ⁽¹⁾	(104)	(118)	14	+12.0%
Profit before tax ⁽¹⁾	186	140	46	+33.0%
Taxation ⁽¹⁾	(24)	(20)	(4)	-18.1%
Net income ⁽¹⁾	162	120	42	+35.6%
Post-tax exceptional and non-trading items	(17)	(44)	27	+60.9%

(1) 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 and non-trading items unless otherwise stated.

(2) 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 84 to 143 and those areas requiring significant judgement in the preparation of the financial statements are summarised on page 91.

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.

GROUP FINANCIAL REVIEW

2013 was another successful year for Merlin

Trading performance

Revenue grew by £118 million, or 10.9 per cent comprising 6.7 per cent like for like growth, a £51 million contribution from new openings and acquisitions, along with favourable movements in foreign exchange rates and other items. Further detail on the impact of foreign exchange movements is provided below.

Visitor numbers grew by 10.7 per cent during the year, reflecting a combination of underlying growth in the existing estate, the contribution from the opening of the LEGOLAND California hotel, as well as the addition of seven new midway attractions.

The existing estate benefited from strong volume growth in Asia and London, the continued impact of ongoing investment through the capital development cycles, and our strategy to develop our parks into resorts by adding new accommodation. The UK showed a degree of recovery following the impact of the London Olympics in 2012. In addition, the return to more seasonally normal weather in northern Europe in 2013 following the extremely wet weather in the prior year also helped to support this year on year growth. The challenging economic conditions in southern Europe have yet to show significant improvement. However, Gardaland's performance has stabilised and we anticipate making further major investments in the resort from 2015.

Revenue per capita (RPC) was £18.14, up by 1.2 per cent on the prior year (2012: £17.93). This was driven by a combination of the bounceback in the UK, as well as the mix effect of the midway roll out. The Company's focus continues to be on revenue maximisation rather than specific volume or RPC targets.

Over the past five years, the Company has grown revenues at a compound annual growth rate of 11.6 per cent, with average like for like growth of 4.2 per cent.

EBITDA grew by £44 million, or 12.8 per cent to £390 million reflecting solid conversion of the revenue performance. EBITDA growth from each of the Operating Groups was partly offset by an increase in costs reflecting the flow back of one-off savings in 2012, as well as certain additional central costs that arise as a result of the Company's recent Listing.

Operating profit growth of £32 million and 12.3 per cent, was driven by the growth in EBITDA, partially offset by an increase in the depreciation and amortisation charge to £100 million.

Finance costs

Net finance costs of £104 million reduced by £14 million (2012: £118 million) reflecting facility amendments made in 2013 which reduced the margins payable on the Group's debt portfolio and the repayment of borrowings from the net proceeds of the IPO.

Taxation

A tax charge of £24 million is equivalent to an effective tax rate of 12.7 per cent (2012: 14.3 per cent) of profit before tax. The difference between the reported effective tax rate and the UK standard tax rate of 23 per cent, is primarily due to the recognition of deferred tax assets in the UK, combined with different tax rates that apply in the various jurisdictions we operate in around the world.

Post-tax exceptional and non-trading items

Exceptional operating costs before tax were £30 million. Of these, £28 million related to the IPO in November 2013 and a further £2 million were incurred in the year related to acquisition related activities. No impairment losses were incurred in 2013. Further details are provided in note 2.2.

Exceptional finance income before tax of £16 million was recorded in relation to gains and losses on derivative financial instruments which were not hedge accounted.

Tax on exceptional and non-trading items amounted to a charge of £3 million.

Foreign exchange rate sensitivity

Merlin is exposed to fluctuations in foreign currency exchange rates. The table below shows the impact on revenue of movements in various currencies relative to Sterling.

Currency	2012 average FX rates	2013 average FX rates	%age movement in FX rates	Revenue impact £m
EUR	1.24	1.17	6.0%	14
USD	1.58	1.55	2.1%	5
AUD	1.53	1.62	(6.1%)	(6)
Other	-	-	-	5
Total				18

GROUP FINANCIAL REVIEW

Earnings per share

Basic earnings per share was 15.1 pence.

Adjusted earnings per share, which excludes the impact of exceptional and non-trading items, was 16.9 pence.

Reconciliation between basic and adjusted earnings

	2013 £m
Profit attributable to shareholders	145
Exceptional items after tax	17
Adjusted profit attributable to shareholders	162
Number of shares (million)	958
Basic earnings per share	15.1p
Adjusted earnings per share	16.9p

Dividend

A dividend has not been proposed (2012: £nil).

The Company intends to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover and retaining sufficient capital in the Group to fund continued investment. It is therefore the Board's current intention to target an initial payout ratio of approximately 35-40 per cent of net income normalised for Merlin's long term expected tax rate.

The Directors intend that the Company will in future pay an interim dividend and final dividend in approximate proportions of one third, two thirds respectively of the total annual dividend with effect from 2014. Accordingly, the Company intends to propose its first dividend at the time of the publication of the 2014 half-year results. If approved, this dividend will be paid in the second half of the year.

Cash flow

	2013 £m	2012 £m
Net cash inflow from operating activities	365	348
Capital expenditure	(152)	(163)
Acquisition of Turkuazoo and retail outlet (2012: Living and Leisure Australia)	(11)	(156)
Proceeds from bank loans, net of financing costs	-	167
Net proceeds from IPO	194	-
Refinancing and repayment of borrowings	(179)	-
Interest paid, net of interest received	(92)	(108)
Other	-	(7)
Net cash inflow for the year	125	81

Merlin continues to be highly cash generative. During 2013 the Group generated a net operating cash flow after tax of £365 million, after taking account of the net cash flow impact of exceptional and non-trading items.

Capital expenditure of £152 million was incurred in order to invest in both the existing estate businesses (£95 million) and new openings (£57 million).

In line with our strategy, Merlin's capital investment programme creates new attractions for the existing businesses following the investment cycles laid down for each Operating Group. The year on year reduction was driven predominantly by the timing of the capital investment cycles in the Group's theme parks and resorts.

The LEGOLAND Parks Operating Group also saw a significant uplift from the opening of the new 250 room hotel in LEGOLAND California and the Knight's Castle themed hotel at LEGOLAND Deutschland. Overall, the Group invested £18 million in new accommodation projects in 2013, creating 284 rooms, consistent with our long term plans of an average of £25 million spend and 200 new rooms/keys per annum.

All major capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing the viability and prioritisation of capital investment projects.

The Group invested £38 million in expanding the midway portfolio. Six new attractions were opened in 2013 and we are on track for a further six in 2014.

GROUP FINANCIAL REVIEW

Acquisitions in 2013 were primarily in respect of the Turkuazoo aquarium in Istanbul and a retail outlet in London (including the repayment of borrowings). In 2012 the strategic acquisition of LLA totalled £156 million including the purchase of assets net of cash acquired (and repayment of borrowings). Further details are provided in note 3.1.

Net interest paid in 2013 has reduced reflecting the impact of the amendment to the Group's debt facilities made in mid-2013 and the repayment of debt from the proceeds of the IPO.

Net debt

	2013 £m	2012 £m
Bank loans and borrowings	1,185	1,337
Less: cash and cash equivalents	(264)	(142)
Net bank debt	921	1,195
Finance lease obligations	85	84
Net debt	1,006	1,279
Leverage on net debt to underlying EBITDA	2.6	3.7
Maturity of bank borrowing facilities	July 2019	July 2017

Loan facilities

During the year, Merlin amended the terms of its borrowing facilities to reduce the margin payable on borrowings and extended the maturity of the facility by two years to July 2019. Further details are provided in note 5.2. The reduction in net debt as a result of the primary proceeds of the IPO led to a further reduction in the margin payable on the borrowings.

The Facilities Agreement requires Merlin to comply with certain financial and non-financial covenants.

The financial covenants include a requirement to maintain certain ratios of EBITDA to both net interest payable and net debt. The Facilities Agreement is secured by fixed charges over the shares in certain Group companies and certain intra-Group receivables.

Merlin has a revolving facility of £150 million (2012: £138 million). This facility is in addition to the term debt and is available to finance working capital requirements and for general corporate purposes. As at 28 December 2013, £nil had been drawn down from the revolving facility (2012: £nil).

Leverage on net debt at the year end equates to 2.6x underlying EBITDA (2012: 3.7x), recognising both the growth in EBITDA and the repayment of bank debt during the year.

Merlin's loan facilities (drawn and undrawn) and the level of interest rate swaps (see note 5.6) are set in order to provide suitable financing for the Group's future expansion plans.

Net assets

The IPO enhanced the strength of the balance sheet, with net assets of the Group increasing from £617 million in 2012 to £944 million in 2013.

This reflects the net IPO proceeds of £194 million and £145 million profit for the year, net of £12 million of other comprehensive income, primarily exchange differences arising on the retranslation of assets denominated in foreign currencies.

As we announced in our IPO Prospectus, we intend to shortly complete a capital reduction process whereby, subject to court approval, £3,183 million of share premium will be converted into profit and loss reserves. This conversion has no effect on the overall net asset position but increases distributable reserves by an equivalent amount.

Return on capital employed (ROCE)

The Board considers ROCE to be an important metric for appraising financial performance and uses it in the remuneration of senior executives. The profit measure used in calculating ROCE is based on underlying net operating profit after taking into account a normalised long term tax rate. 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. ROCE in 2013 was 10.2 per cent.

Summary

Overall I am again very pleased with our financial performance in 2013. The continued strong trading of the Group and the long term shareholding structure following the IPO give an appropriate financial platform on which we can pursue our aggressive growth strategy based around our six strategic growth drivers.

Andrew Carr
Chief Financial Officer
 26 February 2014

CORPORATE

SOCIAL RESPONSIBILITY

MERLIN IS PASSIONATE ABOUT THE WAY IT CONDUCTS ITS BUSINESS AND ARTICULATES THIS THROUGH 'THE MERLIN WAY'. THESE VALUES ARE COMMUNICATED TO ALL EMPLOYEES AND, ALONGSIDE THEIR COMMERCIAL RESULTS, ARE HOW THE PERFORMANCE OF MANAGEMENT AND EMPLOYEES IS EVALUATED. WE ALSO BELIEVE IN HAVING A PROACTIVE INVOLVEMENT WITH THE COMMUNITIES IN WHICH WE OPERATE AND WITH THE MARINE ENVIRONMENT AROUND WHICH THE SEA LIFE BRAND HAS BEEN BUILT. OUR PEOPLE ARE KEY PARTICIPANTS IN THESE INITIATIVES - AND DO SO WITH A PASSION.

Conservation and wildlife

As well as being the world's premier operator of aquariums through our SEA LIFE brand, Merlin also operates world standard zoos in the UK and Australia and cares for marine mammals around the world. 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.

In 2013 we launched the SEA LIFE Marine Conservation Trust. The Trust has been set up to fund global marine conservation campaigns utilising the scale and network of SEA LIFE to maximise the efficiency of the funds raised. A calendar of fundraising events and campaigns is planned for 2014 across the SEA LIFE estate and we are aiming to raise more funds and awareness of marine threats than ever before.

Breed, Rescue, Protect

'Breed, Rescue, Protect' is a global initiative that actively engages our guests and employees in our conservation and welfare work.

Breed

This was a great year for successful breeding of many marine species across the SEA LIFE network, with over 70 different species and over 6,200 individual animals bred. Key highlights have included significant breeding of seahorses, tropical sharks and penguins. Some of the most notable successes have been:

- ★ Tropical sharks, with Chang Feng Ocean World Shanghai breeding three White Tip Reef Sharks and SEA LIFE Scheveningen with the birth and rearing of a Black Tip Reef Shark.
- ★ The first ever successful fertilisation of a bamboo shark in SEA LIFE Melbourne through artificial insemination.

- ★ Busan Aquarium successfully bred second generation Weedy Sea Dragons - a world first!

- ★ SEA LIFE were very successful in breeding seven Gentoo Penguins at Billund which is excellent for a first breeding season, while twelve Gentoo chicks are currently being raised in SEA LIFE Melbourne, Australia and Kelly Tarlton's SEA LIFE in Auckland, New Zealand.

Rescue

We have rescued more than 120 injured or orphaned seal pups through our European seal sanctuaries and successfully returned many of them back to the wild after a period of rehabilitation and care. SEA LIFE Blankenberge alone rescued 22 seal pups.

Globally across SEA LIFE sites, 83 turtles were rescued with the majority of these being cared for by our Australia and New Zealand sites. Eleven of these were then satellite tagged and can be tracked on www.turtlewatch.org.au. Australasian sites alone rescued 34 different species and 135 animals, with 59 releases back to the wild.

The USA SEA LIFE Centres provided homes to four additional rescued but non-releasable sea turtles and continue to provide homes to unwanted pet reptiles, fish and sharks wherever possible.

In July, two Finless Porpoises were released back to their ocean home after being cared for at our Busan Aquarium in South Korea. This species is under significant pressure in the wild with the main threats being as a result of by-catch during commercial fishing activity. This was a great opportunity for the Busan Aquarium to take part in an ongoing 'Rescue, Rehabilitation and Release' programme in partnership with the South Korean Government.

CORPORATE SOCIAL RESPONSIBILITY

Merlin has an excellent reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment

Protect

We continue to campaign alongside the Whale and Dolphin Conservation Society in the pursuit of global protection for all cetaceans and, most importantly, for the banning of mass culls and capture from the wild. Our UK SEA LIFE teams have been working alongside the Marine Conservation Society to secure Marine Protection Zones around the UK coastline.

Again, local teams around the world have reported their own successes, most notably:

- ★ SEA LIFE Centres in the USA continued to develop local conservation programmes and supported the Whale and Dolphin Society's Right Whale Conservation programme, assisting in the collection of over 75,000 signatures to support the extension of the boat strike rule in US waters.
- ★ In partnership with the Scottish Sea Angling Conservation Network, SEA LIFE Loch Lomond successfully tagged and released 107 sharks including Tope, Spurdog, Bullhuss, Rays and Common Skate.
- ★ Chang Feng Ocean World Shanghai hosted 'Running for the Yangtze River Porpoise' during December. This event was in collaboration with WWF and the Wuhan Baiji Conservation Fund to raise public awareness about the endangered porpoise and about protecting our aquatic environments and their animals.
- ★ Also of note is the accreditation of SEA LIFE Kansas City to the American Association of Zoos and Aquariums, putting it among the top ten per cent. of the over 2,000 animal attractions in North America.

Zoos

WILD LIFE Sydney has raised donations with all funds going directly to Koala and Bilby habitat preservation and conservation. They also launched the WILD LIFE Conservation fund (National Threatened Species Day) and have launched 'Adopt a Koala' and 'Adopt a Bilby' programmes.

The zoo at Chessington World of Adventures Resort continues its successful breeding programmes with three Scimitar Horned Oryx, two Gentle Lemurs and two Golden Headed Tamarins all being bred this year. We now house over ten per cent. of the entire European collection of Gentle Lemurs which is a critically endangered species.



IMAGE REMOVED

The zoo at Chessington World of Adventures Resort

It was a successful year for the translocation of animal stock. We have imported three male White Rhinos, four male Giraffes, four Blesbok and five Nile Lechwe; and have moved two Gorillas out of the collection to participate in breeding programmes at ZooParc de Beauval and Leipzig in Europe.

The Chessington Conservation Fund continues to grow and has built on the partnership with the World Land Trust which is now supporting a ranger in Ecuador to oversee the 128 acres of rainforest (equivalent in size to Chessington Resort) secured last year to protect the area from illegal logging. Chessington provided significant support to the European Association of Zoos and Aquaria, ending the year as their second biggest donor (€20,000), out of over 300 zoos across Europe.

CORPORATE SOCIAL RESPONSIBILITY

Human rights and social responsibility

In addition to taking the time to understand the real needs of our visitors in order to provide them with attractions and experiences which combine safe, quality environments with exciting, often educational experiences, we also:

- * **Develop our products in line with broad environmental needs.** This is reflected in our choice of location and our efforts to respect local social and environmental issues; our responsible care and choice of the animals and marine life we exhibit; our worldwide campaigning and rescue activities; and our choice and management of suppliers.
- * **Work in partnership with the communities in which we operate.** We seek to develop attractions that reflect the culture, locale and environment in which they are situated, not to impose a 'one size fits all' solution on them.
- * **Apply 'The Merlin Way' in our dealings with our workforce,** with equal opportunities in all areas including recruitment, promotion, development and benefits. We work as one team supporting and trusting one another, encouraging and recognising individual initiative and responsibility as well as respecting individual contributions. Our aim is to ensure all our colleagues enjoy their work, develop their full potential, celebrate success and learn from experience.
- * **Extend that respect and team approach to all our business dealings with our business partners and advisors.**
- * **Insist that all of our retail suppliers sign our ethical terms and conditions before we place any orders with them.** We have an independent Far East audit company in place that audits our suppliers' factories in the areas of child labour, working conditions and environmental impact.

Merlin does not have a specific human rights policy at present but we believe that through the actions we take as outlined above, we adhere to internationally proclaimed human rights principles. We will give careful consideration to whether a specific human rights policy is needed in the future.

Environmental policy and greenhouse gas emissions reporting

The Company meets all of its legal obligations in respect of waste management and recycling in each of the jurisdictions in which we operate. In the UK, Merlin is registered for the Government's Carbon Reduction Commitment (CRC) Energy Efficiency Scheme under which the Company surrendered 44,380 CRC allowances in October 2013. The CRC scheme requires the Company to collect information on the CO₂ emissions from use of electricity and gas in the UK.

During the year, the UK Government introduced a requirement that UK listed companies should report their global levels of Greenhouse Gas (GHG) emissions in their Annual Reports and accounts. The mandatory requirement is for disclosure of direct emissions (defined as scope 1), for example from heating, cooling, transport fuel, and indirect emissions (scope 2), for example from purchased electricity, and only to the extent that such emissions are the responsibility of the Company.

Prior to the IPO in November 2013 Merlin had over a number of years been undertaking a number of initiatives in this area. This has included engaging with the Carbon Trust to identify our UK carbon footprint and to identify opportunities to reduce it, for example, by replacing old technology bulbs with low energy or LED lighting. Other initiatives have included provision of capital expenditure budgets for sites to test and/or implement environmentally focused initiatives such as outdoor swimming pool covers; power correction; power limitation; and solar power for signage. We have also introduced an annual 'Environmental Award' to encourage sites to identify and implement relevant initiatives.

At a Group level Merlin has not in the past collected the global data necessary to meet these GHG emissions reporting requirements and therefore is unable to comply with these new reporting requirements as at 28 December 2013. Subsequent to the IPO in November 2013 the Group's intention is to establish processes for the capture of the relevant data. The Company should therefore be able to meet these requirements when it reports for 2014.

CORPORATE SOCIAL RESPONSIBILITY

In 2013, more attractions than ever before have hosted visits from Merlin Magic Wand children

Merlin's Magic Wand children's charity

Our children's charity, Merlin's Magic Wand, puts the magic back into the childhoods of seriously ill, disabled and disadvantaged children across the world by arranging great days out at our attractions. For those children faced with conditions and circumstances that prevent them from having a day out, the charity delivers 'Taking the Magic to the Children' projects, a local outreach initiative designed to take Merlin's Magic to severely ill children that live within the localities of Merlin attractions.

2013 has been the biggest year yet for Merlin's Magic Wand, providing over 36,000 tickets to enable disadvantaged children and their families to have magical days out at Merlin attractions all over the world. In 2013, more attractions than ever before have hosted visits from Magic Wand children (rising from 47 attractions in 2012 to 77 attractions in 2013).

We have also continued our 'Taking the Magic to the Children' outreach programme in 2013. This year saw the opening of our Alton Towers themed playroom at the University Hospital in North Staffordshire; the opening of a unique Merlin playroom at Kupferhof Children's Centre in Hamburg; and projects in progress in Blackpool, Berlin and Hunstanton.

Merlin Entertainments provides funding to the charity and supports the day to day operation by providing office accommodation and facilities at no cost and by subsidising the employment costs of the small charity team.

In addition to this, the Company donates the tickets distributed by the charity and which have a retail value of over £1 million. This enables the charity to use fundraising to provide travel grants, without which many of the children that we help would not be able to visit, and to deliver the 'Taking the Magic to the Children' projects.

2013 has been a great year for fundraising. We have received tremendous support from the network of attractions across the globe. Merlin teams worldwide have shown dedication, commitment and creativity raising over £274,000 through fundraisers, ranging from abseiling down the dome of Madame Tussauds London to a Food Truck Wars event in Florida.

Merlin visitors around the world have also rallied behind the charity, dropping their change into collection tins at attractions and getting involved with events such as the Halloween themed raffle at the Hamburg Dungeon.

Corporate partners turned out in force to raise money at our annual cricket day; over £25,000 was raised. CVC has confirmed its continued support for Merlin's Magic Wand this year, providing support through events, partnership activity and an ongoing financial commitment to the charity.

With ever increasing support, we are confident that Merlin's Magic Wand will make an even greater difference in 2014.

Local attraction community involvement

Our attractions around the world are active in local community projects and initiatives.

These can range from supporting local projects to find a way to replace copper in the fishing nets used by local fishing teams, to sponsoring a local canal to 'clean up' every quarter and running an annual ethical fishing morning, teaching people what they can catch while fishing and how to do this responsibly.

In another local initiative, nearly 2,500 guests made up of children suffering from cancer and heart diseases and their families came for an unforgettable day at LEGOLAND Billund.

We also support local community initiatives in and around the South Bank and London generally, including funding a community chest pot for local charities and ticket and out of hours event donations.

IMAGE REMOVED

Alton Towers themed playroom at the University Hospital in North Staffordshire

CORPORATE GOVERNANCE STATEMENT

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 ITS GROUP.

Introduction

Merlin has a premium listing on the London Stock Exchange (Listing). As such it is subject to the UK Corporate Governance Code (2012) (the Code), the Disclosure and Transparency Rules (the DTRs) and the Listing Rules. In addition, Merlin has regard for 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). The DTRs and the Listing Rules can be viewed on the website of the Financial Conduct Authority (www.fshandbook.info).

