



**ANNUAL REPORT
AND ACCOUNTS 2011**



WELCOME TO MERLIN ENTERTAINMENTS

Our company

Merlin Entertainments is Europe's leading and the world's second-largest visitor attraction operator. As at the end of December 2011, Merlin ran 77 attractions in 17 countries across four continents and has added a further ten attractions and two countries since then. Our aim is to deliver unique, memorable and rewarding experiences to millions of visitors across our growing estate. We believe that we achieve this objective largely thanks to the commitment and passion of our team and the strength of our brands, which will never fail to be distinctive, challenging and innovative. Together they deliver some of the best financial returns in the sector and demonstrate a record of growth in market share that is unrivalled. In every respect and to every group of stakeholders, Merlin will always be an exciting company to be involved with.

Our passion

We are first and foremost an entertainment company. Our passion is putting smiles (or screams) on people's faces and giving our customers memorable experiences. Through creativity and a relentless drive for excellence we aim to immerse our visitors in our brands, constantly delighting them and enriching their understanding through fun learning. In simple terms, we love what we do!

Our vision

Our vision is to become the worldwide leader in branded, location based entertainment.

Our strategy

Our strategy is to create a high growth, high return, family entertainment company based on strong brands and a portfolio that is naturally balanced against the impact of external factors.

Our history

- ★ Merlin's origins date back to 1979 when the first SEA LIFE Centre was opened in Oban, Scotland.
- ★ In 1999 Merlin Entertainments was formed via a buyout of Vardon Attractions from Vardon plc. Merlin has been under the ownership of Blackstone and KIRKBI since 2005, with funds advised by CVC joining during 2010.
- ★ From 2000 to 2011 the Group has delivered an average annual growth rate of more than 10% in underlying EBITDA from its core businesses, excluding the impact of acquisitions, and has achieved or beaten budget every single year.
- ★ 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 2011.

- ★ 2011 started with the acquisition of the Sydney Attractions Group (SAG) which added businesses in Australia and New Zealand and concluded with the announcement of the offer to buy Living and Leisure Australia (LLA), which operates ten leisure attractions in the Asia Pacific region.
- ★ With over 46 million visitors in 2011 and a further five million now added through the LLA acquisition, Merlin continues to be the clear market leader in Europe and second only to Disney worldwide in terms of visitor admissions.

Our business model

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

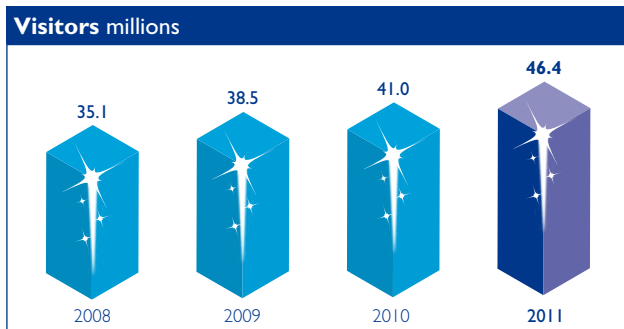
- ★ Our theme parks portfolio consists of 'Resort Theme Parks' which are stand-alone national brands generally aimed at families and/or teenagers/young adults; and 'LEGOLAND Parks' which are aimed at families with younger children and which have the LEGO product as their central theme.
- ★ Midway sites are predominantly indoor attractions located in city centres or resorts providing visits of shorter duration (typically up to two hours). They are marketed primarily under five global brand names: SEA LIFE, Madame Tussauds, Dungeons, LEGOLAND Discovery Centre and the Eye.

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

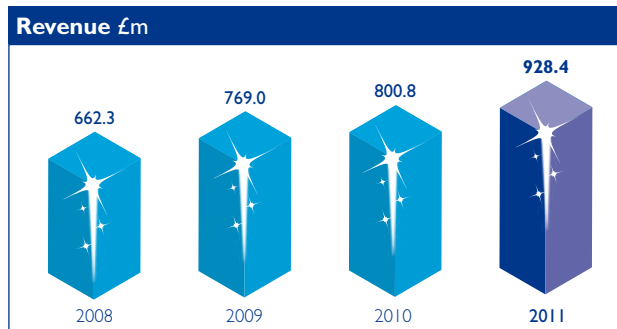
The Merlin business is driven forward by six highly complementary growth drivers:

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

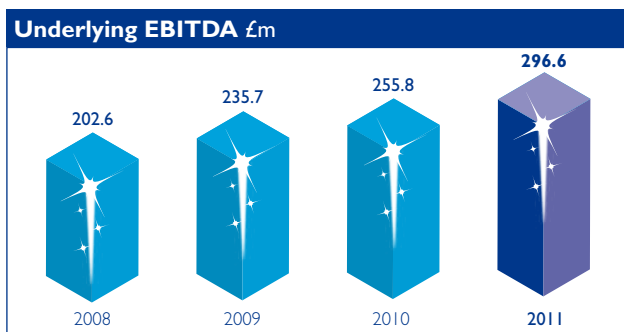
Our financial performance



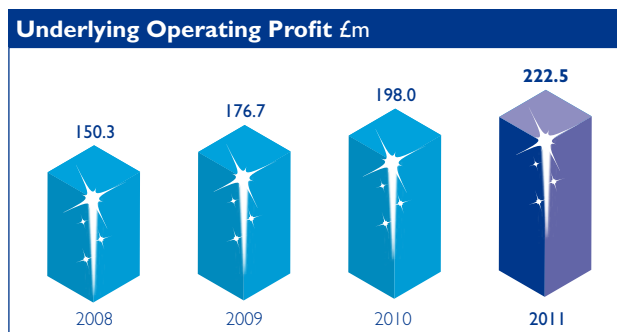
Visitors represents all visitors to Merlin operated attractions. 2011 is adjusted to be based on 52 weeks to 24/12/11.