Statement of compliance

In preparation for Listing, Merlin undertook a review of its governance structure in order to identify changes which would need to be implemented prior to and on Listing in order to ensure a strong governance environment and, so far as reasonably possible, full compliance with the Code, the DTRs and the Listing Rules. The principal area in which the Company's governance structure needed to be strengthened in order to be fit for life as a listed plc related to the composition of its Board and Committees. The Board recognised the need to strengthen the Board and its Committees, in particular by appointing additional independent Non-executive Directors. Accordingly, in the months prior to Listing the Company conducted a rigorous search process through Spencer Stuart, an external search company with no links to the Company. As a result, four highly experienced independent Non-executive Directors were identified with a wide range of relevant industry knowledge. Charles Gurassa, Ken Hydon and Miguel Ko joined the Board prior to Listing and Fru Hazlitt will join the Board in April 2014. In addition, the Company's three pre-IPO major shareholders reduced their representation on the Board to one Director each.

Leading up to the IPO the new Directors were subject to a full induction process as they familiarised themselves with the Group, its operations and its management, both through personal meetings and time spent reviewing and consulting on the IPO offer documents.

Together with Sir John Sunderland as Chairman of the Company, the Board is confident that it has the strength, skills and experience to govern the Company appropriately and effectively. Although the composition of the Board does not at this time fully comply with the recommendation of the Code that at least half the Directors

(excluding the Chairman) are independent of the Company, the Board is committed to becoming compliant with this recommendation during 2014.

Apart from the structure of the Board, Merlin has complied throughout the accounting period with all relevant provisions of the Code, the DTRs and the Listing Rules.

Evaluation of effectiveness

As the Company has only been listed for a short period during 2013, the Board and its Committees considered that it was not appropriate to conduct an externally facilitated evaluation of their effectiveness. Each member of the Board and its Committees has conducted an internal evaluation of their effectiveness and has concluded that throughout the year the functions and responsibilities included within the remit of each had been effectively undertaken. The Board and the Committees had regard to the fact that the Company and the Group had undergone a significant degree of scrutiny of the applicable controls, systems and procedures in preparation for Listing and that a thorough due diligence and verification process had not disclosed any material weaknesses.

Investor relations

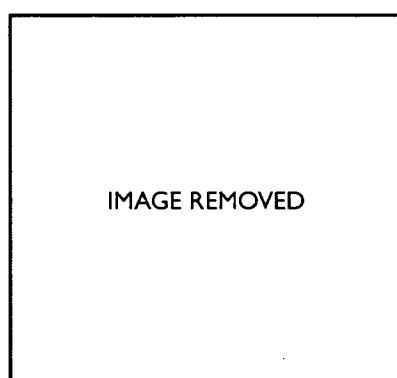
The Company communicates with institutional and private shareholders in a number of ways.

Merlin's website is regularly updated with news and information, including this Annual Report which sets out our strategy and performance together with our plans for future growth. Going forward our presentations to analysts and shareholders will be available on the Company website, and at our Annual General Meeting all shareholders have the opportunity to vote on the resolutions proposed.

During the year the Company met regularly with potential institutional investors as part of the preparation for Listing and such meetings will continue on a regular basis. This activity is led by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), together with the Company's Investor Relations team, and procedures are in place to then keep the Board regularly informed of such investors' views. This process will continue to evolve as Merlin builds on its relationships with external investors in the months and years post Listing.

BOARD OF DIRECTORS

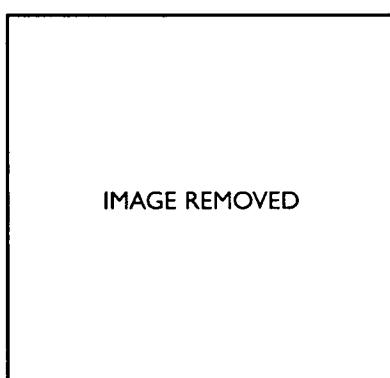
The members of the Board during the year and at the date of this Report are as follows:



Sir John Sunderland,
Non-executive Chairman

Sir John was appointed Non-executive Chairman of Merlin Entertainments in December 2009 and was appointed Non-executive Chairman of the Company on 20 October 2013.

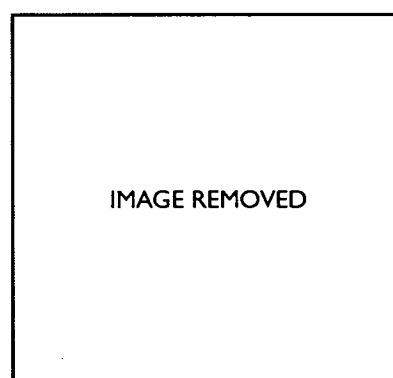
Sir John is currently a Non-executive Director of Barclays Bank PLC and AFC Energy plc and an adviser to CVC, one of the Company's major shareholders. Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007, President of the Food and Drink Federation from 2002 to 2004, 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 is also the Chancellor of Aston University, a member of the Council of The University of Reading and an Associate Member of BUPA.



Nick Varney,
Chief Executive Officer

Nick has over 22 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999. He was appointed a Director of the Company on 20 October 2013.

Prior to that, 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 and, in 2005, initiated the process which led to its acquisition by Blackstone. Before joining Vardon Attractions, Nick held senior positions within The Tussauds Group, including Marketing Director of Alton Towers and Head of Group Marketing.

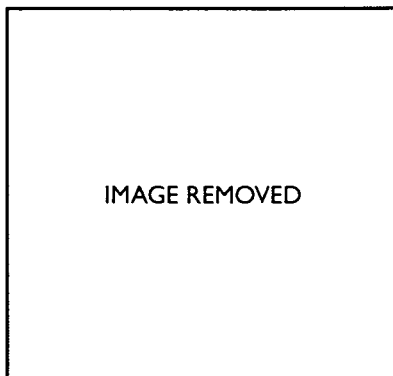


Andrew Carr,
Chief Financial Officer

Andrew is a qualified chartered accountant and was appointed Chief Financial Officer of Merlin Entertainments in 1999. He was appointed a Director of the Company on 20 October 2013.

Prior to that, 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 and the acquisitions of LEGOLAND, Gardaland and The Tussauds Group. Before joining Vardon Attractions, Andrew trained, and was subsequently head of a regional Corporate Finance Department, at KPMG.

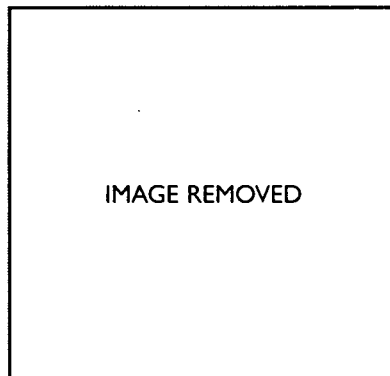
BOARD OF DIRECTORS



Charles Gurassa,
Senior Independent Non-executive Director

Charles was appointed Senior Independent Non-executive Director of Merlin Entertainments with effect from 1 September 2013 and Chairman of the Remuneration Committee with effect from 1 October 2013, in both cases conditional on IPO taking place. He was appointed a Director of the Company on 20 October 2013 whereupon he assumed the positions of Senior Independent Non-executive Director and Chairman of the Remuneration Committee of the Company.

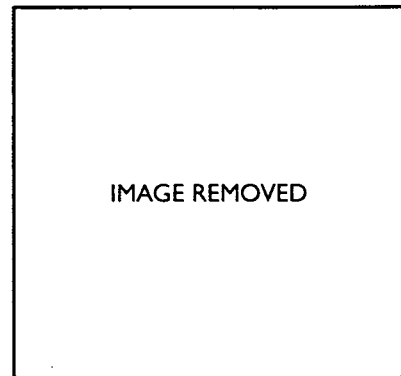
Charles is currently the Senior Independent Director and Deputy Chairman of easyJet plc and the Non-executive Chairman of Tragus, NetNames and Genesis Housing Association. Charles has spent 35 years in the travel and tourism industry where his roles included Group Chief Executive of Thomson Travel Group plc, Director of Passenger and Cargo Business at British Airways, Executive Chairman of TUI Northern Europe and Airline Group and Board Member of TUI AG. He is Chairman of National Trust Enterprises.



Ken Hydon,
Non-executive Director

Ken was appointed a Non-executive Director and Chairman of the Audit Committee of Merlin Entertainments with effect from 1 October 2013, conditional on IPO taking place. He was appointed a Non-executive Director and Chairman of the Audit Committee of the Company on 20 October 2013.

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

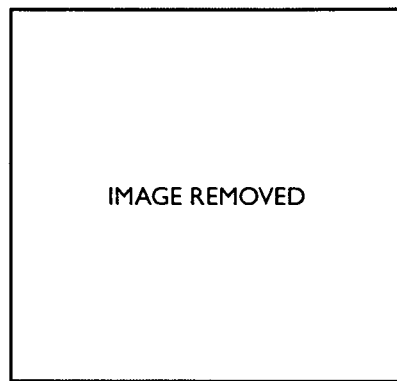


Miguel Ko,
Non-executive Director

Miguel was appointed a Non-executive Director of Merlin Entertainments with effect from 1 September 2013, conditional on IPO taking place. He was appointed a Non-executive Director of the Company on 20 October 2013.

Miguel is currently Non-executive Chairman of Starwood Hotels & Resorts Worldwide, Asia Pacific Division. He is also an Independent Non-executive Director of Formula One (Delta Topco Limited), Samsonite International S.A., Changi Airport Group and Surbana International Consultants Holdings. From 2000 to 2012, Miguel was Chairman and President of Starwood Hotels & Resorts, Asia Pacific. Before joining Starwood, he was President, Asia Pacific of Pepsi-Cola International & ITT Sheraton Corporation. Miguel received his B.A. in Economics from University of Massachusetts, Boston and Master in Business Administration from Suffolk University, United States. He is also a non-practising Certified Public Accountant (CPA), licensed by the State Board of Accountancy in the State of New Hampshire, United States.

BOARD OF DIRECTORS

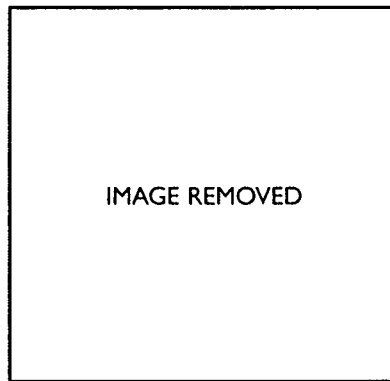


Søren Thorup Sørensen,
Non-executive Director

Søren was appointed a Non-executive Director of the Company on 20 October 2013, representing KIRKBI.

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.

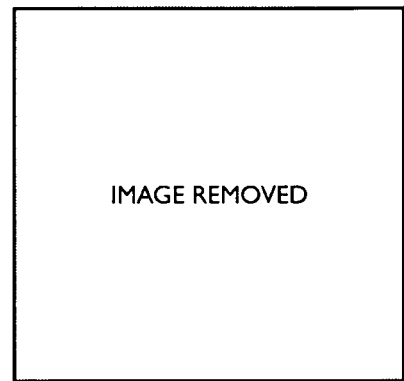
Outside the KIRKBI Group, Søren is currently Non-executive Vice-chairman of Topdanmark A/S and holds Non-executive Director positions at LEGO A/S, TDC A/S and Falck Holding A/S.



Dr. Gerry Murphy,
Non-executive Director

Gerry was appointed a Non-executive Director of the Company on 20 October 2013, representing Blackstone.

Gerry is a Senior Managing Director in Blackstone's private equity group in London, Chairman of Blackstone's European holdings and a Director of United Biscuits, Intertrust Group and Jack Wolfskin. Before joining Blackstone in 2008, Gerry was CEO of Kingfisher plc, a leading home improvement retailer in Europe and Asia. He has previously been CEO of Carlton Communications plc, Exel plc and Greencore Group plc and spent his earlier career with Grand Metropolitan plc (now Diageo plc). He is a Non-executive Director of British American Tobacco plc and has also served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc. He received his BSc and PhD in food technology from University College Cork and MBS in marketing from University College Dublin.



Rob Lucas,
Non-executive Director

Rob was appointed a Non-executive Director of the Company on 20 October 2013, representing CVC.

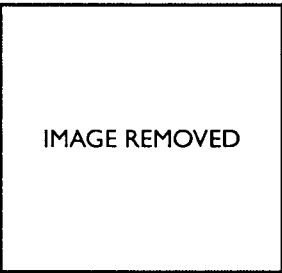
Rob is a Managing Partner of CVC. An engineer by profession, he graduated from Imperial College, London, and spent nearly ten years with 3i before joining CVC in 1996. He is a member of CVC's European Investment Committee and sits on the board of both CVC and a number of CVC's investee companies.

EXECUTIVE COMMITTEE

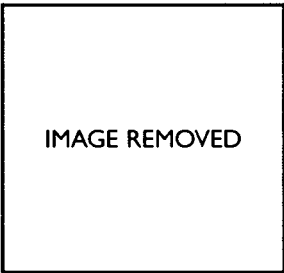
The Executive Committee comprises certain senior executives of the Group, and further details on its responsibilities and activities can found on page 53. As at the date of this Report the members of the Executive Committee are:

Nick Varney
Chief Executive Officer, member of the Board of Directors as noted above.

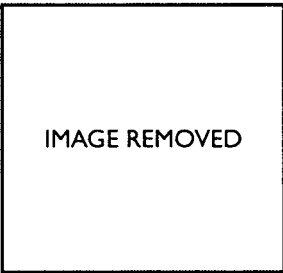
Andrew Carr
Chief Financial Officer, member of the Board of Directors as noted above.



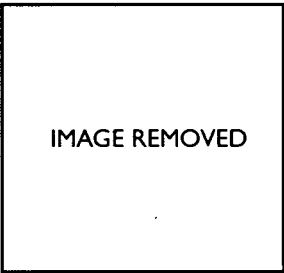
Mark Allsop
Chief Information Officer



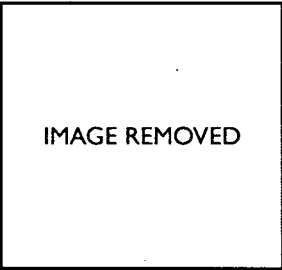
Colin Armstrong
*Group Legal Director
Company Secretary*



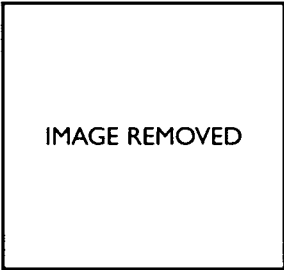
David Bridgford
Strategy Director



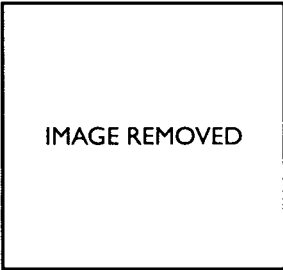
Tea Colaianne
Group HR Director



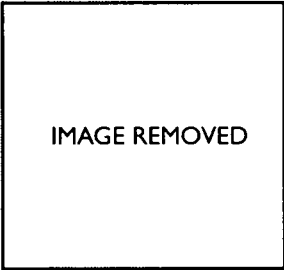
Andy Davies
Commercial Services Director



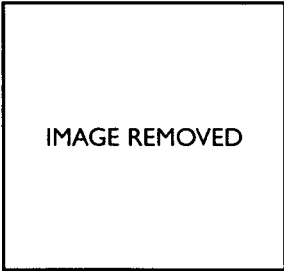
Glenn Earlam
*Managing Director
Midway Attractions*



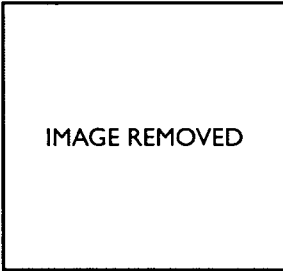
Mark Fisher
Chief Development Officer



John Jakobsen
*Managing Director
LEGOLAND Parks*



Nick Mackenzie
*Managing Director
Resort Theme Parks*



Grant Stenhouse
Project Development Director

CORPORATE

GOVERNANCE REPORT

UK corporate governance code

As at the date of this report the Company complies and the Company intends to continue to comply with the UK Corporate Governance Code (2012) (the Code) except as set out below. 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 Board considers that the Chairman was independent on appointment. 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, as set out in the Code, Charles Gurassa, Ken Hydon and Miguel Ko are independent Non-executive Directors and that their appointments as independent Non-executive Directors are in the best interests of shareholders. Although Mr Gurassa serves on the board of Tragus Group Limited (a Blackstone portfolio company) and Mr Ko serves on the board of Formula One (Delta Topco Limited - a CVC portfolio company), the other Directors have concluded that the judgement, experience and challenging approach of each of them should ensure that they make a significant contribution to the work of the Board and its Committees. Blackstone and CVC, along with KIRKBI, were the pre-IPO shareholders of Merlin and remain major shareholders post-IPO. On the basis of their evaluation, the Board has determined that Mr Gurassa and Mr Ko are of independent character and judgement and may still be regarded as independent Directors for the purposes of the Code.

Board responsibilities and procedures

The Board is responsible for overseeing Merlin, including:

- ★ Funding and capital structure.
- ★ The development of strategy and major policies.
- ★ The review of management performance.
- ★ The approval of the annual operating plan, the Annual Report and financial statements, and major acquisitions and disposals.
- ★ The system of internal control.
- ★ Corporate governance.

The Chairman is responsible for the effective running of the Board and for 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 Chief Executive Officer, assisted by senior management, is responsible for day-to-day operations and the development of strategic plans for consideration by the Board.

The Board intends to meet at least six times a year and may meet at other times as required or otherwise at the request of one or more of the Directors. 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.

The Directors of all Group companies, as well as the Board, also have access to the advice and services of the Group Legal Director and Company Secretary, as well as external advice on legal and corporate governance matters.

Appropriate induction and subsequent training is provided to new members of the Board and its Committees.

Board committees

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

The terms of reference of each of the Board and its Committees are available on the Company's corporate website.

CORPORATE GOVERNANCE REPORT

Pursuant to Relationship Agreements with the pre-IPO major shareholders, the Company has agreed with each of them that they may each appoint an observer (with the right to attend and speak at Committee meetings, but not vote) to each of the Audit Committee, Remuneration Committee and Nomination Committees for so long as it (together with its respective affiliates) holds at least ten per cent. of the Company's ordinary shares. While KIRKBI holds at least ten per cent. of the Company's ordinary shares, it may also appoint an observer (in addition to a Non-executive Director) to the Board (with the right to attend and speak at Board meetings, but not vote).

Audit committee

The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements; reviewing and monitoring the extent of the non-audit work undertaken by external auditors; advising on the appointment of external auditors; and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and accounts and the half yearly reports remains with the Board.

The Code recommends that the Audit Committee should comprise at least three independent Non-executive Directors and that at least one member should have recent and relevant financial experience. As the Audit Committee consists of three independent Non-executive Directors, the Company complies with this Code recommendation. Ken Hydon 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.

The Committee is chaired by Ken Hydon. The members of the Committee are the Chairman of the Committee, Charles Gurassa and Miguel Ko. The Chairman of the Board is not a member of the Committee.

The Committee meets at least four times during the financial year at appropriate times in the audit cycle. In addition, it meets at such other times as the Board or the Committee Chairman requires, or if requested by the external auditors. Only Committee members have the right to attend and vote at its meetings but, as noted earlier, each of the pre-IPO major shareholders has a right to appoint an observer to attend meetings of the Committee while they hold at least ten per cent. of the Company's ordinary shares. In addition, the Chairman, Chief Executive Officer, Chief Financial Officer and other individuals can be invited to attend all or any part of any meeting of the Committee as and when appropriate.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's internal audit function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

Internal controls

Details of the internal controls of the Company (including a description of the main features of its internal control and risk management arrangements in relation to the financial reporting process) and the manner in which the Board and its Committees assess the effectiveness of these controls are set out on page 59.

Remuneration committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration; determining the individual remuneration and benefits package of each of the Executive Directors; and recommending and monitoring the remuneration of senior management below Board level.

CORPORATE GOVERNANCE REPORT

The Committee considers all material elements of remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice in accordance with the Code and makes recommendations to the Board on the framework for executive remuneration and its cost. The Board is then responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. The Committee is also responsible for making recommendations for the grants of awards under the Company's share incentive plans. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to his own terms and conditions of remuneration. Non-executive Directors' and the Chairman's fees are determined by the full Board.

The Committee's remit includes recommending to the Board and other Group companies the policy for the remuneration of the Executive Directors and other senior management. The objective of such policy is to ensure that senior management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the Group's success. In doing this the Committee considers whether contractual terms and payments on termination are fair and, importantly, that failure is not rewarded. The Committee also reviews the design of share incentive and bonus plans for approval by the Board and reviews the Group's remuneration policies as a whole and remuneration trends across the Group.

The Code recommends that the Committee should comprise at least three independent Non-executive Directors. As the Committee consists of three independent Non-executive Directors and the Chairman, the Company complies with this Code recommendation.

The Committee is chaired by Charles Gurassa, the Senior Independent Non-executive Director. The members of the Committee are the Chairman of the Committee, Sir John Sunderland, Ken Hydon and Miguel Ko. Only Committee members have the right to attend and vote at its meetings but, as noted earlier, each of the pre-IPO major shareholders has a right to appoint an observer to attend meetings of the Committee while they hold at least ten per cent. of the Company's ordinary shares. In addition other individuals may be invited to attend from time to time, as and when appropriate.

The Committee meets formally at least twice each year and at such other times as the Board or the Committee Chairman requires.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's Human Resources function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

Nomination committee

The Nomination Committee assists the Board in discharging its responsibilities in relation to the composition of the Board. The Committee is responsible for evaluating the balance of skills, knowledge and experience on the Board; the size, structure and composition of the Board; retirements and appointments of additional and replacement Directors (other than those appointed by the pre-IPO major shareholders), and makes appropriate recommendations to the Board on such matters.

As part of its activities the Nomination Committee also considers the diversity (including gender diversity) of the Board.

The Code recommends that a majority of the members of the Nomination Committee should be independent Non-executive Directors. As the Committee is chaired by the Chairman of the Board and consists of the Chairman of the Committee and three further independent Non-executive Directors, the Company complies with this Code recommendation.

The Committee is chaired by Sir John Sunderland. The members of the Committee are the Chairman of the Committee, Charles Gurassa, Ken Hydon and Miguel Ko.

The Committee meets formally at least once a year and at such other times as the Board or the Committee Chairman requires.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

CORPORATE GOVERNANCE REPORT

The principal duties of the Committee include the following:

- * To review regularly the structure, size and composition of the Board (including the skills, knowledge and experience) and make recommendations to the Board with regard to any changes.
- * To identify, nominate and recommend for the approval of the Board, appropriate candidates to fill Board vacancies as and when they arise.
- * To evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- * To satisfy itself with regard to succession planning that processes and plans are in place with regard to both Board and senior management appointments.
- * To review annually the time required to fulfil the role of Chairman, Senior Independent Non-executive Director and each Non-executive Director and use performance evaluation to assess whether the Non-executive Directors have devoted sufficient time to their duties.
- * To recommend the re-election (or not) by shareholders of any Director under the retirement and re-election provisions in the Company's Articles of Association.
- * To make a statement in the Annual Report about its activities and the process used for appointments and explain if external advice or open advertising has not been used.
- * To make its terms of reference publicly available.
- * To ensure that on appointment to the Board, Non-executive Directors receive formal written terms of appointment.

Health, safety and security committee

The Health, Safety and Security Committee assists the Board in ensuring that matters of all risk including health, safety and security are managed effectively and proactively throughout the Group.

Duties of the Committee include reviewing the Group's risk register; risk and health and safety policy; compliance with applicable health and safety directives and legislation; health and safety statistics, including incident rates and near misses; health and safety audit findings; and the effectiveness of the Group's risk management team (including the quality and numbers of engineers and other relevant staff). The Committee recommends to the Board and Group companies the appropriate policies and procedures for ensuring the health, safety and security of visitors, employees, suppliers and assets. The Committee is also responsible for monitoring the adherence to such policies and procedures as well as for making recommendations for improvements.

The Committee is chaired by Sir John Sunderland. The members of the committee are the Chairman of the Committee, the Chief Executive Officer, the Chief Financial Officer, the Senior Independent Non-executive Director, the Director of Health, Safety and Risk Management, and the Managing Director of the Resort Theme Parks Operating Group. Other individuals can be invited to attend all or any part of any meeting of the Committee as and when appropriate.

The Committee meets formally at least four times a year and at such other times as the Board or the Committee Chairman requires.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's health and safety function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

CORPORATE GOVERNANCE REPORT

Committee attendance

The numbers of meetings of the Board and its Committees and the attendance by the Directors during the period from Listing until 28 December 2013 is set out in the following table:

Name	Board Meetings*	Audit Committee	Remuneration Committee	Health, Safety & Security Committee
Sir John Sunderland	1/1	N/A	1/1	1/1
Nick Varney	1/1	N/A	N/A	1/1
Andrew Carr	1/1	N/A	N/A	1/1
Charles Gurassa	1/1	1/1	1/1	1/1
Ken Hydon	1/1	1/1	1/1	1/1
Miguel Ko	1/1	1/1	1/1	1/1
Søren Thorup Sørensen	1/1	N/A	N/A	N/A
Dr. Gerry Murphy	1/1	N/A	N/A	N/A
Rob Lucas	1/1	N/A	N/A	N/A

* Meetings Attended/Total Number of Meetings. Only attendance of formal members of the meetings is included. Attendance as an observer is not included. The Nomination Committee has not met during the period.

Executive committee

The Executive Committee is chaired by the Chief Executive Officer and comprises members of the senior executive management of the Group.

It meets eight to ten times a year and is responsible for overseeing the operational performance of the operating companies in the Group as well as monitoring the progress of capital projects and strategic transactions.

It makes recommendations to the operating companies and the Board in relation to matters within its remit.

It is not a formal Committee of the Board.

AUDIT COMMITTEE REPORT

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

In 2013 the membership of the Audit Committee changed due to the Company's Listing in November 2013. Prior to the Listing the Committee was chaired by the Company Chairman and all of the Board were members, including the representatives of the three pre-IPO major shareholders. Whilst the composition of the Committee changed upon Listing, the fundamental objectives of the Committee remain consistent both before and after Listing.

In October 2013 the new Committee was approved by the Board comprising Charles Gurassa, Miguel Ko and myself as Chair. We have considerable experience working with large listed multinational companies and are independent Non-executive Directors.

The Committee has terms of reference and an annual plan that are aligned to the Code. Full terms of reference of the Committee are available on our website under Investor Relations - Corporate Governance. Our focus is on the integrity of the financial information; robustness of internal controls; the effectiveness of audit; and providing clear and complete financial reports to shareholders. We also aim to provide shareholders with timely communication on significant matters relating to finance and we monitor fraud risk. The annual plan is based on four meetings a year but more will be arranged if required.

All members of the Committee expect to attend every meeting and at the request of the Committee, so do the CFO, Internal Audit Director, external auditors and Company Secretary. The Company Chairman and the CEO have a standing invitation to attend meetings, and often do, with other members of management attending by invitation.

During 2013 we performed an effectiveness review of the external auditors, in a year which included extra work in preparation for the IPO, and considered the quality of their work and their independence. On the basis of this review we recommend KPMG be reappointed at the AGM. We also considered the Code, the recent Competition Commission and EU recommendations on audit tendering and rotation, and our current expectation is that the audit will be retendered no later than 2016 for the 2017 year end.

The Committee recognises that an independent and effective internal audit function is essential. The Internal Audit Director has dual reporting lines to the CFO and myself. We are satisfied with the internal audit team's performance; that they focused on the key accounting and financial control matters globally, achieving a material coverage of the Company's revenue and assets; and that management have responded well to the auditors' recommendations.

The Committee routinely looks at the significant accounting treatments facing the Group and at the year end we focused on deferred tax asset recognition, the carrying value of interest-bearing loans and borrowings, and impairment charges. These are dealt with in more detail later in our report and we have concluded that the treatment in the accounts is appropriate.

Our terms of reference include reviewing the Company's overall risk management systems and we are satisfied the Board has received regular reports which covered all areas of risk especially on health and safety matters.

2013 has been an amazing year for the central team who have succeeded in coping with all the extra and unfamiliar work associated with becoming a public listed company whilst still contributing to a strong operating result. 2014 will complete the learning experience for senior executives in a listed company environment as well as the Non-executive Directors induction programme. We continue to benefit from the attendance of the pre-IPO major shareholder representatives.

Ken Hydon
Chairman of the Audit Committee
26 February 2014

AUDIT COMMITTEE REPORT

Listing onto the London Stock Exchange

The current Group Audit Committee became effective from Listing on the London Stock Exchange. Prior to the establishment of this new Committee, a previous Audit Committee was in place, the last meeting of which was held on 16 October 2013. References to the Audit Committee in this report include activities both before and after Listing.

Role of the audit committee

The Audit Committee has received delegated authority from the Board set out in its written terms of reference. The primary purposes of the Audit Committee are:

- ★ To monitor the integrity of the financial statements of the Company relating to its financial performance and review, challenge where necessary 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 its 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 system.
- ★ To oversee the work of the external auditor including:
 - making recommendation to the Board, to be put to shareholders at the AGM, in relation to the appointment, re-appointment and removal of the external auditors,
 - approve their terms of engagement,
 - annually assess their independence, objectivity, effectiveness and plan, including regular monitoring of the provision of non-audit services performed by the external auditors,
 - review the findings of the audit.
- ★ To report formally to the Board and make recommendation where it is deemed necessary on matters within its duties, including a formal report to the Board on how it has discharged its responsibilities.

Composition of the audit committee

The members of the Committee are Ken Hydon, Charles Gurassa and Miguel Ko, as detailed elsewhere within the Corporate Governance Report. Ken Hydon, who chairs the Committee, is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers. He also serves as the Audit Committee chair at Reckitt Benckiser plc and Pearson plc and was previously CFO of Vodafone Group plc. The Board regards Ken Hydon as the member possessing recent and relevant financial experience and all three members of the Committee are regarded by the Board as independent Non-executive Directors. The varied backgrounds and global experience of the Committee's members, and their collective skills and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's external auditors.

Regular Committee meetings are also attended by the CFO, Group Internal Audit Director, Group Finance Director, KPMG (the external auditor) and the Company Secretary who acts as secretary to the Committee. The Chairman and CEO also frequently attend meetings and other members of management are invited to attend depending on the matters under discussion. Private meetings are routinely held with internal audit and KPMG, and the Committee also meets separately. Non-executive Directors representing the three pre-IPO major shareholders (being those who have retained ownership of at least ten per cent. each of the issued share capital of the Company since its admission to the London Stock Exchange) also regularly attend the meetings. Prior to Listing, the Audit Committee was chaired by the Group Chairman, Sir John Sunderland, and comprised representatives of each of the three pre-IPO major shareholders.

AUDIT COMMITTEE REPORT

Number of audit committee meetings and attendance

The Committee will meet a minimum of four times per year. Four Audit Committee meetings were held in 2013, three of which took place prior to Listing by the former Audit Committee, whilst the new Audit Committee held one meeting in December 2013.

Attendance at the meetings is shown elsewhere in the Corporate Governance Report.

Activities of the audit committee during the year

The Committee has an annual work plan, developed from its terms of reference, with standing items that the Committee considers at each meeting in addition to any specific matters arising and topical items on which the Committee has chosen to focus.

During 2013, the Committee reviewed certain relevant documentation in relation to the IPO, notably a detailed review and discussion on the findings within KPMG's half year audit memorandum.

Whilst the terms of reference of the Audit Committee were updated at the point the new Committee was created, the collective work of the two Audit Committees in 2013 principally fell under three main areas: internal controls; external auditors; and accounting, tax and financial reporting, as summarised below.

Internal controls

- * Reviewed and considered the reports of the internal audit function.
- * Reviewed and considered the reports of the external auditors on the internal control environment.
- * Reviewed the resources of the internal audit function and considered and approved the scope of the internal audit plan.
- * Considered the effectiveness of the internal audit function.
- * Reviewed and considered the process of risk management within the Company.
- * Undertook an assessment of the internal control environment, facilitated by discussion with relevant management and external parties following the establishment of the new Committee.
- * Discussed the fraud and whistleblowing policy and assessed its effectiveness.

External auditors

- * Considered and approved the approach, scope and fees of the external auditors.
- * Reviewed the reports and findings of the external audit, including the 2013 half year audit memorandum which covered a full audit in support of the IPO process.
- * Assessed the external auditor's independence and the level of non-audit work, in particular paying due attention to the one-off fees associated with the IPO process.
- * Considered the effectiveness of the external auditors.
- * Considered the recommendations of the Code, the recent Competition Commission and EU recommendations in relation to the tender of the external audit contract.

Accounting, tax and financial reporting

- * Considered the half year and full year financial statements, including any significant judgemental items, most notably goodwill valuation; the tax position of the Company, in particular in relation to the recognition of deferred tax assets; and the carrying value of interest-bearing loans and borrowings.
- * Considered the appropriateness of preparing the half year and full year accounts on a going concern basis.
- * Considered the liquidity of the Group, in particular in relation to any covenants in place.
- * Reviewed disclosure in the Annual Report and accounts in relation to internal control, risk management process and the work of the Committee.
- * Reviewed and assessed any liability in relation to the Company's defined benefit pension schemes.
- * Received technical updates, in particular in relation to the requirements and changes to the Code, and assessed the Audit Committee's report in the context of the Code's 'fair, balanced and understandable' requirement.

Significant issues considered by the audit committee

Following discussion with both management and the external auditors, the Committee determined that the areas of greatest and most significant judgement, that could give rise to misstatement of the Group's financial statements, related to the following:

- * Deferred tax asset recognition (see note 2.3 of the financial statements for further details).
- * Carrying value of interest-bearing loans and borrowings (see note 5.2).
- * Impairment charges (see note 4.3).

These items were considered by the Audit Committee at the time they reviewed and agreed the external auditor's Group audit plan, to ensure that due consideration was given at that point, as well as at the time of reviewing the external auditor's final audit findings.

Deferred tax asset recognition

In recent years the Group had accumulated significant unrecognised deferred tax assets, largely from unclaimed capital allowances in the UK. These assets were not recognised in the past due to the uncertainty of the availability of future taxable profits.

The judgement over how much of the unrecognised deferred tax assets should be recognised in 2013 is based on Merlin's forecasts regarding the generation of taxable profits within the Group and the impact of capital allowances on these profits. A number of changes during 2013 associated with the IPO, including the restructuring of debt facilities, reorganisation of the Group structure, and settlement of interest rate swaps, have led to an increased certainty over the availability of these future taxable profits.

AUDIT COMMITTEE REPORT

The value of the assets recognised and the associated sensitivity analysis required are material items and as such have been considered by the Audit Committee. In particular, the Committee considered management's assessment of the levels at which both the availability of future taxable profits and the forecast future capital spend, would need to alter in order to substantially change the rate at which capital allowances are claimed, and so affect the recognition of the deferred tax assets. The Committee reviewed and challenged management's sensitivity analysis of profit forecasts and concurred that the results indicated the risk of the deferred tax assets not being utilised is acceptably low.

Carrying value of interest-bearing loans and borrowings

In 2013 two transactions have significantly affected the carrying value of the Group's term debt, being:

- ★ The refinancing in July 2013 required assessment of and accounting for the changes of the debt terms, including an assessment of the likely future repayment date for the debt.
- ★ Accounting for the proceeds raised through the IPO, where a portion of the Group's term debt was repaid.

A complex accounting standard makes financial instrument accounting (the standard under which interest-bearing loans and borrowings fall) a highly judgemental area. Such judgements can alter the carrying value of the Group's debt and both the current and future finance costs of the Group. The events of 2013 therefore required the completion and audit of complex calculations and assumptions, particularly in relation to whether previous issue costs should be carried forward or written off, and the impact of the expected future refinancing date on the carrying value of any such issue costs. This subject represents a significant area of judgement within the 2013 financial statements as it is based on forward looking information that extends several years into the future. The Committee has carefully considered management's forecasts and the sensitivity to the assumptions made, in particular in relation to the expected future repayment date and the impact of such a date being earlier and are satisfied with the appropriateness of the assumptions.

Impairment charges

Merlin's business involves opening new attractions in new and, to some degree, unproven locations. In addition the Group operates existing businesses in geographically and politically diverse areas.

Although the Group has attained knowledge derived from the past performance of opening new attractions, inevitably the performance of new attractions, particularly in new markets, can be difficult to accurately predict. Similarly the exposure of certain attractions to macro-economic volatility can give rise to the need for an impairment assessment.

These factors make forecasts in the existing estate and acquired businesses similarly uncertain. Valuations are performed by Merlin based on discounted future cash 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.

The Audit Committee reviewed management's calculations carefully in order to assess the appropriateness of the asset valuations in the financial statements. As part of this process they specifically assessed the headroom in the Company's goodwill valuation and concluded that the valuations performed and the accounting treatment adopted which resulted in no impairment charges being recorded, were appropriate.

Misstatements

Management reported to the Committee that they were not aware of any material misstatements made intentionally to achieve a particular presentation. The auditors reported to the Committee any misstatements that they had found in the course of their work and 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 critical judgements and key estimates both in 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.

Internal audit

The Company has an internal audit function led by the Group Internal Audit Director who is a member of the Institute of Chartered Accountants in England and Wales, with twelve years' experience in both finance and operational roles within the Group. The internal audit function also comprises four in house auditors, all of whom hold professional accounting qualifications. The internal audit function uses outsourced support where necessary; for example PricewaterhouseCoopers (PwC) have provided specialist support to aid coverage of the geographic spread of the Group's attractions. The Group Internal Audit Director reports jointly to the Chair of the Audit Committee and the CFO.

During 2013, audits have been undertaken providing coverage in excess of 80 per cent. of the Group's revenue, with the priority of sites to visit determined by the audit function based primarily on revenue generation and an assessment of business risk, following consultation with management. This coverage is in line with the plan approved by the Audit Committee in March 2013.

Following consultation with the Audit Committee, the 2014 audit plan will incorporate a wider range of risk factors into the planning phase, with an increasing level of focus being placed on the audit of central functions.

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 regular updates on the progress made by relevant management.

AUDIT COMMITTEE REPORT

At the first meeting of the new Audit Committee in December 2013, a review of the effectiveness of Internal Audit was undertaken by discussion. Having considered comments made by management, external auditors and the quality of the internal audit reporting and findings, the Committee concluded that the internal audit function was effective. The review will take place annually and in 2014 will be based on a questionnaire.

External audit

The external auditors are appointed by shareholders to provide an opinion on the financial statements and certain other disclosures prepared by the Directors. KPMG LLP acted as the external auditors to Merlin Entertainments throughout the year. The Committee is responsible for oversight of the external auditors, including approving the annual work plan and, on behalf of the Board, approving the audit fee. 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 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.
- * Creates a mutuality of 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.

Management regularly 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 Audit Committee is responsible for recommending to the Board the appointment, reappointment and removal of the external auditors, including their remuneration and terms of their engagement. In doing so the Audit Committee has granted the CFO the right to approve the following without reference to the Audit Committee:

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

Fees for non-audit services during the year amounted to £4.2 million (2012 - £0.4 million) representing 300 per cent. of the audit fees. £2.5 million of the non-audit work related to the external auditors' due diligence and support in relation to the IPO process that resulted in the Listing. KPMG were selected for this project on the basis that they were able to apply knowledge gained from work undertaken towards a similar, aborted IPO process undertaken in 2010 as well as from their position as auditors. The Committee notes that it is entirely in line with market practice for the audit firm to undertake the 'Reporting Accountant' work associated with the Listing process. £1.0 million of the fees for non-audit services related to the half year audit and August review, also completed in relation to the IPO process. The other substantial non-audit work undertaken by KPMG, amounting to £0.7 million, principally related to technical accounting advice and tax advisory assignments. 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.

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

The Committee has evaluated the performance, independence and objectivity of KPMG and also reviewed their effectiveness as external auditors. As a result of the relatively limited time period between the creation of the Merlin Entertainments plc Audit Committee and the year end date, the new Committee gathered feedback through discussion with relevant stakeholders. The following factors were also considered:

- * The external auditors' progress achieved against the agreed audit plan and communication of any changes to the plan, including changes in perceived audit risks.
- * The competence with which the external auditors handled the key accounting and audit judgements and communication of the same with management and the Committee.
- * Feedback from the various attractions audited as to the performance, competence and service levels of the external auditor's work whilst at those sites.
- * The external auditors' qualifications, expertise and resources and their internal quality procedures.
- * The managerial perspective on the role of KPMG during the audit and IPO processes.

After taking into account all of the above factors, the Committee concluded that the external auditors were effective. In future years a survey facilitated by the secretary to the Committee will be used to assess the effectiveness of the external auditors.

The Committee has considered the timing of the next formal tender in light of the Code, the recent Competition Commission and EU recommendations on audit tendering and rotation and, our current expectation is that the audit will be retendered no later than 2016 for the 2017 year end.

AUDIT COMMITTEE REPORT

The Company has entered a Lenders Facilities Agreement which stipulates that if any newly appointed auditor were not to be one of the 'Big Four' accounting firms, the proposed firm would need to be approved by the majority of the Company's lenders.

Internal controls

The Company operates various levels of control against which the risks of the business are managed. As with any business, the Company faces risk in all its activities. The Company separates risk into three categories, namely: health, safety and security risk; operational and strategic risk; and financial risk. How these risks are managed is detailed in the Risks and Uncertainties section of this Annual Report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, including over the Group's consolidation processes. Such controls are designed to manage, rather than eliminate the risk of failure to achieve its business objectives.

- ★ The first level of internal control comprises the delegated authority limits and purchasing and sale price approval levels that are stated within the Company's financial operating framework documents.
- ★ The second level is the review processes the Company undertakes on its trading performance. Attraction financial performance is effectively reviewed on a weekly, monthly and quarterly basis by management. Attraction management accounts are also reviewed in detail on a monthly and quarterly basis by management. A comprehensive review of a detailed strategic process is undertaken annually, as is the annual budgeting process, both of which are reviewed by the Executive Committee and the Board.
- ★ The third level of assurance is gained from audit and self-assessment:
 - Quarterly the attractions senior finance representatives are required to self-certify the robustness of their financial control environment, raising any concerns and issues for resolution.
 - Annually internal audit review the financial controls and accounting of sites equating to approximately 80 per cent. of the Group's revenue, as well as high risk or high revenue non-attraction functions such as call centres, central finance functions and major expenditure functions. The internal audit annual plan is developed in conjunction with management and through an assessment of a series of risk factors before being reviewed and approved by the Audit Committee. The material findings of internal audit are reviewed by management and the Audit Committee.
 - External audit findings on the control environment and financial statements are reviewed by management, the Audit Committee and by the Board. The findings of other specialist experts, such as tax, pension and treasury experts, are also considered where relevant.

In 2013, the Company was also subject to a series of thorough reviews and audits as part of the IPO process. These processes combined with an assessment of discussions with relevant stakeholders of the internal control systems, satisfied the Committee that such systems are effective in providing reasonable assurance against material fraud or loss.

The Board is responsible for the Group's systems of internal control and risk management and for reviewing their effectiveness. The Audit Committee has considered the process by which the Company approaches risk management and is satisfied that the Company has systems and procedures in place to identify, evaluate and manage all material risks to the business, in accordance with the Turnbull Guidance. These systems and procedures are designed to manage rather than eliminate risk of failure to achieve business objectives. They can only provide reasonable, and not absolute, assurance against material misstatement or loss. Specifically the Audit Committee has reviewed the financial risk category and the internal controls in place. Similarly the Committee is satisfied that this process has been in place for the year under review and up to the date of approval of the Annual Report and accounts and that the process is regularly reviewed by the Board.

DIRECTORS' REMUNERATION REPORT

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

The major project undertaken by the Remuneration Committee this year has been a detailed review and consequent restructuring of Merlin's pay arrangements ahead of our transition to life as a listed company.

Merlin's success has been built on an entrepreneurial and innovative culture. This culture has been underpinned by a performance-orientated but relatively simple pay model which has incorporated widespread share ownership throughout our employee base. Whilst the Committee recognised that this model required some adaption on Listing to the London Stock Exchange to comply with best practice expectations of institutional shareholders, our aim has been to make these changes whilst retaining the basic principles highlighted above that have supported Merlin's commercial success to date.

The pay structure that we have adopted (which is outlined in full in the Policy Report) is now underpinned by four key principles.

Performance orientated

- ★ Rewarding performance is a core part of our ethos. About 75 per cent. of our permanent employees participate in a bonus plan and over 300 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 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.

Consistent with best practice

We have introduced a number of key best practice features into the pay arrangements of our senior executives, including the Executive Directors.

Annual bonus plan (deferred bonus plan)

The central annual bonus, in which all senior executives, including the Executive Directors, participate has been restructured for 2014:

- ★ A cap on individual bonus payouts of 150 per cent. of salary has been introduced.
- ★ One third of any senior executive's bonus payout must be deferred in shares for three years.
- ★ The Committee will have the facility to withhold deferred bonus payments in exceptional circumstances.

Performance Share Plan (PSP)

Senior executives will receive regular awards of shares under the PSP. Consistent with best practice, vesting of these awards will be subject to the achievement of challenging EPS and ROCE performance targets.

Shareholding guidelines

Members of the Executive Committee will be required to build up and retain a significant holding of Merlin shares. For Executive Directors, the requirement will be to build a holding of shares worth 200 per cent. of salary.

Policy

Our policy is to pay senior executives fairly and in a manner consistent with best practice. In particular:

- ★ 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.
- ★ There is greater emphasis on rewards for delivery of longer term performance targets than short term performance targets.

DIRECTORS' REMUNERATION REPORT

Simple

For most of our employees, we have retained a high degree of simplicity in our pay model:

- * Bonuses (other than for senior executives) are paid wholly in cash.
- * Bonuses are primarily based on profit targets for an employee's particular attraction.
- * The use of share options will align middle management to share price growth and value creation.

Widespread share ownership

We intend to ensure that widespread share ownership remains an integral part of Merlin's culture. In order to achieve this, we operate all-employee share plans that will enable all of our permanent employees to purchase a stake in our Company.

These plans supplement the two discretionary share plans that will be operated for senior executives (Deferred Bonus Plan and PSP) and the Company Share Option Plan (CSOP) for middle management.

Other major decisions reached by the Committee during this year include:

- * **Annual bonus payments in respect of 2013 performance**
As outlined elsewhere in the Annual Report, Merlin's financial performance has been strong during 2013. On the basis of that performance, and also taking into account individual performance, the Committee agreed bonus payments for 2013 under the central annual bonus plan of £462,275 and £298,788 for the CEO and CFO respectively. There are further details of these payments on page 71.
- * **2013 PSP awards and CSOP grants**
With Listing taking place in the final quarter of 2013, the Committee felt it would be inappropriate to grant PSP awards and make CSOP grants in both 2013 and in 2014. Instead, the Committee decided to make a single PSP award and CSOP grant to relevant individuals on Listing over shares with a value of approximately 1.25x the current annual award policy.

The remainder of the Remuneration Report is split into two sections in line with legislative reporting regulations:

- * **The Policy Report** - contains details of the various components of our future pay model. The Policy Report will be subject to a binding shareholder vote at the 2014 Annual General Meeting.
- * **The Annual Report on Remuneration** - contains details of pay received by Directors in the period from Listing to the end of 2013 and also contains details of how we intend to implement our pay model during 2014. The Annual Report on Remuneration will be subject to an advisory vote at the 2014 AGM.

Charles Gurassa
Chairman of the Remuneration Committee
26 February 2014

DIRECTORS' REMUNERATION REPORT

POLICY REPORT

This part of the report sets out our Directors' Remuneration Policy (Policy). This Policy will be subject to a binding shareholder vote at the 2014 AGM. This Policy will apply 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 ⁽¹⁾
Fixed pay			
Base salary 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"> * The individual Director's role, experience and performance. * Business performance. * Market data for comparable roles in appropriate pay comparators. * Pay and conditions elsewhere in the Group. 	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"> * Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent employees. * 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). * Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary. 	None
Benefits To provide market competitive benefits.	Benefits are role specific and take into account local market practice. Benefits currently include company car or car allowance, phone costs, income protection insurance, 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 ⁽¹⁾
Pension 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 per cent. of salary to the Group Pension Plan and/or as a cash allowance in lieu of pension.	None
Variable pay			
Annual bonus ^{(2), (3)} 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"> * Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). * Deferred awards usually vest three years after award although may vest early on leaving employment or on a change of control (see later sections). * 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). * 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. 	<p>The maximum award that can be made under the central bonus plan is 150 per cent. 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 ⁽¹⁾
Performance Share Plan (PSP) ^{(3), (4)} 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 per cent. 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 per cent. of the portion of the PSP award determined by that measure will vest. Vesting then increases on a sliding scale to 100 per cent. for achieving a stretching maximum performance target.</p>
All Employee Share Plan (UK Sharesave Scheme) ^{(3), (5)} 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>
Company Share Option Plan (CSOP) ⁽³⁾ <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>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 per cent. of salary at grant (or, if the Remuneration Committee determines that special circumstances exist, 200 per cent. 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>

DIRECTORS' REMUNERATION REPORT

Notes to table:

- ⁽¹⁾ 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.
- ⁽²⁾ 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.
- ⁽³⁾ 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 five per cent. of share capital over a rolling ten year period in relation to discretionary employee share schemes and ten per cent. of share capital over a rolling ten year period in relation to all employee share schemes.
- ⁽⁴⁾ 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.
- ⁽⁵⁾ 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.
- ⁽⁶⁾ 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.
- ⁽⁷⁾ 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
Non-executive Director (NED) fees 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: * Senior Independent Director. * Audit Committee Chairman. * Remuneration Committee Chairman. The Chairman of the Board receives an all-inclusive fee. 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. Fees are generally reviewed annually. NEDs whose appointment is in respect of their position as shareholder representatives do not receive a fee.	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. 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. The Company's Articles of Association provide that the total aggregate fees paid to the Chairman and NEDs will not exceed £1,000,000.

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

*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 per cent. of salary) and maximum permitted PSP award (350 per cent. 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 per cent. 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 per cent. of salary and 280 per cent. 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 per cent. 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 appointment's annual bonus in their year of joining.

The Committee would seek to structure buyout 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 ten per cent. of the Company's share capital. The Company has the right to remove these directors should the relevant shareholding fall below ten per cent. 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 in 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 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.

DIRECTORS' REMUNERATION REPORT

Plan	Good leaver categories	Treatment for good leaver	Treatment for any other leaver	Treatment on a change of control / voluntary winding-up
Deferred Bonus Plan	<ul style="list-style-type: none"> * Death. * Injury. * Disability. 	Deferred bonus awards vest on cessation of employment / death.	Deferred bonus awards lapse.	Deferred bonus awards vest in full.
Performance Share Plan	<ul style="list-style-type: none"> * Ill-health. * Retirement. * Redundancy. * Transfer of employing company or business to which an individual's employment relates out of the Group. * Any other scenario in which the Remuneration Committee determines that good leaver treatment is appropriate (other than circumstances justifying summary dismissal). 	<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 disapply 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.
<p>Company Share Option Plan</p> <p><u>Executive Directors will only receive CSOP awards in exceptional circumstances.</u></p> <p>Individuals who are promoted to the Board may have outstanding awards under this plan.</p>		<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.
UK Sharesave Scheme / Overseas Sharesave Scheme	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.			
US Employee Stock Purchase Plan	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.			

DIRECTORS' REMUNERATION REPORT

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.

ANNUAL REPORT ON REMUNERATION

AUDITED INFORMATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2014 Annual General Meeting.

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 73 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 the period from Listing until 28 December 2013. As Merlin was a newly listed company during 2013, there is no disclosure in this report of prior year information.

2013						
All figures shown in £000	Salary and fees ⁽¹⁾	Benefits ⁽²⁾	Annual bonus ⁽³⁾	Long term incentives ⁽⁴⁾	Pension ⁽⁵⁾	TOTAL
Executive Directors						
Nick Varney	72	3	58	-	18	151
Andrew Carr	43	2	38	-	11	94
Non-executive Directors						
Sir John Sunderland	32	-	-	-	-	32
Charles Gurassa	9	-	-	-	-	9
Ken Hydon	8	-	-	-	-	8
Miguel Ko	6	-	-	-	-	6
Søren Thorup Sørensen	-	-	-	-	-	-
Dr. Gerry Murphy	-	-	-	-	-	-
Rob Lucas	-	-	-	-	-	-

Notes to the table – methodology

(1) Salary and fees - this represents the cash paid or receivable in respect of the period from 13 November 2013 (Listing) to 28 December 2013.

(2) Benefits - this represents the taxable value of all benefits paid or receivable in respect of the period from 13 November 2013 (Listing) to 28 December 2013. Executive Directors receive company car or car allowance, phone costs, income protection insurance, annual medical, private medical insurance and life assurance of four times annual salary.

(3) Annual bonus - cash bonus paid in respect of the period from Listing to 28 December 2013 (calculated on a time apportioned basis). The cash bonus for the full financial year is disclosed below.

(4) 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 2013.

(5) Pension - Executive Directors receive a Company contribution worth 25 per cent. of salary 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 contribution in respect of the period from Listing to 28 December 2013.

(6) Colin Armstrong and Fiona Rose were appointed as Directors on 20 September 2013 and resigned on 29 October 2013. During that period they acted purely in an administrative capacity prior to Listing and received no remuneration for such services.

DIRECTORS' REMUNERATION REPORT

Additional disclosures in respect of the single figure table

Annual bonus

Executive Directors are participants in the central bonus plan. The central bonus plan for 2013 comprised a bonus pool linked to Group underlying EBITDA performance out of which individual awards were made based on role, seniority, contribution and performance against pre-set targets for operational and financial measures relevant to the individual. The specific structure of the bonus pool for the 2013 central bonus plan is regarded by the Board as commercially sensitive as it was designed and agreed in the context of Merlin being an unlisted company.

The table below sets out the annual cash bonus awards made to Executive Directors in respect of the full 2013 financial year:

2013 annual bonus	
Nick Vamey	£462,275
Andrew Carr	£298,788

These payments were determined by the Remuneration Committee having taken account of:

- * The Group's strong financial performance. Group EBITDA (net of bonus payments) of £390 million significantly out-performed the target set for the year of £379 million and showed significant year-on-year growth of 12.8 per cent.
- * Individual contribution to the delivery of the financial performance.
- * Individual contribution to the preparation and execution of the IPO.
- * Performance against targets for operational and financial measures relevant to the individual. For the CEO these measures included successful delivery of new openings and customer satisfaction and for the CFO these measures included Group EBITDA margin and successful execution of the restructuring of the Group's banking facilities.

As outlined elsewhere in the Remuneration Report, the central bonus plan has been restructured for 2014 in line with listed company best practice.

Scheme interests awarded during the financial year

Performance Share Plan awards

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.

An initial award was granted under the PSP to selected senior executives, including the Executive Directors, on 12 November 2013. This award is subject to the performance conditions described below and will vest on 1 April 2017 after the release of financial results for the financial year ending 31 December 2016. There will be no grant under the PSP during 2014 to Executive Directors and the next PSP award to them will be granted during 2015.

As disclosed in the Listing Prospectus, the initial PSP awards to the CEO and CFO were granted over shares worth 310 per cent. of salary and 280 per cent. of salary respectively. These award levels were set by the Committee in recognition of the absence of a PSP grant in 2014 and are consistent with the Committee's current policy that the annualised value of PSP awards to the CEO and CFO should be over shares worth 250 per cent. of salary and 225 per cent. of salary respectively.

The following table provides details of the awards made under the PSP on 12 November 2013.

	Type of award	Maximum number of shares	Face value (£)	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Nick Vamey	Performance shares	560,952	£1,767,000	310%	For EPS element 10% of award (max 50%)	31 December 2016
Andrew Carr		306,667	£966,000	280%	For ROCE element 12.5% of award (max 50%)	

As disclosed in the Prospectus, the maximum number of shares awarded has been calculated using the Offer Price of 315p.

DIRECTORS' REMUNERATION REPORT

Vesting of the initial PSP awards is subject to satisfaction of the following performance conditions measured over the three financial years to 31 December 2016.

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

Based on Adjusted EPS using the full-year impact of the post Listing financing and tax structure.

Adjusted EPS growth will be calculated by comparing EPS for the financial year ending 31 December 2016 with EPS for the financial year ending 28 December 2013.

ROCE performance condition (50% of award)		
	Average ROCE	% of award vesting
Below threshold	<9%	0%
Threshold	9%	12.5%
Between threshold and maximum	9% - 13%	12.5% to 50% on sliding scale
Maximum	13%	50%

Based on Earnings Before Interest and Tax (pre-Exceptional items and after taxation) divided by end of period net operating assets.

Average ROCE will be calculated as an average of ROCE for the three individual financial years ending 27 December 2014, 26 December 2015 and 31 December 2016.

Payments to past directors

There were no payments to past directors during 2013.

Payments for loss of office

There were no payments for loss of office to directors during 2013.

Statement of Directors' shareholding and share interests

Upon Listing, the Committee introduced a shareholding requirement of 200 per cent. of base salary for the Executive Directors. Both of the current Executive Directors had a shareholding that surpassed that requirement at 28 December 2013.

Executive Directors are expected to achieve the shareholding requirement primarily by retaining at least 50 per cent. 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 Listing or, if later, 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 28 December 2013 as a % of salary (Shareholding requirement target)	Number of shares		
		Shares owned outright at 28 December 2013	Interests in share incentive schemes, awarded without performance conditions at 28 December 2013	Interests in share incentive schemes, awarded subject to performance conditions at 28 December 2013 ⁽¹⁾
Nick Vamey ^{(2), (3)}	4,103%(200%)	6,477,823	-	560,952
Andrew Carr ^{(2), (3)}	3,955%(200%)	3,780,123	-	306,667
Sir John Sunderland ⁽³⁾	-	531,044	-	-
Charles Gurassa	-	31,746	-	-
Ken Hydon	-	31,746	-	-
Miguel Ko	-	158,730	-	-
Søren Thorup Sørensen	-	-	-	-
Dr. Gerry Murphy	-	-	-	-
Rob Lucas	-	-	-	-

DIRECTORS' REMUNERATION REPORT

Notes to the table

⁽¹⁾ This relates to shares awarded under the PSP in November 2013.

⁽²⁾ For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 28 December 2013 has been used (361 pence).

⁽³⁾ On Listing Nick Varney sold 2,776,210 shares, Andrew Carr sold 1,620,053 shares and Sir John Sunderland sold 227,590 shares at the listing price of 315 pence.

Between 29 December 2013 and the date of this report, Nick Varney and Andrew Carr were both granted options to purchase 3,036 ordinary shares as part of the All Employee Sharesave Scheme at an exercise price of 296.35 pence per share. The options are, in normal circumstances, not exercisable until the completion of a three year savings period, which will end on 1 April 2017 and will then be exercisable for a period of six months. The exercise period will, therefore, in normal circumstances, be from 1 April 2017 until 30 September 2017.

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 28 December 2013 to the performance of the FTSE 250 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. As Merlin has only been listed for a short period during 2013 we have provided the entire historical performance to date (dotted line in chart) as well as the statutory requirement to show movement in performance between Listing and financial year ends (unbroken line in chart).

The table next to the chart summarises the CEO single figure for total remuneration, annual bonus pay-outs and PSP vesting levels as a percentage of maximum opportunity over this period.

GRAPH REMOVED

	2013* £000
CEO single figure of remuneration	151
Annual bonus pay-out (as a % of maximum opportunity)	n/a (no maximum limit applied in 2013)
PSP vesting out-turn (as a % of maximum opportunity)	n/a (no award vested in 2013)

* From Listing to 28 December 2013.

Percentage change in remuneration of the CEO

As Merlin was a newly listed company during 2013, there is no disclosure in this report of requirements which require comparison of 2012 with 2013. Accordingly, this report does not contain a comparison of changes between 2012 and 2013 in the level of CEO remuneration and of employee remuneration.

GRAPH REMOVED

Relative importance of the spend on pay

The chart on the right 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.

DIRECTORS' REMUNERATION REPORT

Implementation of remuneration policy in 2014

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2014.

Base salary

As described in the Committee Chairman's Annual Statement, Executive Director base salaries were reviewed as part of the restructuring of pay arrangements ahead of Listing. The next annual salary review will be carried out by the Committee in October 2014.

The table below shows base salaries effective from Listing.

Salary 13 November 2013	
Nick Varney	£570,000
Andrew Carr	£345,000

Pension and benefits

As in 2013, the Executive Directors will receive a Company contribution worth 25 per cent. of salary to the Group Pension Plan up to the Annual Allowance and, in respect of the balance, as a cash allowance. They will also receive a standard package of other benefits consistent with those received in 2013.

Annual bonus

As described in the Committee Chairman's Annual Statement, the bonus plan for 2014 has been structured as follows:

- * A bonus cap has been introduced of 150 per cent. of salary for the CEO and 135 per cent. of salary 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.
- * Deferred shares will be subject to potential clawback during the deferral period in exceptional circumstances including evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts.

The annual bonus for 2014 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity		
Measure	CEO	CFO
Underlying operating profit	80%	80%
Delivery of development pipeline	10%	-
Customer satisfaction	10%	-
Underlying EBITDA margin	-	10%
Effective cash tax rate	-	10%

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 2014, 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.

Performance Share Plan

As detailed above, the current Executive Directors will not receive an award under the PSP during 2014. The next grant to these individuals will be during 2015.

All Employee Share Plan

The first invitation to UK employees (including Executive Directors) to participate in the All Employee Sharesave Plan (UK Sharesave Plan) was issued in early 2014. Similar invitations were issued to relevant employees under the US Employee Stock Purchase Plan and the Overseas Sharesave Plan.

DIRECTORS' REMUNERATION REPORT

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2014. Non-executive fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee.

	2014 fees
Basic non-executive fee	£50,000
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.

Consideration by the Directors of matters relating to Directors' remuneration

The Committee has, since Listing, been chaired by Charles Gurassa. The Committee consists of the three independent Non-executive Directors and the Chairman of the Board.

The Committee met once during 2013 post-Listing. The CEO, Group HR Director, Group Compensation & Benefits Director and the Group Legal Director (in his role as secretary to the Committee) were also present at that meeting 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 market practice and in relation to the post-Listing structure of remuneration packages and design of share schemes. Deloitte was paid £131,350 in fees during 2013 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 general tax advice to the Company during the year.

Shareholder voting on 2012 remuneration report

As an unlisted company, Merlin's Annual Report for 2012 did not contain a Remuneration Report.

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

This Remuneration Report will be submitted for approval at our first Annual General Meeting to be held on 15 May 2014. The Policy Report will be subject to a binding shareholder vote and the Annual Report on Remuneration will be subject to an advisory shareholder vote.

On behalf of the Board

Charles Gurassa

Chairman of the Remuneration Committee

26 February 2014

DIRECTORS'

REPORT

Introduction

This section of the Annual Report 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, including:

- * The Strategic Report on pages 2 to 43.
- * The Corporate Governance Statement on page 44.
- * The section entitled 'Board of Directors' on pages 45 to 47.
- * The Corporate Governance Report on pages 49 to 53.
- * The Audit Committee Report on pages 54 to 59.
- * The Directors' Remuneration Report on pages 60 to 75.

The sections referred to above provide an overview of the strategy, development and performance of the Company's business in the year ended and as at 28 December 2013 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. These sections are incorporated by reference into this Directors' Report.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are considered in the Corporate Social Responsibility section on page 42.

Employee diversity, engagement and disabled persons

Details of the Company's activities relating to diversity and employee engagement are set out in the People section on pages 32 to 33.

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

Internal controls

Information on the Group's internal controls is set out on page 59.

Financial instruments

Details of the financial instruments used by the Group and certain risks associated therewith are set out within note 5.6 of the financial statements.

Future developments

Details of material proposed future developments in relation to the Company and its businesses are set out within the Strategic Report on pages 2 to 43.

Research and development

Details of material research and development in relation to the business of the Company and its subsidiaries are described in the Merlin Magic Making section on pages 28 to 31.

Incorporation, listing and structure

Merlin Entertainments plc was incorporated on 20 September 2013 under the name Arthur Entertainments plc with registered number 08700412. Its name was changed to Merlin Entertainments plc on 30 September 2013.

On 12 November 2013 the Company acquired the entire issued share capital of Merlin Entertainments S.à r.l. to become the ultimate holding company of the Merlin Entertainments Group.

On 13 November 2013 the share capital of the Company was admitted to listing on the Official List of the London Stock Exchange.

The operations of Merlin Entertainments are performed through its numerous subsidiary and associated undertakings around the world. Details of the Company's subsidiary and associated undertakings are set out within the financial statements in note 6.8.

Prior to 13 November 2013 the Company was not subject to the Code, the DTRs or the Listing Rules. From its listing on 13 November 2013 the Company has complied with each of the Code, the DTRs and the Listing Rules except, as disclosed on page 44 of this Report, in relation to the composition of the Board. The Board considers that its composition is such as to ensure that no individual will dominate the Board's decision taking, no undue reliance will be placed on particular individuals and the Board will continue to be capable of operating effectively. In addition to the current Directors, Fru Hazlitt has agreed to join the Board as a further independent Non-executive Director with effect from 1 April 2014. The Board is committed to becoming compliant with the Board composition recommendations of the Code during 2014.

DIRECTORS' REPORT

Directors

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

Name	Date of appointment	Date of resignation
Sir John Sunderland	20 October 2013	N/A
Nick Vamey	20 October 2013	N/A
Andrew Carr	20 October 2013	N/A
Charles Gurassa	20 October 2013	N/A
Ken Hydon	20 October 2013	N/A
Miguel Ko	20 October 2013	N/A
Søren Thorup Sørensen	20 October 2013	N/A
Dr. Gerry Murphy	20 October 2013	N/A
Rob Lucas	20 October 2013	N/A
Colin Armstrong	20 September 2013	29 October 2013
Fiona Rose	20 September 2013	29 October 2013

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 but the Company has purchased Directors' and officers' liability insurance as well as Prospectus liability insurance during the year, which provides cover for liabilities incurred by Directors in the performance of their duties or powers and in connection with the issue of the Prospectus in relation to the Listing of the Company's shares on the London Stock Exchange.

No amount was paid under any of these indemnities or insurances 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 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.

Pursuant to the Relationship Agreements entered into between the Company and each of the pre-IPO major shareholders (KIRKBI, Blackstone and CVC), each of these shareholders is entitled to appoint one Director to the Board. In addition, KIRKBI is entitled to appoint one observer to attend (but not vote at) meetings of the Board and each of the pre-IPO major shareholders is entitled to appoint one observer to attend (but not vote at) meetings of the Audit Committee and Remuneration Committee.

Share capital and related matters

Details of the Company's share capital and movements therein since incorporation are set out on page 142 in note vi of the parent Company financial statements.

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 Report is fully paid).

Pursuant to the Underwriting Agreement entered into on 30 October 2013 between the Company and the Global Coordinators on the IPO:

- * The pre-IPO major shareholders agreed, subject to certain customary exceptions, not to dispose of any shares in the Company for a period of 180 days following Listing.
- * Each of the Executive Directors, Non-executive Directors and Merlin Entertainments Share Plan Nominee Limited (on behalf of the senior management shareholders) agreed, subject to certain customary exceptions, not to dispose of any shares in the Company for a period of 360 days following Listing.

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. However, the Company has entered into Relationship Agreements with each of the pre-IPO major shareholders in connection with the exercise of their rights as major shareholders in the Company and their right to appoint Directors to the Board.

DIRECTORS' REPORT

Details of these Relationship Agreements are set out below and in the Corporate Governance Report on pages 49 to 53.

As at 25 February 2014, the latest practicable date prior to the date of this Report, the Company had been notified pursuant to DTR5 of the following interests in three per cent. 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
Blackstone Merlin Holdings Limited	213,517,421	21.06	Direct
Lancelot Holdings S.à r.l. (CVC)	118,023,926	11.64	Direct
Blackrock Investment Management (UK) Limited	65,541,502	6.47	Indirect

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.

Acquisition and disposal of own shares

The Company has not acquired or disposed of any of its own shares during the year save as set out in note vi of the parent Company financial statements.

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.

Transactions with related parties

Details of the transactions entered into by the Company with parties who are related to it are set out in note 6.3 of the financial statements.

The only material transactions with related parties during the year are:

- ★ **LEGOLAND Licence and Co-operation Agreement (LCA).**
This agreement sets out the rights granted to the Group 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 for the use of the rights.
- ★ **Blackstone Relationship Agreement/CVC Relationship Agreement/KIRKBI Relationship Agreement.** These relationship agreements with the pre-IPO major shareholders describe the relationship of the Company with each of those shareholders together with and subject to certain minimum shareholding requirements, the right of each of those shareholders to be represented on the Board; appoint observers to each of the Remuneration, Nomination and Audit Committees; and certain anti-dilution rights.
- ★ **Underwriting Agreement.** This agreement between, inter alios, the Company; the pre-IPO major shareholders; the IPO underwriters; and the Directors sets out the underwriting arrangements for the Company's Listing on 13 November 2013. As part of this agreement the pre-IPO major shareholders and the Directors became subject to certain lock-up arrangements whereby they agreed not to dispose of any shares in the Company for a period of 180 days and 360 days respectively.

Change of control

The only significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, and the effect thereof, are as follows:

- ★ 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.

DIRECTORS' REPORT

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.

- ★ The Relationship Agreements with KIRKBI, Blackstone and CVC respectively, each contain provisions allowing KIRKBI, Blackstone or CVC as the case may be to terminate the relevant Relationship Agreement with immediate effect by written notice to the Company on any person acquiring control of the Company (being 50 per cent. of the voting rights of the Company).
- ★ The Senior Facilities Agreement entered into by the Group with Unicredit Group as facility agent, originally dated 4 March 2007 and amended and restated on 28 June 2013 (SFA) 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 give the lenders under the SFA the right to accelerate outstanding loans, terminate commitments and enforce their security. Further details on the Group's banking facilities are shown in note 5.2 of 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

The Company has no branches outside the UK.

Dividend

The Directors are not proposing to recommend any dividend in respect of the 2013 financial year.

Political donations

No political donations were made during the year.

Subsequent events

In the Company's IPO Prospectus the Company noted its intention to reduce its share capital by means of a court sanctioned reduction of capital. The final court hearing to formally approve the proposed reduction is scheduled to take place on 26 February 2014. If the reduction is approved, the effect will be to increase available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

On 24 February 2014 the Company announced a strategic alliance with DreamWorks to launch a new midway brand. This will see an initial roll out programme of six attractions over nine years in international city locations.

Going concern

The Directors consider that the Group has adequate financial resources to continue operating for the foreseeable future 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 borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

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 2014 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 26 February 2014.

For and on behalf of the Board

Colin N. Armstrong

Group Company Secretary

26 February 2014

DIRECTORS' RESPONSIBILITY STATEMENT

Directors' responsibility statement

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law. They have elected to prepare the parent Company financial statements in accordance with generally accepted accounting principles in the UK (UK GAAP). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group for that period. In preparing each of the Group and parent 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 IFRSs as adopted by the EU.
- * For the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements.
- * Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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.

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.

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.

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 Company's performance, business model and strategy.

Neither the Company nor the Directors accept (and hereby excludes) 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 consolidated 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 or loss of the Group.
- * The parent 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 parent 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
 26 February 2014

Andrew Carr
Chief Financial Officer
 26 February 2014

INDEPENDENT

AUDITOR'S REPORT

TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC ONLY

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified
We have audited the financial statements of Merlin Entertainments plc for the year ended 28 December 2013 set out on pages 84 to 143. 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 28 December 2013 and of the Group's profit for the year 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 Generally Accepted Accounting Practice and the provisions of the Companies Act 2006; 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.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

Valuation of non-current assets £2,344 million (2012: £2,297 million)
Refer to page 54 (Audit Committee Report) and page 107 (accounting policy and financial disclosures).

- * *The risk* - A history of business combinations resulting in significant goodwill balances and the capital intensive nature of the Group's business model exposes the Group to a risk that the value of the Group's goodwill, intangible asset and property, plant and equipment balances may not prove to be recoverable in full. This risk is prevalent as inherent uncertainty is involved in forecasting and discounting future cash flows, due to the Group's new attractions often being in unproven locations and the unpredictable impact of environmental, macro and micro economic, and social trends on trading performance. As these cash flows and discount rates are the key assumptions forming the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit concentrated on.

Key risks

The risks of material misstatement that have had the greatest effect on our audit were:

- * Valuation of non-current assets;
- * Recognition of deferred tax assets; and
- * Finance costs.

- * *Our response* - Our audit procedures included, among others, an analysis of the Group's previous ability to forecast cash generation accurately and challenging the reasonableness of current forecasts. This challenge included an assessment of the Group's future plans for the business and a comparison of those inputs against similar past investments made by the Group to assess the level of the risk inherent in the current strategies.

Benchmarking was performed on the data used by the Group to calculate its discount rates to market data, such as publicly available analysts' reports.

We performed a sensitivity analysis of both discount rates and forecast cash flows and the resulting headroom across all valuations and considered 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 reflected the risks inherent in the valuation of goodwill.

Deferred tax assets recognition £56 million (2012: £34 million)

Refer to page 54 (Audit Committee Report), page 96 (accounting policy) and page 97 (financial disclosures).

- * *The risk* - In previous years, the Group had significant unrecognised deferred tax assets from unclaimed capital allowances, primarily in the UK. These were not recognised due to the level of uncertainty over the availability of future taxable profits against which these allowances would be utilised. The Group has revised these forecasts, taking into account the restructuring of the Group's operations in connection with the IPO, leading to the recognition of further deferred tax assets at the balance sheet date. The amount of the additional deferred tax asset recognised is based on the Group's forecast of taxable profits which is inherently subjective.

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

- ★ **Our response** - Our audit procedures included, among others, assessment of the Group's forecast of taxable profits and challenging the forecasts of trading profits and capital spend in these estimates by taking into consideration the Group's historical ability to forecast accurately, taking into account the inherent uncertainty of future looking estimates of trading performance.

Using our own tax specialists, we evaluated the resulting forecast tax positions and utilisation of capital allowances for reasonableness, given our understanding of the legislation surrounding the use of such allowances.

We performed sensitivity analysis of forecast taxable profits and capital spend in assessing the forecasts above to assess the likelihood of misstatement and the appropriateness of the Group's disclosure around the judgement.

Finance costs £109 million (2012: £126 million)

Refer to page 54 (Audit Committee Report) and page 112 (accounting policy) and page 113 (financial disclosures).

- ★ **The risk** - During the year the Group has refinanced its debt. Accounting standards require that the Group assesses whether the refinancing represents a continuation of the existing facility or the repayment of the original facility and the inception of a new facility. This depends on the significance of the changes to the future cash flows and affects the way previous financing fees are treated. In addition the Group makes a judgement of the expected life of the new facility. This affects the period over which the refinancing costs, and if carried forwards, the previous financing fees, are expensed.

These judgements affect the amount of finance costs recognised in the year.

- ★ **Our response** - In respect of the Group's accounting for the refinancing, our audit procedures included, among others, corroborating the Group's calculation of the cash flow impact of the refinancing by reference to the underlying contracts and the Group's key assumptions, such as the term of the facility, in accordance with the requirements of the accounting standards. We made a qualitative assessment of the terms of the new facility to assess whether any other changes in terms indicated the facility was, in substance, repaid and reissued.

In respect of the Group's judgement relating to the life of the revised facility, our procedures included, among others, an assessment of the Group's long term business plans and forecasts compared to their previous ability to accurately forecast the timing of future refinancing, taking into account other strategic plans of the Group that could trigger the need for a future refinancing, such as significant acquisitions or new openings. We read the facilities agreement to identify any economic incentives for early repayment.

In light of the above we considered the appropriateness of the Group's assessment of the likely future repayment date of the debt, making comparison to past behaviours. We considered the adequacy of the Group's disclosures in respect of the refinancing.

Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £12,000,000. This has been determined with reference to a benchmark of revenue (of which it represents 1%), which we consider to be one of the principal considerations for members of the Company in assessing financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £600,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes, including those performed by the Group audit team, were performed at the key reporting components in the following countries: UK, USA, Australia, Denmark, Germany and Italy. These audits covered 70% of total Group revenue and 67% of total Group assets. In addition, specified procedures were performed at locations representing a further 12% of revenues.

The Group audit team carried out audits covering 35% of total Group revenue, including the only individually financially significant component, Merlin Attractions Operations Limited. The largest component not audited by the Group audit team directly represents 8% of Group revenue.

For the remaining sites, the largest of which individually contributed £11,000,000 to Group revenue, analytical procedures were performed at Group level.

The audits undertaken for group reporting purposes at the key reporting components of the company 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 £750,000 to £4,000,000.

GRAPH REMOVED

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas that should be covered 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. Telephone or in person meetings were also held with the auditors at these locations.

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; and
- * 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.

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 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.

Under the Listing Rules we are required to review:

- * the Directors' statement, set out on page 79, in relation to going concern; and
- * the part of the Corporate Governance Statement on pages 44 and 49 relating to the Company's compliance with the nine provisions of the 2010 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 80, 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

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/auditscopeukco2013a, 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.

**Mark Summerfield (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
Dukes Keep, Marsh Lane,
Southampton
SO14 3EX

26 February 2014

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CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

	Note	Underlying trading £m	2013 Exceptional & non-trading items ⁽¹⁾ £m	Total £m	Underlying trading £m	2012 Exceptional & non-trading items ⁽¹⁾ £m	Total £m
Revenue	2.1	1,192	-	1,192	1,074	-	1,074
Cost of sales	2.1	(170)	-	(170)	(163)	-	(163)
Gross profit		1,022	-	1,022	911	-	911
Staff expenses	2.1	(297)	-	(297)	(261)	(1)	(262)
Other operating expenses		(335)	(30)	(365)	(304)	(5)	(309)
EBITDA ⁽¹⁾	2.1	390	(30)	360	346	(6)	340
Depreciation, amortisation and impairment	4.1, 4.2	(100)	-	(100)	(88)	(53)	(141)
Operating profit		290	(30)	260	258	(59)	199
Finance income	5.5	1	20	21	6	19	25
Finance costs	5.5	(105)	(4)	(109)	(124)	(2)	(126)
Profit before tax		186	(14)	172	140	(42)	98
Taxation	2.3	(24)	(3)	(27)	(20)	(2)	(22)
Profit for the year		162	(17)	145	120	(44)	76
Profit attributable to:							
Owners of the Company		162	(17)	145	120	(44)	76
Non-controlling interest		-	-	-	-	-	-
Profit for the year		162	(17)	145	120	(44)	76
Earnings per share							
Basic and diluted earnings per share (p)	2.4			15.1			8.0

⁽¹⁾ EBITDA – this is defined as profit before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of attributable profit after tax of joint ventures.

⁽²⁾ Details of exceptional and non-trading items are provided in note 2.2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

	Note	2013 £m	2012 £m
Profit for the year		145	76
Other comprehensive income			
<i>Items that may be reclassified to profit and loss</i>			
Exchange differences on retranslation of subsidiaries		(8)	(24)
Exchange differences relating to the net investment in foreign operations	5.5	(8)	6
Effective portion of changes in fair value of cash flow hedges		5	(1)
Income tax on items relating to components of other comprehensive income	2.3	(1)	1
Other comprehensive income for the year net of income tax		(12)	(18)
Total comprehensive income for the year		133	58
Total comprehensive income attributable to:			
Owners of the Company		133	59
Non-controlling interest		-	(1)
Total comprehensive income for the year		133	58

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 28 December 2013

(2012: 29 December 2012)

	Note	2013 £m	2012 £m
Non-current assets			
Property, plant and equipment	4.1	1,321	1,290
Intangible assets	4.2	961	970
Investments	6.1	3	-
Other receivables	4.4	3	3
Deferred tax assets	2.3	56	34
		2,344	2,297
Current assets			
Inventories	4.4	24	23
Trade and other receivables	4.4	64	47
Other financial assets	5.4	6	-
Cash and cash equivalents	5.1	264	142
		358	212
Total assets		2,702	2,509
Current liabilities			
Interest-bearing loans and borrowings	5.2	6	4
Other financial liabilities	5.4	9	63
Trade and other payables	4.4	223	179
Tax payable		21	19
Provisions	4.5	11	13
		270	278
Non-current liabilities			
Interest-bearing loans and borrowings	5.2	1,179	1,333
Finance leases	5.1	85	84
Other payables	4.4	23	22
Provisions	4.5	37	36
Employee benefits	6.2	4	5
Deferred tax liabilities	2.3	160	134
		1,488	1,614
Total liabilities		1,758	1,892
Net assets		944	617
Issued capital and reserves attributable to owners of the Company		940	613
Non-controlling interest		4	4
Total equity	5.7	944	617

The financial statements were approved by the Board of Directors on 26 February 2014 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 28 December 2013

(2012: 52 weeks ended 29 December 2012)

	Note	Share capital £m	Share premium £m	Capital reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 1 January 2012 as previously stated		1	1,230	(493)	(52)	(6)	(130)	550	5	555
Adjustment for reverse acquisition	1.1	-	(1,230)	1,230	-	-	-	-	-	-
At 1 January 2012		1	-	737	(52)	(6)	(130)	550	5	555
Profit for the year		-	-	-	-	-	76	76	-	76
Other comprehensive income for the year net of income tax		-	-	-	(16)	(1)	-	(17)	(1)	(18)
Total comprehensive income for the year		-	-	-	(16)	(1)	76	59	(1)	58
Shares issued	5.7	-	4	-	-	-	-	4	-	4
At 29 December 2012		1	4	737	(68)	(7)	(54)	613	4	617
Profit for the year		-	-	-	-	-	145	145	-	145
Other comprehensive income for the year net of income tax		-	-	-	(17)	5	-	(12)	-	(12)
Total comprehensive income for the year		-	-	-	(17)	5	145	133	-	133
Bonus issue	5.7	8	2,979	(2,987)	-	-	-	-	-	-
Shares issued	5.7	1	200	-	-	-	(7)	194	-	194
At 28 December 2013	5.7	10	3,183	(2,250)	(85)	(2)	84	940	4	944

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

	Note	2013 £m	2012 £m
Cash flows from operating activities			
Profit for the year		145	76
Adjustments for:			
Depreciation, amortisation and impairment	4.1, 4.2	100	141
Finance income	5.5	(21)	(25)
Finance costs	5.5	109	126
Taxation	2.3	27	22
		360	340
Working capital changes		30	24
(Decrease)/increase in provisions and other non-current liabilities		(3)	1
		387	365
Tax paid		(22)	(17)
Net cash inflow from operating activities		365	348
Cash flows from investing activities			
Interest received		1	2
Acquisition of subsidiaries	3.1	(6)	(72)
Acquisition of property, plant and equipment		(152)	(163)
Net cash outflow from investing activities		(157)	(233)
Cash flows from financing activities			
Proceeds from issue of share capital		194	-
Proceeds from bank loans		102	175
Financing costs		(11)	(8)
Capital repayments of finance leases		-	(3)
Interest paid		(93)	(110)
Settlement of interest rate swaps and foreign exchange contracts		(39)	5
Repayment of borrowings		(236)	(93)
Net cash outflow from financing activities		(83)	(34)
Net increase in cash and cash equivalents		125	81
Cash and cash equivalents at beginning of year		142	60
Effect of movements in foreign exchange		(3)	1
Cash and cash equivalents at end of year	5.1	264	142

SECTION I BASIS OF PREPARATION

52 weeks ended 28 December 2013

I.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).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

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 28 December 2013 (2012: 52 weeks ended 29 December 2012). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments measured at their fair value.

The consolidated financial statements are presented in Sterling. The functional currency of the Company is Sterling.

All values are stated in £ million (£m) except where otherwise indicated.

Going concern

The Group continues to trade profitably reporting a profit for the year of £145 million (2012: £76 million) and continues to generate cash with operating cash inflows of £365 million (2012: £348 million). As highlighted in note 5.2, the Group is funded by a bank loan facility, the maturity of which was extended in the year to 2019. The Group's forecasts show that it will be able to operate within the terms of that facility.

After reviewing the Group's cash flow forecasts and trading budgets and making appropriate enquiries, the Directors believe the Group to be operationally and financially robust and that it will generate sufficient cash to meet its borrowing requirements for the next twelve months. The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Basis of consolidation

On 12 November 2013 the entire share capital of the Group's previous parent company, Merlin Entertainments S.à r.l. was acquired by Merlin Entertainments plc funded by an issue of the equity instruments of Merlin Entertainments plc in exchange for these instruments. There were no changes in rights or proportions of control in the Group as a result of this transaction.

Whilst the equity instruments of Merlin Entertainments S.à r.l. were legally acquired, in substance the Directors have determined that Merlin Entertainments S.à r.l. is the accounting acquirer of Merlin Entertainments plc. As such, this transaction has been accounted for as a reverse acquisition.

Accordingly, these financial statements are issued in the name of the new legal parent, Merlin Entertainments plc, but are a continuation of the financial statements of Merlin Entertainments S.à r.l. In accordance with the requirements of IFRS 3 'Business Combinations', the financial statements of Merlin Entertainments S.à r.l., including comparative information, have been retroactively adjusted to transfer £1,230 million from share premium to capital reserve to reflect the legal capital position of Merlin Entertainments plc as shown in the consolidated statement of changes in equity. No other adjustments have arisen in respect of this reverse acquisition.

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc and 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. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. 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 28 December 2013

I.1 Basis of preparation (continued)

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, 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.

On an ongoing basis the following areas involve a higher degree of judgement or complexity and are explained in more detail in the related notes:

- * Recognition of deferred tax assets (note 2.3).
- * Impairment testing (note 4.3).

During the year the following specific item also involved a higher degree of judgement or complexity:

- * Accounting for the Group's amendment to its financing facilities (note 5.2).

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 6.5.

SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 28 December 2013

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 operating 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.

Information regarding the results of each operating segment is included below.

	2013 £m	2012 £m
Midway Attractions	524	458
LEGOLAND Parks	352	308
Resort Theme Parks	314	290
Segment revenue	1,190	1,056
Central and other revenue	2	18
Revenue	1,192	1,074

	2013 £m	2012 £m
Midway Attractions	212	179
LEGOLAND Parks	127	113
Resort Theme Parks	81	73
Segment profit, being segment EBITDA	420	365
Central costs	(30)	(19)
EBITDA before exceptional and non-trading items	390	346
Exceptional and non-trading items within EBITDA (note 2.2)	(30)	(6)
EBITDA	360	340
Depreciation, amortisation and impairment	(100)	(141)
Net finance costs	(88)	(101)
Consolidated profit before tax	172	98

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.1 Profit before tax (continued)

Geographical areas

While each Operating Group is managed on a worldwide basis the information presented below is based on the geographical locations of the visitor attractions concerned.

Geographical information

	Revenues 2013 £m	Non-current assets 2013 £m	Revenues 2012 £m	Non-current assets 2012 £m
United Kingdom	466	778	425	757
Continental Europe	307	829	280	796
North America	247	373	217	362
Asia Pacific	172	305	152	348
	<u>1,192</u>	<u>2,285</u>	<u>1,074</u>	<u>2,263</u>
Deferred tax		56		34
Investments		3		-
		<u>2,344</u>		<u>2,297</u>

Revenue

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, room revenue, retail and food and beverage sales. 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 year is not material.

Cost of sales

Cost of sales of £170 million (2012: £163 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 28 December 2013

2.1 Profit before tax (continued)

Operating costs

Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2013	2012
Operations	14,573	13,117
Attraction management and central administration	1,712	1,719
	16,285	14,836

The aggregate payroll costs of these persons were as follows:

	2013 £m	2012 £m
Wages and salaries	255	226
Social security costs	32	28
Other pension costs	10	8
	297	262

Auditor's remuneration

	2013 £m	2012 £m
Audit of these financial statements	1.0	1.2
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services ^{(1),(2)}	1.1	0.1
Other services relating to taxation	0.3	0.3
Services relating to corporate finance transactions ^{(2),(3)}	2.9	0.1
All other services	-	0.2
	5.6	2.2

⁽¹⁾ Other assurance services in 2013 includes £1.0 million in relation to the half year audit undertaken as part of the IPO process.

⁽²⁾ These costs are included within other operating expenses - exceptional and non-trading items (see note 2.2).

⁽³⁾ Services relating to corporate finance transactions includes fees incurred as part of the IPO process.

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.2 Exceptional and non-trading items

Accounting policy

Due to their nature, certain exceptional and non-trading items have been classified separately in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying business performance of the Group more accurately.

Exceptional and non-trading items

The following items are exceptional or non-trading and have been shown separately on the face of the consolidated income statement:

	2013 £m	2012 £m
<i>Within staff expenses:</i>		
Redundancy and related costs ⁽⁴⁾	-	1
	-	1
<i>Within other operating expenses:</i>		
Costs in respect of IPO ⁽¹⁾	28	-
Acquisition costs ⁽²⁾	2	5
	30	5
Exceptional and non-trading items included within EBITDA	30	6
<i>Within depreciation, amortisation and impairment:</i>		
Impairment of intangible assets ⁽⁵⁾	-	40
Impairment of property, plant and equipment ⁽⁵⁾	-	13
	-	53
Exceptional and non-trading items included within operating profit	30	59
<i>Within finance income and costs:</i>		
Unrealised gain on re-measurement of financial derivatives at fair value ⁽³⁾	(20)	(14)
Unrealised loss on re-measurement of financial derivatives at fair value ⁽³⁾	4	2
Settlement of foreign exchange contracts ⁽⁶⁾	-	(5)
	(16)	(17)
Exceptional and non-trading items before income tax	14	42
Exceptional and non-trading items income tax charge	3	2
Exceptional and non-trading items for the year	17	44

2013

- ⁽¹⁾ Certain professional and advisory fees have been incurred in 2013 as part of the process of listing shares in the Group through an Initial Public Offering. They are separately presented as they are not part of the Group's underlying operating expenses. In addition, £7 million has been recognised directly in equity.
- ⁽²⁾ Directly attributable acquisition and subsequent integration costs were incurred in respect of the acquisitions described in note 3.1. These are separately presented as they are not part of the Group's underlying operating expenses.
- ⁽³⁾ The Group has separately presented gains and losses on derivative financial instruments, where the items are not hedge accounted, in order to better present the underlying finance cost for the Group (note 5.5).

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.2 Exceptional and non-trading items (continued)

2012

- ⁽⁴⁾ Redundancy and related costs were incurred in 2012 following an internal review of the Gardaland Resort business in Italy. These were separately presented as they were not part of the Group's underlying operating expenses.
- ⁽⁵⁾ Total impairment losses of £53 million were incurred in 2012, being £40 million in respect of goodwill for the Resort Theme Parks Operating Group (note 4.2) and £13 million in aggregate in respect of property, plant and equipment at three of the Group's midway attractions (note 4.1). These were all driven by lower projected cash flows within business plans arising from adverse economic conditions within southern Europe.
- ⁽⁶⁾ The Group entered into a number of foreign exchange contracts in connection with the acquisition of Living and Leisure Australia in 2012. They were not hedge accounted and accordingly gains were recognised when they were settled. These were separately presented as they were not part of the Group's underlying finance income.

2.3 Taxation

Accounting policies

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 enacted or 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

	2013 £m	2012 £m
Current tax expense		
Current year	26	18
Adjustment for prior periods	(1)	-
Total current income tax	25	18
Deferred tax expense		
Origination and reversal of temporary differences	4	3
Changes in tax rate	-	(1)
Adjustment for prior periods	(2)	2
Total deferred tax	2	4
Total tax expense in income statement	27	22

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.3 Taxation (continued)

Reconciliation of effective tax rate

	2013 %	2013 £m	2012 %	2012 £m
Profit before tax		172		98
Income tax using the domestic corporation tax rate	23.0%	40	28.8%	28
Non-deductible expenses	9.8%	16	23.0%	22
Income not subject to tax	(9.9%)	(17)	(17.7%)	(17)
Effect of tax rates in foreign jurisdictions	10.6%	18	7.0%	7
Effect of changes in tax rate	0.1%	-	(0.9%)	(1)
Unrecognised temporary differences	1.0%	2	3.9%	4
Effect of recognising deferred tax assets previously unrecognised	(16.9%)	(29)	(23.1%)	(23)
Adjustment for prior periods	(2.0%)	(3)	1.4%	2
Total tax expense in income statement	15.7%	27	22.4%	22

Merlin Entertainments plc is a UK company and the reconciliation of effective tax rate has been performed at the UK statutory rate. The comparative information uses the Luxembourg statutory rate.

During 2013 a number of changes associated with the IPO, including the restructuring of debt facilities and the settlement of interest rate swaps have led to an increased certainty over the availability of future taxable profits in the UK, which has led to the recognition of deferred tax assets in the UK, arising largely from unclaimed capital allowances. Sensitivity analysis was performed when the asset was recognised. This showed that no reasonably foreseeable changes in the future taxable profits of the UK operations or the forecast capital spend would result in non-utilisation of the deferred tax assets.

Recognised directly in equity through the statement of other comprehensive income

	2013 £m	2012 £m
Foreign exchange translation differences relating to the net investment in foreign operations	1	(1)
Total tax expense/(income) in statement of other comprehensive income	1	(1)

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Property, plant and equipment	40	-	(112)	(83)	(72)	(83)
Other short term temporary differences	26	19	(13)	-	13	19
Intangible assets	-	-	(48)	(49)	(48)	(49)
Tax value of loss carry-forwards	3	13	-	-	3	13
Tax assets/(liabilities)	69	32	(173)	(132)	(104)	(100)
Set-off tax	(13)	2	13	(2)	-	-
Net tax assets/(liabilities)	56	34	(160)	(134)	(104)	(100)

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.3 Taxation (continued)

Other short term temporary differences primarily relate to miscellaneous items, including 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

	30 December 2012 £m	Acquired in business combinations (note 3.1) £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	28 December 2013 £m
Property, plant and equipment	(83)	-	10	-	1	(72)
Other short term temporary differences	19	-	(3)	(2)	(1)	13
Intangible assets	(49)	-	1	-	-	(48)
Tax value of loss carry-forwards	13	-	(10)	-	-	3
Net tax assets/(liabilities)	(100)	-	(2)	(2)	-	(104)

Movement in deferred tax during the previous year

	1 January 2012 £m	Acquired in business combinations (note 3.1) £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	29 December 2012 £m
Property, plant and equipment	(88)	(1)	4	-	2	(83)
Other short term temporary differences	13	4	3	-	(1)	19
Intangible assets	(50)	-	1	-	-	(49)
Tax value of loss carry-forwards	25	-	(12)	-	-	13
Net tax assets/(liabilities)	(100)	3	(4)	-	1	(100)

Unrecognised deferred tax assets

	2013 £m	2012 £m
Property, plant and equipment	7	29
Other short term temporary differences	30	30
Intangible assets	4	6
Tax value of loss carry-forwards	55	94
Net tax assets	96	159

The unrecognised deferred tax assets relating to loss carry-forwards include £nil (2012: £3 million) which expire within five years and £1 million (2012: £1 million) which expire within ten years. The remaining losses and other timing differences do not expire under current tax legislation. Unrecognised loss carry-forwards of £47 million ceased to exist on the liquidation of certain subsidiary companies domiciled in Luxembourg.

SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 28 December 2013

2.4 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period 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 period attributable to ordinary shareholders is adjusted for exceptional and non-trading items (see note 2.2).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013 £m	2012 £m
Profit attributable to ordinary shareholders	145	76
Exceptional and non-trading items net of tax (see note 2.2)	17	44
Adjusted profit attributable to ordinary shareholders	162	120

	2013	2012
Basic weighted average number of shares	957,880,691	947,404,479
Dilutive potential ordinary shares	-	-
Diluted weighted average number of shares	957,880,691	947,404,479

Awards issued under the share incentive schemes described in note 5.8 are not dilutive for the years ended 28 December 2013 and 29 December 2012, as the performance conditions attached to the PSP have not been achieved at the reporting date and the average market price of the ordinary shares subject to the CSOP scheme did not exceed the sum of the exercise price and the fair value of services to be provided for these awards.

Basic earnings per share

	2013 Pence	2012 Pence
Basic earnings per share	15.1	8.0
Diluted earnings per share	15.1	8.0

Adjusted earnings per share

	2013 Pence	2012 Pence
Adjusted earnings per share	16.9	12.7
Adjusted diluted earnings per share	16.9	12.7

SECTION 3 BUSINESS COMBINATIONS

52 weeks ended 28 December 2013

3.1 Business combinations

Accounting policies

When a business combination takes place, the Directors consider the rights and intentions of the directors of both entities and the overall controlling parties before and after acquisition to determine who the acquiring party is, and then account for business combinations by applying the purchase method. Having determined the acquiring party, any individually identifiable assets, liabilities and contingent liabilities acquired are valued. These include the property, plant and equipment and any intangible assets which can be sold separately or which arise from legal rights regardless of whether those rights are separable, with any remaining balance being assigned to goodwill.

Given the specialised nature of the property, plant and equipment 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 in note 4.1. Residual values are based on industry specific indices.

2013

Rays Ski Shop

On 9 January 2013 the Group acquired Rays Ski Shop in Victoria, Australia for the consideration of £1 million settled in cash. The net assets acquired were £nil. Goodwill arose on this acquisition as it provided an opportunity for the Group to expand its offering to customers visiting the Hotham and Falls Creek Ski Resorts.

Turkuazoo Aquarium

On 19 September 2013 the Group acquired the Turkuazoo Aquarium in Istanbul, Turkey for the consideration of £1 million settled in cash for 100 per cent of the share capital of Istanbul Sualti Dunyasi Turizm Ticaret A.S. The net assets acquired were £1 million. No goodwill arose on this acquisition.

Iconic Images

On 3 December 2013 the Group acquired Iconic Images International Limited for the consideration of £4 million settled in cash. The net assets acquired were £nil. Goodwill arose on this acquisition as it provided an opportunity for the Group to expand its retail offering on the South Bank, where the London Eye, SEA LIFE London Aquarium and the London Dungeon are all located.

These acquisitions had the following combined effect on the Group's assets and liabilities:

	Fair values at acquisition £m
<i>Acquirees' net assets at the acquisition date:</i>	
Property, plant and equipment	6
Bank loans	(5)
Net identifiable assets and liabilities	1
Goodwill	5
Consideration	6
<i>Analysis of consideration:</i>	
Cash	6
<i>Analysis of net cash outflow:</i>	
Cash paid at acquisition	6

SECTION 3 BUSINESS COMBINATIONS (continued)

52 weeks ended 28 December 2013

3.1 Business combinations (continued)

The goodwill on these transactions is not deductible for tax purposes.

In the period to 28 December 2013 these acquisitions contributed £1 million to the consolidated revenue and a profit of £nil to the consolidated underlying operating profit of the Group. Had the acquisitions occurred on 30 December 2012, the estimated Group revenue to 28 December 2013 would have been £1,196 million and the estimated underlying operating profit would have been £290 million.

2012

Living and Leisure Australia

The Group's offer to acquire all of Living and Leisure Australia (LLA) went unconditional with effect from 10 February 2012. This included nine leisure attractions in the Asia Pacific region as well as a management contract in Dubai. The acquired businesses have been integrated into the Group's existing Midway Attractions Operating Group.

As part of financing this acquisition, the Group drew down new debt under its existing financing facilities, and the consideration of £98 million was settled in cash. Directly attributable acquisition costs were incurred on the transaction and the subsequent integration activities of £2 million in 2011 and £5 million in 2012.

Goodwill arose on this acquisition as it provided opportunities for the Group to use its knowledge to develop the profitability of existing attractions as well as expand into new territories and facilitate the roll out of further midway attractions.

SEA LIFE London Aquarium Shop

The Group also acquired Cotswold Village Green Limited for £1 million in cash on 20 March 2012, which operated the shop adjacent to the SEA LIFE London Aquarium at County Hall, London. The net assets acquired were £nil. Goodwill arose on this acquisition as it provided an opportunity for the Group to expand its retail offering at the SEA LIFE London Aquarium site.

SECTION 3 BUSINESS COMBINATIONS (continued)

52 weeks ended 28 December 2013

3.1 Business combinations (continued)

These acquisitions had the following combined effect on the Group's assets and liabilities:

	Fair values at acquisition £m
<i>Acquirees' net assets at the acquisition date:</i>	
Property, plant and equipment	132
Other intangible assets	5
Inventories	2
Trade and other receivables	4
Cash and cash equivalents	27
Bank loans	(90)
Finance leases	(1)
Trade and other payables	(21)
Provisions and employee benefits	(10)
Current tax liabilities	(4)
Deferred tax assets and liabilities	3
Net identifiable assets and liabilities	47
Goodwill	52
Consideration	99
<i>Analysis of consideration:</i>	
Cash	99
	99
<i>Analysis of net cash outflow:</i>	
Cash acquired	(27)
Cash paid at acquisition	99
Net cash outflow	72

The goodwill on these transactions is not deductible for tax purposes.

In the period to 29 December 2012 these acquisitions contributed £75 million to the consolidated revenue and a profit of £19 million to the consolidated underlying operating profit of the Group. Had the acquisitions occurred on 1 January 2012, the estimated Group revenue to 29 December 2012 would have been £1,083 million and the estimated underlying operating profit would have been £258 million.

SECTION 4 OPERATING ASSETS AND LIABILITIES

52 weeks ended 28 December 2013

4.1 Property, plant and equipment

Accounting policies

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of PPE have different useful lives, they are accounted for separately.

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.

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

On inception of a lease 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 4.5.

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.1 Property, plant and equipment (continued)

Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
Balance at 1 January 2012	699	658	57	1,414
Acquisitions through business combinations (note 3.1)	91	39	2	132
Additions	11	32	127	170
Movements in asset retirement provisions	3	1	-	4
Disposals	(1)	(8)	-	(9)
Transfers	30	65	(95)	-
Effect of movements in foreign exchange	(21)	(13)	(1)	(35)
Balance at 29 December 2012	812	774	90	1,676
Acquisitions through business combinations (note 3.1)	-	6	-	6
Additions	9	34	106	149
Movements in asset retirement provisions (note 4.5)	2	(1)	-	1
Disposals	(5)	(11)	-	(16)
Transfers	63	73	(136)	-
Effect of movements in foreign exchange	(19)	(14)	2	(31)
Balance at 28 December 2013	862	861	62	1,785
Depreciation				
Balance at 1 January 2012	111	191	-	302
Depreciation for the year - owned assets	23	60	-	83
Depreciation for the year - leased assets	2	2	-	4
Impairment	8	5	-	13
Disposals	(1)	(8)	-	(9)
Effect of movements in foreign exchange	(4)	(3)	-	(7)
Balance at 29 December 2012	139	247	-	386
Depreciation for the year - owned assets	28	67	-	95
Depreciation for the year - leased assets	1	3	-	4
Disposals	(5)	(11)	-	(16)
Effect of movements in foreign exchange	(2)	(3)	-	(5)
Balance at 28 December 2013	161	303	-	464
Carrying amounts				
At 1 January 2012	588	467	57	1,112
At 29 December 2012	673	527	90	1,290
At 28 December 2013	701	558	62	1,321

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.1 Property, plant and equipment (continued)

PPE was tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. No impairment charges have been made in the year (2012: £8 million in land and buildings and £5 million in plant and equipment). The impairment in 2012 was in respect of three of the Group's midway attractions, arising from a review of market and economic conditions at those locations. The charge was included within depreciation, amortisation and impairment in the consolidated income statement.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets, some of which arose as a result of the arrangements referred to in note 5.3. At 28 December 2013 the net carrying amount of leased buildings was £19 million (2012: £20 million) and the net carrying amount of leased plant and machinery was £37 million (2012: £39 million).

Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to £35 million (2012: £40 million), for which no provision has been made. These commitments are expected to be settled within two financial years of the reporting date.

4.2 Goodwill and intangible assets

Accounting policies

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired and 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 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 definite 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 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.2 Goodwill and intangible assets (continued)

Goodwill and Intangible assets

	Intangible assets			
	Goodwill £m	Brands £m	Other £m	Total £m
Cost				
Balance at 1 January 2012	912	192	20	1,124
Acquisitions through business combinations (note 3.1)	52	-	5	57
Additions	-	-	1	1
Effect of movements in foreign exchange	(15)	(2)	(1)	(18)
Balance at 29 December 2012	949	190	25	1,164
Acquisitions through business combinations (note 3.1)	5	-	-	5
Additions	-	-	1	1
Effect of movements in foreign exchange	(12)	1	(1)	(12)
Balance at 28 December 2013	942	191	25	1,158
Amortisation and impairment				
Balance at 1 January 2012	133	13	8	154
Amortisation for the year	-	-	1	1
Impairment	40	-	-	40
Effect of movements in foreign exchange	-	(1)	-	(1)
Balance at 29 December 2012	173	12	9	194
Amortisation for the year	-	-	1	1
Effect of movements in foreign exchange	1	-	1	2
Balance at 28 December 2013	174	12	11	197
Carrying amounts				
At 1 January 2012	779	179	12	970
At 29 December 2012	776	178	16	970
At 28 December 2013	768	179	14	961

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. As a result of these tests, no goodwill has been written off in the year (2012: £40 million in respect of goodwill within the Resort Theme Parks operating segment).

Goodwill

Goodwill is allocated to the Group's 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.

	2013 £m	2012 £m
Midway Attractions	531	543
LEGOLAND Parks	39	39
Resort Theme Parks	198	194
	768	776

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.2 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.

	2013 £m	2012 £m
<i>Midway Attractions</i>		
Madame Tussauds	26	26
SEA LIFE	16	16
London Eye	10	10
Other	8	8
	60	60
<i>Resort Theme Parks</i>		
Gardaland Resort	48	47
Alton Towers Resort	32	32
Thorpe Park	15	15
Heide Park	12	12
Other	12	12
	119	118
	179	178

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 (including aquariums in London and Sydney). The London Eye, Gardaland Resort, Alton Towers Resort, Thorpe Park and Heide Park brands all arise from those specific visitor attractions.

4.3 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 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.3 Impairment testing (continued)

For assets that 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

Management judge the recoverable amount of an asset as 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. This multiple 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 are used as the basis for these calculations, with cash flows beyond the five year business plan horizon 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:

Estimate	
Future cash flows	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.
Growth in EBITDA	<p>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.</p> <p>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.</p>
Timing and quantum of future capital and maintenance expenditure	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.
Long term growth rates	A growth rate of 2.5 per cent. (2012: 2.5 per cent.) 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.
Discount rates to reflect the risks involved	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 nine per cent. and 13 per cent. (2012: nine per cent. and twelve per cent.), derived from the Group's post-tax weighted average cost of capital of between seven per cent. and ten per cent. (2012: seven per cent. and nine per cent.).

Projecting future growth involves a degree of judgement and uncertainty. The Group operates in geographically and politically diverse areas and although the Group has attained knowledge from the past performance of opening new attractions, inevitably the performance of new attractions, particularly in new markets, can be difficult to accurately predict. Similarly, the exposure of certain attractions to macro-economic volatility can give rise to uncertainties in these projections.

The Directors consider that no reasonably foreseeable change in any of the above key assumptions, in particular the discount rate and growth rate assumptions used, would significantly alter the outcome of the Group's impairment testing.

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.3 Impairment testing (continued)

No impairment losses were recorded in 2013. Total impairment losses of £53 million were recorded in 2012, being £40 million in respect of a partial impairment of goodwill for the Resort Theme Parks Operating Group and £13 million in aggregate in respect of property, plant and equipment at three of the Group's midway attractions. These were all primarily driven by lower projected cash flows within business plans arising from adverse economic conditions within southern Europe.

The key assumptions used in assessing the recoverable amount of Resort Theme Parks' goodwill in 2012 were the EBITDA forecasts and discount rate applied. If the estimated EBITDA levels used in the value in use calculations had been one per cent. lower than the estimate used at 29 December 2012 the Group would have recognised a further impairment against goodwill of £10 million. A pre-tax discount rate of eleven per cent. has been used to discount the forecast cash flows in these calculations. If the discount rate used in the value in use calculations had been 0.1 per cent. higher than the estimate used at 29 December 2012 the Group would have recognised a further impairment against goodwill of £8 million. At 28 December 2013 if the estimated EBITDA levels used in the value in use calculations had been one per cent. lower or the discount rate used had been 0.1 per cent. higher the Resort Theme Parks' goodwill would still not be impaired.

4.4 Working capital

Accounting policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on 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

	2013 £m	2012 £m
Maintenance inventory	6	6
Goods for resale	18	17
	24	23

Trade and other receivables

	Current assets		Non-current assets	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade receivables	12	12	-	-
Other receivables	25	12	-	-
Prepayments and accrued income	27	23	3	3
	64	47	3	3

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.4 Working capital (continued)

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for uncollectible amounts, is as follows:

	2013 £m	2012 £m
Neither past due nor impaired	6	7
Up to 30 days overdue	4	4
Between 30 and 60 days overdue	2	1
	12	12

Trade and other payables

	Current liabilities		Non-current liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade payables	28	33	-	-
Accruals and deferred income	184	133	3	3
Other payables	11	13	20	19
	223	179	23	22

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 28 December 2013

4.5 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 30 December 2012	29	20	49
Provisions made during the year	2	4	6
Utilised during the year	-	(5)	(5)
Unused amounts reversed	(1)	(1)	(2)
Unwinding of discount	1	-	1
Effect of movements in foreign exchange	(1)	-	(1)
Balance at 28 December 2013	30	18	48

2013

Current	-	11	11
Non-current	30	7	37
	30	18	48

2012

Current	-	13	13
Non-current	29	7	36
	29	20	49

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.

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.

SECTION 5 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 28 December 2013

5.1 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.

	2013 £m	2012 £m
Cash and cash equivalents	264	142
Interest-bearing loans and borrowings (note 5.2)	(1,185)	(1,337)
Net bank debt	(921)	(1,195)
Current finance leases (note 5.3)	-	-
Non-current finance leases (note 5.3)	(85)	(84)
Net debt	(1,006)	(1,279)

Restricted funds of £6 million (2012: £6 million) are included in cash and cash equivalents.

5.2 Borrowings

Accounting policy

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value, being consideration received less any directly attributable transaction costs. Thereafter, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. To calculate this effective interest rate the Group estimates the expected future gearing during the life of the facility based on the Group's business plans and forecasts, and expected future interest rates. This includes the amortisation of all transaction costs over the same period. The Group assesses whether the terms of the borrowings provide a clear commercial incentive or a contractual commitment to repay them over a specific period that is shorter than the contractual life of the facility, or if the Group's current plans or forecasts suggest an early repayment or refinancing is probable. If this is the case the Group will adopt that as the period used for the purposes of the effective interest rate calculations. If neither of these conditions exists the Group calculates its effective interest rate and hence amortises transaction costs based on the contractual term of the facility.

If the Group modifies its debt arrangements, it considers how substantive the change is in determining the appropriate accounting. This includes both qualitative analysis, and quantitative analysis of the level of change in the cash flows of the new and old arrangements.

Interest-bearing loans and borrowings

	Current		Non-current		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Secured bank loans	-	1	1,179	1,333	1,179	1,334
Interest payable	6	3	-	-	6	3
	6	4	1,179	1,333	1,185	1,337

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.2 Borrowings (continued)

Terms and debt repayment schedule

This table provides information about the contractual terms of the Group's interest-bearing loans and borrowings, showing both the principal and carrying values, which are measured at amortised cost. For more information about the Group's exposure to interest rate, liquidity, foreign currency and credit risks, see note 5.6.

	Currency	Nominal interest rate	Year of maturity	2013		2012	
				Principal value £m	Carrying amount £m	Principal value £m	Carrying amount £m
Secured bank loan	GBP	3.75%	2019	412	401	455	447
Secured bank loan	EUR	3.39%	2019	378	368	463	454
Secured bank loan	USD	3.43%	2019	329	323	277	273
Secured bank loan	AUD	5.87%	2019	90	87	164	159
Secured bank loan	RMB			-	-	1	1
				1,209	1,179	1,360	1,334
Interest payable					6		3
					1,185		1,337

On 28 June 2013 the Group entered into an amendment to the facility that extended the contractual date of repayment from July 2017 to July 2019, and that involved the Group repaying and then drawing down borrowings in a differently weighted blend of currencies to better match the Group's ongoing needs. Reflecting management's judgement that this is a non-substantive change to an existing facility, the Group accounted for this on a continuation accounting basis. At the reporting date the amended terms of the borrowings provide no clear commercial incentive or contractual commitment to repay them over a specific period that is shorter than the contractual life of the facility and accordingly the Group calculates its effective interest rate and hence amortises transaction costs based on the contractual term of the facility. The loans are secured by fixed charges over the shares in certain Group companies and certain intra-group receivables.

The nominal interest rate for secured bank loans in the table above represents the floating interest rate, including applicable margin, which prevailed at the reporting date. The Group uses interest rate swaps to hedge its interest rate exposure and these are described in note 5.4.

5.3 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. 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.

Lease arrangements

The Group undertook a sale and leaseback transaction during 2007, involving the property, plant and equipment of certain attractions. The leases entered into are accounted for as finance or operating leases depending on the specific circumstances of each lease.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.3 Lease obligations (continued)

Each of these lease 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.

During 2012 the Group undertook a sale and leaseback transaction of the LEGOLAND Windsor Hotel. The lease entered into is being accounted for as an operating lease. The gain on the sale is deferred over the 35 year lease term, as the lease was not at fair value.

In addition, the Group also enters into operating leases for a number of its premises. These leases are typically of a duration of between ten and 60 years, with rent increases generally determined based on local market practice. The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. During 2013 £83 million (2012: £76 million) was recognised as an expense in the income statement in respect of operating leases.

The tables below set out the total lease obligations for the Group:

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 2013 £m	Interest 2013 £m	Present value of minimum lease payments 2013 £m	Future minimum lease payments 2012 £m	Interest 2012 £m	Present value of minimum lease payments 2012 £m
Less than one year	6	6	-	6	6	-
Between one and five years	26	26	-	24	24	-
More than five years	259	174	85	254	170	84
	291	206	85	284	200	84

	Currency	Nominal interest rate	Year of maturity	2013 £m	2012 £m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	31	30
				85	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:

	2013 £m	2012 £m
Less than one year	74	68
Between one and five years	291	269
More than five years	1,380	1,359
	1,745	1,696

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.4 Derivative financial instruments

Accounting policies

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate exposures.

Interest rate swaps, foreign exchange contracts and committed share issues

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Thereafter changes in fair value are recognised immediately in the income statement, except where the Group adopts hedge accounting as described below.

The fair value of interest rate swaps is determined by reference to market rates at the end of the accounting period. It is the estimated amount that the Group would receive or pay to exit the swap at the end of the reporting period, taking into account current interest rates, credit risks and bid/ask spreads.

The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates at the end of the accounting period.

Hedge accounting

The Group has designated certain derivatives as hedges against variable cash flows resulting from fluctuations in interest rates. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, and the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as 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 period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. Effectiveness testing is performed using regression analysis at inception and on a regular basis thereafter.

The effective portion of changes in fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative 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, and under the same line item in the statement of comprehensive income as the hedged item.

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.

Other financial assets

	2013 £m	2012 £m
Derivative financial instruments		
Hedge accounted interest rate swaps	4	-
Non-hedge accounted interest rate swaps	1	-
Non-hedge accounted foreign exchange contracts	1	-
	6	-

Other financial liabilities

	2013 £m	2012 £m
Derivative financial instruments		
Hedge accounted interest rate swaps	8	8
Non-hedge accounted interest rate swaps	1	55
	9	63

The Group's exposure to interest rate, liquidity, foreign currency and credit risks is disclosed in note 5.6.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.5 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.

Net investment in foreign entities

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. The Group 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.

Finance Income and costs

Finance income

	2013 £m	2012 £m
<i>In respect of assets not held at fair value</i>		
Interest income	1	6
<i>In respect of liabilities held at fair value</i>		
Unrealised gain on re-measurement of financial derivatives at fair value		
- Interest rate swaps and foreign exchange contracts	20	14
<i>Other</i>		
Net foreign exchange gain	-	5
	21	25

Finance costs

	2013 £m	2012 £m
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	102	122
Other interest expense	1	2
<i>In respect of liabilities held at fair value</i>		
Unrealised loss on re-measurement of financial derivatives at fair value		
- Interest rate swaps and foreign exchange contracts	4	2
<i>Other</i>		
Net foreign exchange loss	2	-
	109	126

Capitalised borrowing costs amounted to £2 million in 2013 (2012: £3 million), with a capitalisation rate of 6.8 per cent. (2012: 7.5 per cent.). Tax relief on capitalised borrowing costs amounted to £1 million in 2013 (2012: £1 million).

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.5 Finance income and costs (continued)

Recognised in consolidated statement of other comprehensive income

	2013 £m	2012 £m
Foreign currency translation differences relating to the net investment in foreign operations	8	(6)

Foreign currency translation differences relating to the net investment in foreign operations are stated before attributable income tax (note 2.3).

5.6 Financial risk factors and fair value analysis

Interest rate risk

Interest rate risk is the risk that the Group is impacted by changes in interest rates. At 28 December 2013 the Group had floating rate debt in Sterling, Euros, US Dollars and Australian Dollars.

The Group hedges its cash flow exposure to its floating rate loans with interest rate swaps. At the reporting date 85 per cent. (2012: 76 per cent.) of the secured bank loans were hedged in this way.

The carrying amount of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2013 £m	2012 £m
<i>Fixed rate instruments</i>		
Financial liabilities - finance leases	(85)	(84)
Financial liabilities - interest rate swaps	(4)	(63)
	(89)	(147)
<i>Variable rate instruments</i>		
Financial assets - cash and cash equivalents	264	142
Financial liabilities - bank loans and overdrafts	(1,179)	(1,334)
	(915)	(1,192)

Interest rate swaps have a fixed leg and a floating leg; they have been classified as fixed rate financial liabilities in the table above as the fair value of the swaps is dependent on the fixed rate.

The Group has performed sensitivity analysis on these balances as follows:

Fair value sensitivity analysis

This analysis shows the Group's sensitivity to changes in interest rates. It is calculated by measuring the impact on profit and loss or equity of a change in the present value of derivatives. This assumes a shift in the yield curve of +/- 50 basis points (bp) (2012: 50bp).

If interest rates had been 50bp higher/lower and all other variables were held constant, the impact would be as follows:

	2013		2012	
	Profit or loss £m	Equity £m	Profit or loss £m	Equity £m
50bp increase in interest rates	-	(14)	11	2
50bp reduction in interest rates	-	14	(11)	(2)

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.6 Financial risk factors and fair value analysis (continued)

Cash flow sensitivity analysis

This analysis shows the sensitivity of the Group's cash flows to changes in interest rates by comparing the expected annual interest expense/income which would apply to year end balances at year end interest rates, to the annual expense/income which would arise had interest rates been 50bp higher.

This analysis assumes that all other variables remain constant.

	Profit or (loss)	
	2013 £m	2012 £m
Bank loans and overdrafts	(5)	(7)
Interest rate swaps	5	5
Cash and cash equivalents	1	1
Cash flow sensitivity (net)	1	(1)

A decrease of 50bp would result in a loss of £1 million (2012: profit of £1 million).

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 liquidity funds. In some jurisdictions bank cash pooling arrangements are in place to optimise the use of cash. The Group has access to a revolving credit facility of £150 million (2012: £138 million) in addition to its existing borrowings to meet any shortfalls.

At 28 December 2013, the Group had cash and cash equivalents of £264 million together with this revolving credit facility, which can be used to meet its contractual cash flows.

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.

	Carrying amount £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
2013						
<i>Non-derivative financial liabilities</i>						
Secured bank loans	1,179	(1,462)	(45)	(45)	(139)	(1,233)
Finance lease liabilities	85	(206)	(6)	(6)	(20)	(174)
Trade payables	28	(28)	(28)	-	-	-
<i>Derivative financial liabilities</i>						
Hedge accounted interest rate swaps	8	(25)	(5)	(1)	(19)	-
Non-hedge accounted interest rate swaps	1	(1)	(1)	-	-	-
	1,301	(1,722)	(85)	(52)	(178)	(1,407)

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.6 Financial risk factors and fair value analysis (continued)

	Carrying amount £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
2012						
<i>Non-derivative financial liabilities</i>						
Secured bank loans	1,334	(1,671)	(67)	(67)	(1,537)	-
Finance lease liabilities	84	(205)	(6)	(6)	(18)	(175)
Trade payables	33	(33)	(33)	-	-	-
<i>Derivative financial liabilities</i>						
Hedge accounted interest rate swaps	8	(9)	(4)	(5)	-	-
Non-hedge accounted interest rate swaps	55	(63)	(27)	(27)	(9)	-
	1,514	(1,981)	(137)	(105)	(1,564)	(175)

Foreign currency risk

The Group operates internationally with its operating assets, revenues and costs denominated primarily in the functional currencies of the relevant local territories. The Group is exposed to foreign currency risk on cash flows that are not denominated in an entity's local currency and to the translation of non-Sterling earnings. Net foreign exchange cash flow exposures, where material, are hedged by foreign exchange transactions.

The translation exposures to foreign currency earnings are hedged by bank debt denominated in the Group's principal currencies in ratios intended to provide a match between funding requirements and the cash generation capabilities of the Group's operations in each of its locations. The principal currencies are Sterling, Euros, US Dollars and Australian Dollars.

The Group's financial instruments are set out by currency below:

	Sterling £m	Euro £m	US Dollar £m	Australian Dollar £m	Other £m	Total £m
2013						
Cash and cash equivalents	220	8	11	4	21	264
Trade receivables	6	2	2	1	1	12
Secured bank loans	(401)	(368)	(323)	(87)	-	(1,179)
Finance lease liabilities	(54)	(31)	-	-	-	(85)
Derivatives	5	(2)	(6)	-	-	(3)
Trade payables	(10)	(9)	(3)	(2)	(4)	(28)
	(234)	(400)	(319)	(84)	18	(1,019)
2012						
Cash and cash equivalents	116	9	6	4	7	142
Trade receivables	5	2	2	2	1	12
Secured bank loans	(447)	(454)	(273)	(159)	(1)	(1,334)
Finance lease liabilities	(54)	(30)	-	-	-	(84)
Derivatives	(23)	(28)	(12)	-	-	(63)
Trade payables	(10)	(12)	(7)	(2)	(2)	(33)
	(413)	(513)	(284)	(155)	5	(1,360)

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.6 Financial risk factors and fair value analysis (continued)

The Group treats certain structural intercompany loans as net investment hedging instruments. At 28 December 2013 the Group had hedged £251 million (2012: £552 million) in Euro denominated loans, £17 million (2012: £57 million) in Sterling denominated loans and £149 million (2012: £40 million) in US Dollar denominated loans. Translation movements on these loans are therefore shown in other comprehensive income, see note 5.5.

Foreign currency sensitivity analysis

The table below shows the sensitivity to a ten per cent. strengthening/weakening of Sterling against all foreign currencies at the reporting date.

The Group's sensitivity to foreign exchange rates is calculated by retranslating monetary assets and liabilities which are held in currencies other than the functional currencies of the reporting entities using exchange rates which have been flexed by +/- ten per cent. from the Sterling exchange rates existing at the end of the reporting period. Where the Group has designated specific monetary assets or liabilities as hedging instruments that are hedging underlying foreign exchange exposures, this has been taken account of. The sensitivity analysis for forward foreign exchange contracts uses a discounted cash flow technique applying a ten per cent. strengthening/weakening of Sterling against Euros, US Dollars, Danish Kroner, Hong Kong Dollars, Australian Dollars and Singapore Dollars. The analysis assumes that all other variables remain constant.

The impact of these retranslations on profit/loss has been aggregated and is as follows, split by category of financial instrument:

10% strengthening of Sterling

	Profit or (loss) impact		
	Secured bank loans £m	Derivatives (unhedged) £m	Total £m
2013			
Euro	2	3	5
US Dollars	5	-	5
Danish Kroner	-	(1)	(1)
Hong Kong Dollars	-	(1)	(1)
Australian Dollars	(2)	1	(1)
Singapore Dollars	-	1	1
	5	3	8
2012			
Euro	2	3	5
US Dollars	10	(1)	9
Danish Kroner	-	(1)	(1)
Hong Kong Dollars	-	-	-
Australian Dollars	(2)	-	(2)
Singapore Dollars	-	-	-
	10	1	11

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.6 Financial risk factors and fair value analysis (continued)

10% weakening of Sterling

	Profit or (loss) impact		
	Secured bank loans £m	Derivatives (unhedged) £m	Total £m
2013			
Euro	(2)	(4)	(6)
US Dollars	(5)	-	(5)
Danish Kroner	-	1	1
Hong Kong Dollars	-	1	1
Australian Dollars	1	(1)	-
Singapore Dollars	-	(1)	(1)
	(6)	(4)	(10)
2012			
Euro	(2)	(3)	(5)
US Dollars	(10)	1	(9)
Danish Kroner	-	1	1
Hong Kong Dollars	-	-	-
Australian Dollars	2	-	2
Singapore Dollars	-	-	-
	(10)	(1)	(11)

A ten per cent. strengthening/weakening of Sterling would have no impact on the hedging reserve.

Certain financial assets and liabilities of the Group are held by entities operating with a functional currency other than Sterling and do not have a base in local functional currency or Sterling. Accordingly, these instruments are sensitive to movements in foreign exchange rates but are not impacted by a strengthening or weakening of Sterling as presented above. The impact on profit/(loss) would be a loss of £3 million following a ten per cent. strengthening of the relevant functional currency and would be a profit of £3 million following a ten per cent. weakening of the relevant functional currency.

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 credit policies in place with regard to its trade receivables. Credit evaluations are 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 financial 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 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.6 Financial risk factors and fair value analysis (continued)

Fair values**Basis for determining fair values***Derivatives*

Derivatives are carried at fair value, as defined in note 5.4.

Non-derivative financial assets

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Where available, market values have been used to determine the fair values of secured bank loans. Where market values are not available, or are not reliable, fair values have been calculated by discounting cash flows at prevailing interest rates. During 2013 market values became available for secured bank loans following the amendment to the facility. In 2012 the discount rate used for determining the fair value of the secured bank loans was 7.8 per cent. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2013		2012	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Derivative assets and liabilities:</i>				
Hedge accounted interest rate swaps	(4)	(4)	(8)	(8)
Non-hedge accounted interest rate swaps	-	-	(55)	(55)
Non-hedge accounted foreign exchange contracts	1	1	-	-
<i>Non-derivative assets and liabilities:</i>				
Investments	3	3	-	-
Trade and other receivables	37	37	24	24
Cash and cash equivalents	264	264	142	142
Secured bank loans	(1,179)	(1,217)	(1,334)	(1,275)
Finance lease liabilities	(85)	(85)	(84)	(84)
Trade and other payables	(28)	(28)	(33)	(33)
	(991)	(1,029)	(1,348)	(1,289)

Fair value hierarchy

The Group analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- * Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- * Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- * Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

At 28 December 2013 the Group had £3 million (2012: £63 million) of derivative financial liabilities classified as Level 2. The Group has an investment in IDR Resorts Sdn. Bhd. acquired for £3 million as disclosed in note 6.1. This investment is classified as a Level 3 investment in the fair value hierarchy. At the reporting date there are no indicators the value is either impaired or above cost. Accordingly, no valuation adjustments have been recorded. There have been no transfers between levels in 2013 (2012: nil). No other financial instruments are held at fair value. If the secured bank loans were held at fair value they would be classified as Level 1.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.7 Equity and capital management

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 5.2), 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 schemes 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.

Share capital and reserves

Share capital

	2013 Number	2012 Number	2013 £m	2012 £m
<i>Ordinary shares of £0.01 each</i>				
On issue and fully paid at beginning of year	156,767,050	156,271,845	1	1
Cancelled in the year	(10,868,759)	-	-	-
Bonus issue	804,101,709	-	8	-
Issued in the year	63,746,032	495,205	1	-
On issue and fully paid at end of year	1,013,746,032	156,767,050	10	1

The share capital above reflects the retroactive adjustment described in note 1.1.

Issue of new shares

2013

The Company was incorporated on 20 September 2013. On incorporation one A ordinary share of £0.01 was issued for consideration of £0.01.

On 12 November 2013 the Company acquired the entire issued share capital of Merlin Entertainments S.à r.l. in consideration for the issue of 136,767,049 A ordinary shares of £0.01 to the previous shareholders of A class shares of Merlin Entertainments S.à r.l. and 20,000,000 B ordinary shares of £0.01 to the previous shareholders of B class ordinary shares of Merlin Entertainments S.à r.l.

On 13 November 2013 all of the A ordinary shares and 9,131,241 of the B ordinary shares of the Company were converted into ordinary shares of £0.01 in Merlin Entertainments plc. The remaining 10,868,759 B ordinary shares were converted into deferred ordinary shares in Merlin Entertainments plc and were subsequently gifted back to the Company and cancelled.

On 13 November 2013 a bonus issue of 804,101,709 shares was made to holders of the ordinary shares in the Company. No consideration was payable on the issue of the shares.

On 13 November 2013 the Company became listed on the London Stock Exchange and the issue of 63,492,064 ordinary shares for a total consideration of £200 million became unconditional. £7 million of directly attributable costs were recorded in equity in retained earnings. Costs not directly attributable to the issue of new shares were charged to the income statement.

On 13 November 2013 the Company issued 253,968 ordinary shares to certain Non-executive Directors for consideration of £1 million.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.7 Equity and capital management (continued)

2012

To assist with the acquisition and development into LEGOLAND Florida of the Cypress Gardens theme park in 2010, the Group entered into an agreement with an existing shareholder to invest US\$30 million. The agreement allowed for additional shares to be issued at par to the shareholder should a listing or sale of the Group not take place before 31 August 2012. In 2011 it was considered probable that such an event would not occur, and accordingly this committed share issue was recognised at a value of £4 million. 495,205 A ordinary shares in Merlin Entertainments S.à r.l. were therefore issued during 2012 resulting in a premium of £4 million.

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. No shareholder holds shares carrying special rights relating to the control of the Company. However, the Company has entered into Relationship Agreements with each of the pre-IPO major shareholders, KIRKBI, Blackstone and CVC in connection with the exercise of their rights as major shareholders in the Company and their right to appoint Directors to the Board.

The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Capital reserve

Balances have arisen 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 arising represent the difference between the value of the equity structure of the previous and new parent companies. When the capital position of the parent company is rearranged, such as for the bonus issue in the year, the capital reserve is adjusted appropriately such that the equity balances presented in the Group accounts best reflect the underlying structure of the Group's capital base.

No other adjustments have arisen in respect of this reverse acquisition.

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.

5.8 Share-based payment transactions

Accounting policy

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.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.8 Share-based payment transactions (continued)

Equity-settled schemes

The Group operates three employee share incentive schemes: the Performance Share Plan (PSP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan as set out in the Directors' Remuneration Report and the tables below.

The first issues of awards under the PSP and CSOP were in November 2013 and the Company intends to issue awards to eligible employees following the issue of the 2014 year end financial statements and annually thereafter. Permanent employees are eligible to receive these awards at the discretion of the Remuneration Committee. The Sharesave Plan was launched in January 2014 after the balance sheet date. There were no employee Sharesave Plan contracts in respect of options over shares in the Company at 28 December 2013 (2012: nil).

All awards under the PSP and CSOP are granted for nil consideration. The total number of shares granted under the various Group incentive plans, excluding lapsed and surrendered options, may not exceed ten per cent. of the issued share capital in any ten year period (101 million £0.01 ordinary shares as at 28 December 2013).

PSP Awards

Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2013	Number of shares 2012
12 November 2013	-	2017-2024	10.3	3,633,489	-
				3,633,489	-

CSOP Awards

Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2013	Number of shares 2012
12 November 2013	3.15	2016-2023	9.9	2,298,375	-
				2,298,375	-

A summary of the rules for both schemes and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

The weighted average exercise prices (WAEP) over the year were as follows:

PSP Awards

	Number 2013	WAEP (£) 2013	Number 2012	WAEP (£) 2012
Outstanding at beginning of year	-	n/a	-	n/a
Granted during the year	3,633,489	-	-	n/a
Outstanding at end of year	3,633,489	-	-	n/a
Exercisable at end of year	-	-	-	n/a

CSOP Awards

	Number 2013	WAEP (£) 2013	Number 2012	WAEP (£) 2012
Outstanding at beginning of year	-	n/a	-	n/a
Granted during the year	2,298,375	3.15	-	n/a
Outstanding at end of year	2,298,375	3.15	-	n/a
Exercisable at end of year	-	-	-	n/a

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 28 December 2013

5.8 Share-based payment transactions (continued)

The fair value per award granted and the assumptions used in the calculations are as follows:

Date of grant	Type of award	Number of awards	Exercise price (£)	Share price at grant date (£)	Fair value per award (£)	Expected dividend yield	Expected volatility	Award life (years)	Risk free rate
12 November 2013	PSP	3,633,489	-	3.15	3.15	n/a	n/a	3.4	1.1%
12 November 2013	CSOP	2,298,375	3.15	3.15	0.97	0.8%	30%	4.9	1.7%

A description of the key assumptions used in calculating the share-based payments is as follows:

- * The binomial valuation methodology was used.
- * Due to insufficient 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.

The total charge for the year relating to employee share-based payment plans was £nil (2012: £nil) which was charged to staff expenses.

Equity-settled schemes (closed)

The Group previously operated equity-settled schemes that enabled certain senior employees to acquire B class ordinary shares in Merlin Entertainments S.à r.l. at market value. Market value was determined based on an analysis of profit multiples in the Group's industry sector. At the discretion of the CEO further shares could also have been granted in recognition of long service and/or outstanding contribution. These shares vested on the IPO of the Company in November 2013.

No charge arose during the year (2012: £nil). The number of shares issued was as follows:

	Number 2013	Number 2012
At beginning of year	19,283,150	17,996,500
Issued during the year	1,320,725	1,626,875
Forfeited during the year	(603,875)	(340,225)
Converted into B ordinary shares of Merlin Entertainments plc	(20,000,000)	-
At end of year	-	19,283,150

SECTION 6 OTHER NOTES

52 weeks ended 28 December 2013

6.1 Investments

Accounting policy

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Investments

	2013 £m	2012 £m
Other	3	-
	3	-

Investment in joint ventures

	2013 £m	2012 £m
At beginning of year	-	1
Effect of movements in foreign exchange	-	(1)
At end of year	-	-

Other

In November 2013 the Group acquired 16,350,300 shares in IDR Resorts Sdn. Bhd. (IDR) for the consideration of £3 million. This represents 8.8 per cent. of the outstanding share capital of IDR. IDR is accounted for at fair value and is not consolidated.

6.2 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 employees. 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 (2012: £8 million).

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.2 Employee benefits (continued)

Defined benefit pension schemes

The Group operates two defined benefit schemes: a closed scheme for certain former UK employees of The Tussauds Group, which was acquired in 2007, and a closed scheme for certain employees of Gardaland in Italy. The Tussauds Group 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 entitlement of the retired employees under the Gardaland scheme is dependent on the state laws in place at the date employment commenced and is subject to a certain minimum period of service. 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.

The assets and liabilities of the schemes are:

	Tussauds Group £m	Gardaland £m	Total £m
2013			
Equities	11	-	11
Corporate bonds and cash	5	-	5
Property	1	-	1
Fair value of scheme assets	17	-	17
Present value of defined benefit obligations	(20)	(1)	(21)
Net pension liability	(3)	(1)	(4)
2012			
Equities	7	-	7
Corporate bonds and cash	3	-	3
Property	5	-	5
Fair value of scheme assets	15	-	15
Present value of defined benefit obligations	(18)	(2)	(20)
Net pension liability	(3)	(2)	(5)

Movement in the present value of scheme assets

	Tussauds Group £m	Gardaland £m	Total £m
At 1 January 2012	13	-	13
Interest income on plan assets	1	-	1
Remeasurement gain	1	-	1
At 29 December 2012	15	-	15
Interest income on plan assets	1	-	1
Remeasurement gain	1	-	1
At 28 December 2013	17	-	17

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.2 Employee benefits (continued)

Movement in the present value of the defined benefit obligations

	Tussauds Group £m	Gardaland £m	Total £m
At 1 January 2012	(16)	(2)	(18)
Interest cost	(1)	-	(1)
Remeasurement loss	(1)	-	(1)
At 29 December 2012	(18)	(2)	(20)
Transfers out	-	1	1
Interest cost	(1)	-	(1)
Remeasurement loss	(1)	-	(1)
At 28 December 2013	(20)	(1)	(21)

Amounts recognised in the income statement

	Tussauds Group £m	Gardaland £m	Total £m
2013			
Net interest on defined benefit liability	-	-	-
2012			
Net interest on defined benefit liability	-	-	-

Amounts recognised in the statement of comprehensive income

	Tussauds Group £m	Gardaland £m	Total £m
2013			
Return on plan assets (excluding amounts included in net interest expense)	1	-	1
Actuarial changes arising from changes in financial assumptions	(1)	-	(1)
Actuarial changes arising from changes in demographic assumptions	1	-	1
Actuarial changes arising from changes in experience	(1)	-	(1)
	-	-	-
2012			
Return on plan assets (excluding amounts included in net interest expense)	1	-	1
Actuarial changes arising from changes in financial assumptions	(1)	-	(1)
	-	-	-

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.2 Employee benefits (continued)

Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were:

	Tussauds Group 2013	Tussauds Group 2012	Gardaland 2013	Gardaland 2012
Discount rate	4.6%	4.5%	3.1%	2.8%
Future salary increases	3.7%	3.4%	-	-
Rate of price inflation	3.4%	3.1%	2.0%	2.0%

The amendment to IAS 19 became effective in the current financial year and has been applied retrospectively. Under the amendment to IAS 19, the expected rate of return on scheme assets must be the same as the discount rate used in the calculation of scheme liabilities. The impact of reducing the expected rate of return on the scheme assets from 5.0 per cent to 4.5 per cent for 2012 is £nil.

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.

History of actuarial gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of the defined benefit obligation	(21)	(20)	(18)	(16)	(16)
Fair value of scheme assets	17	15	13	13	11
Deficit in the schemes	(4)	(5)	(5)	(3)	(5)
Actuarial adjustments arising on scheme liabilities	(1)	(1)	(1)	1	(2)
Actuarial adjustments arising on scheme assets	1	1	(1)	1	1

The cumulative amount of actuarial gains and losses recognised is a loss of £2 million.

Consolidated statement of financial position reconciliation

	2013 £m	2012 £m
Liability at beginning of year	(5)	(5)
Transfers out	1	-
Liability at end of year	(4)	(5)

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2014.

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.3 Related party transactions

Identity of related parties

The Group has related party relationships with its pre-IPO major shareholders who exert significant influence, key management personnel, joint ventures and IDR Resorts Sdn. Bhd. which, together with its subsidiaries, owns LEGOLAND Malaysia Park.

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 the pre-IPO major shareholders, KIRKBI Invest A/S, Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.). The Group also entered into transactions with CVC Capital Partners and the LEGO Group, a related party of KIRKBI Invest A/S. Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 28 December 2013, are as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases £m	Amounts owed to related party £m
2013				
KIRKBI Invest A/S	-	-	7	1
Blackstone Capital Partners	-	-	1	-
CVC Capital Partners	-	-	1	-
LEGO Group	1	1	37	1
	1	1	46	2
2012				
KIRKBI A/S	-	-	7	1
Blackstone Capital Partners	-	-	1	-
CVC Capital Partners	-	-	1	-
LEGO Group	1	1	37	2
	1	1	46	3

As members of a banking syndicate, certain shareholders (or other parties related to those shareholders) are owners of elements of the Group's bank loan portfolio as described in note 5.2. Balances outstanding at 28 December 2013 are: parties related to KIRKBI Invest A/S £56 million (2012: £59 million), funds advised by parties related to Blackstone Capital Partners £36 million (2012: £38 million) and funds advised by parties related to CVC Capital Partners £31 million (2012: £44 million).

Interest is paid and accrued on the same terms as the rest of the banking syndicate as described in note 5.2.

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.3 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 (2012: the members of the Executive Board) and their immediate relatives control 2.6 per cent. (2012: 7.1 per cent.) of the voting shares of the Company.

The compensation of key management was as follows:

	2013 £m	2012 £m
Key management emoluments including social security costs	4.2	2.6
Contributions to money purchase pension schemes	0.4	0.3
Share-based payments and other related payments	0.2	-
	4.8	2.9

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group is committed to subscribing 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 (together 'parties related to LEGOLAND Malaysia'). At 28 December 2013 the Group had subscribed for 16,350,300 shares in IDR.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 28 December 2013, are as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases £m	Amounts owed to related party £m
2013				
Parties related to LEGOLAND Malaysia	2	3	-	-
2012				
Parties related to LEGOLAND Malaysia	4	4	1	-

6.4 Contingent liabilities

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 (2012: £1 million).

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.5 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 1 (Amendment) 'Presentation of items of other comprehensive income'.
- * IAS 1 (Amendment) 'Presentation of financial statements - comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes'.
- * IAS 16 (Amendment) 'Property, plant and equipment - classification of servicing equipment'.
- * IAS 32 (Amendment) 'Financial instruments: presentation - income tax consequences of distributions'.
- * IAS 34 (Amendment) 'Interim financial reporting - segment assets and liabilities'.
- * IFRS 13 'Fair value measurement'.
- * IAS 19 (Amendment) 'Defined benefit plans'.
- * IFRS 7 (Amendment) 'Financial instruments: disclosures - offsetting financial assets and financial liabilities'.

EU endorsed IFRS and interpretations with effective dates after 28 December 2013 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 2014 or after. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- * IFRS 10 'Consolidated financial statements'.
- * IFRS 11 'Joint arrangements'.
- * IFRS 12 'Disclosure of interests in other entities'.
- * IAS 27 'Separate financial statements'.
- * IAS 28 'Investments in associates and joint ventures'.
- * IAS 32 (Amendment) 'Financial instruments: presentation - offsetting financial assets and financial liabilities'.

6.6 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.

6.7 Subsequent events

In the Company's IPO Prospectus the Company noted its intention to reduce its share capital by means of a court sanctioned reduction of capital. The final court hearing to formally approve the proposed reduction is scheduled to take place on 26 February 2014. If the reduction is approved, the effect will be to increase available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

On 24 February 2014 the Company announced a strategic alliance with DreamWorks to launch a new midway brand. This will see an initial roll out programme of six attractions over nine years in international city locations.

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.8 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 2013	Ownership 2012
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%
Hotham Ski Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Illawarra Tree Topps 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	Australia	Ordinary	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%
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%

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2013	Ownership 2012
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 (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China	Ordinary	100.0%	-
Merlin Entertainments Hong Kong 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%
LL Datterselskab af december 2012 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%
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy	Ordinary	99.9%	97.8%
Incoming Gardaland S.r.l.	Italy	Ordinary	99.9%	97.8%
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%
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy	Ordinary	⁽¹⁾ 49.4%	⁽¹⁾ 44.7%
Ronchi S.p.A.	Italy	Ordinary	90.4%	88.5%
LEGOLAND Japan Limited	Japan	Ordinary	100.0%	-
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg	Ordinary	100.0%	-
Merlin Lux Finco 2 S.à r.l.	Luxembourg	Ordinary	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%

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2013	Ownership 2012
Merlin Entertainments Singapore Pte. Ltd	Singapore	Ordinary	100.0%	-
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%
Merlin Entertainments (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 Dunyasi Turizim Ticaret A.S	Turkey	Ordinary	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 (<i>company limited by guarantee</i>)	UK	-	100.0%	100.0%
Charcoal CLG 2 Limited (<i>company limited by guarantee</i>)	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%	-
LEGOLAND US Holdings Limited	UK	Ordinary	100.0%	100.0%
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 Tussaud's Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%
M.E.G.H. Limited	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 (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited	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	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%	-
Merlin UK Finco 2 Limited	UK	Ordinary	100.0%	-
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2013	Ownership 2012
SEA LIFE Centres Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Marine Conservation 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 (NBD) Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds Finance Limited	UK	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	100.0%
Tussauds Holdings Limited	UK	Ordinary	100.0%	100.0%
Tussauds Hotels Limited	UK	Ordinary	100.0%	100.0%
Tussauds Intermediate Holdings Limited	UK	Ordinary	100.0%	100.0%
Tussauds Limited	UK	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited	UK	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited	UK	Ordinary	100.0%	100.0%
Wizard EquityCo Limited	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited	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 Boston LLC	USA	-	100.0%	-
LEGOLAND Discovery Centre (Dallas) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	-	100.0%	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%	-
Madame Tussauds Washington LLC	USA	-	100.0%	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%	-
Merlin Entertainments US NewCo LLC	USA	-	100.0%	100.0%
San Francisco Dungeon LLC	USA	-	100.0%	-
SEA LIFE Charlotte LLC	USA	-	100.0%	-
SEA LIFE Michigan LLC	USA	-	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%

SECTION 6 OTHER NOTES (continued)

52 weeks ended 28 December 2013

6.8 Subsidiary and joint venture undertakings (continued)

Joint venture	Country of incorporation	Class of share held	Ownership 2013	Ownership 2012
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

Merlin Entertainments S.à r.l., Merlin Entertainments Group Luxembourg S.à r.l., Merlin Entertainments Group Luxembourg 2 S.à r.l., Cotswold Village Green Limited and Oceanic Village Limited were liquidated during the year.

Dirk Frimout Centrum N.V. was sold during the year.

⁽¹⁾ 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.

MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Balance Sheet at 28 December 2013

	Note	2013 £m
Fixed assets		
Investment in subsidiary undertaking	iv	3,107
		3,107
Current assets		
Amounts owed by subsidiary undertakings		78
Cash at bank and in hand and short term deposits		1
		79
Creditors: amounts falling due within one year	v	(4)
Net current assets		75
Net assets		3,182
Capital and reserves		
Called up share capital	vi	10
Share premium	vii	3,183
Profit and loss account	vii	(11)
Shareholders' funds - equity		3,182

The notes on pages 140 to 143 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Andrew Carr
Chief Financial Officer

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

i Accounting policies

These parent Company financial statements have been prepared on a going concern basis using the historical cost convention in accordance with generally accepted accounting principles in the UK ('UK GAAP') and the Companies Act 2006.

The financial period reported represents the period from incorporation of the Company on 20 September 2013 to 28 December 2013.

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.

The Company has taken advantage of the exemption under FRS 1 'Cash Flow Statements' and has not presented a cash flow statement. The cash flows of the Company are included in the consolidated financial statements of Merlin Entertainments plc.

The Company has taken advantage of the exemption under FRS 8 'Related Party Transactions' from disclosing transactions with wholly owned subsidiaries that are part of the group headed by Merlin Entertainments plc.

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 profit and loss account.

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 profit and loss account.

Share-based payments

The fair value of employee share option plans is calculated at the date of grant using the binomial valuation methodology. The resulting cost is charged to the parent company profit and loss account over the vesting period of the schemes. The value of the charge is adjusted to reflect the actual and expected levels of vesting of the schemes. Where the Company awards options to employees of subsidiary companies, this is treated as a capital contribution.

Debtors

Debtors are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments

Financial instruments and equity liabilities are classified according to the substance of the arrangements that have been entered into. Equity instruments issued by the Company are recorded as the proceeds received net of the direct costs of issuance.

Taxation

Corporation tax is provided on the taxable profit for the period, using the tax rates that have been substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and would give rise to an obligation to pay more or less tax in the future.

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.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates that have been substantively enacted at the balance sheet date.

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS (continued)

ii Employees

The average number of employees of the Company during the period was six. 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 60 to 75. Two Directors are accruing benefits under defined contribution schemes.

iii Dividends

No dividend has been paid in the period and none has been proposed at the date of approval of these financial statements.

iv Investment in subsidiary undertaking

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 20 September 2013	-
Additions	3,107
At 28 December 2013	3,107

The subsidiary undertaking of the period 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 6.8.

v Creditors: amounts falling due within one year

	2013 £m
Other creditors	2
Accruals and deferred income	2
	4

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS (continued)

vi Called up share capital

	2013 Number	2013 £m
<i>Ordinary shares of £0.01 each</i>		
Incorporation	1	-
Share for share exchange	156,767,049	1
Cancelled in the period	(10,868,759)	-
Bonus issue	804,101,709	8
Shares issued	63,746,032	1
At end of the period	1,013,746,032	10
<i>Redeemable ordinary shares of £50,000.00 each</i>		
Incorporation	1	-
Redeemed	(1)	-
At end of the period	-	-

The Company was incorporated on 20 September 2013. On incorporation one A ordinary share of £0.01 was issued for consideration of £0.01 and one redeemable ordinary share of £50,000.00 was issued for consideration of £50,000 (in the form of an undertaking to pay).

On 12 November 2013 the Company redeemed the outstanding redeemable ordinary share at par for £50,000.

On 12 November 2013 the Company, under a share for share exchange agreement, acquired the entire issued share capital of Merlin Entertainments S.à r.l. in consideration for the issue of 136,767,049 A ordinary shares of £0.01 to the previous shareholders of A class ordinary shares of Merlin Entertainments S.à r.l. and 20,000,000 B ordinary shares of £0.01 to the previous shareholders of B class ordinary shares of Merlin Entertainments S.à r.l. Under a subsequent reorganisation, Merlin Entertainments plc acquired the entire issued share capital of Merlin Entertainments Group Luxembourg 3 S.à r.l. and Merlin Entertainments S.à r.l. was liquidated.

On 13 November 2013 all of the A ordinary shares in issue and 9,131,241 of the B ordinary shares of the Company were converted into ordinary shares of £0.01 in Merlin Entertainments plc. The remaining 10,868,759 B ordinary shares were converted into deferred ordinary shares in Merlin Entertainments plc and were subsequently gifted back to the Company and cancelled.

On 13 November 2013 the merger reserve of the Company was capitalised to effect a bonus issue of 804,101,709 shares to holders of the ordinary shares in the Company. No consideration was payable on the issue of the shares.

On 13 November 2013 the Company became listed on the London Stock Exchange and the issue of 63,492,064 ordinary shares for a total consideration of £200 million became unconditional.

On 13 November 2013 the Company issued 253,968 ordinary shares to certain Non-executive Directors for consideration of £1 million.

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.

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS (continued)

vii Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 20 September 2013	-	-	-	-	-
Loss for the period	-	-	-	(4)	(4)
Share for share exchange	1	-	2,991	-	2,992
Bonus issue	8	2,983	(2,991)	-	-
Issue of shares	1	200	-	(7)	194
At 28 December 2013	10	3,183	-	(11)	3,182

The loss after tax for the period in the accounts of Merlin Entertainments plc is £4 million.

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 at the address set out below.

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:

- (i) update dividend mandate bank instructions and review dividend payment history;
- (ii) update member details and address changes; and
- (iii) 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.

Investor Centre can be accessed at www.investorcentre.co.uk.

Dividends

No dividends have been or will be recommended or declared for the year ended 28 December 2013.

Financial calendar

The principal dates in our financial calendar for 2014 are as follows:

Preliminary Announcement of Results	27 February
Q2 Interim Management Statement	15 May
AGM	15 May
Interim Results	31 July
Q3 Interim Management Statement	18 September
Pre-close Trading Update	2 December

Shareholder communications

We would 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 (see www.merlinentertainments.biz/investor-relations).

AGM

The first AGM of the Company will be held on 15 May 2014 at Lake View, Thorpe Park Resort, Staines Road, Chertsey, Surrey KT16 8PN at 11.00am.

The Notice of AGM will be sent to shareholders separately.

Registered in

England and Wales

Company number

08700412

EPIC/TIDM

MERL

ISIN

GB00BDZT6P94

Registered office

Merlin Entertainments plc
3 Market Close
Poole
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BH15 1NQ
United Kingdom

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Email:

investor.relations@merlinentertainments.biz

Website:

www.merlinentertainments.biz

Company secretary

Colin N. Armstrong

Investor relations director

Alistair Windybank

External auditors

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Dukes Keep
Marsh Lane
Southampton
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Telephone: +44 (0)23 8020 2000

Joint Corporate Brokers

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5 North Colonnade	Citigroup Centre
Canary Wharf	Canada Square
London	Canary Wharf
E14 4BB	London
	E14 5LB

Registrars

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Bridgwater Road
Bristol
BS99 6ZZ

Telephone:

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Investor Centre:

www.investorcentre.co.uk/contactus

Website:

www.computershare.com

FINANCIAL RECORD

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Results					
Revenue	1,192	1,074	946	801	769
Underlying EBITDA	390	346	306	256	236
Underlying operating profit	290	258	232	198	177
Operating profit	260	199	230	158	177
Profit/(loss) before tax	172	98	96	26	(14)

Consolidated statement of financial position

Property, plant and equipment	1,321	1,290	1,112	951	909
Intangible assets	961	970	970	917	946
Cash and cash equivalents	264	142	60	67	87
Non-current interest-bearing loans and borrowings (excluding shareholder loans)	1,179	1,333	1,178	1,061	1,081
Non-current shareholder loans	-	-	-	-	596
Total equity	944	617	555	505	(114)

Consolidated statement of cash flows

Net cash flow from operating activities	365	348	292	183	234
Changes in working capital	30	24	3	6	3
Net increase/(decrease) in cash and cash equivalents	125	81	(4)	(18)	(53)

Registered Office:

Merlin Entertainments plc
3 Market Close
Poole
Dorset, BH15 1NQ

Registered number: 08700412
Registered in England & Wales

www.merlinentertainments.biz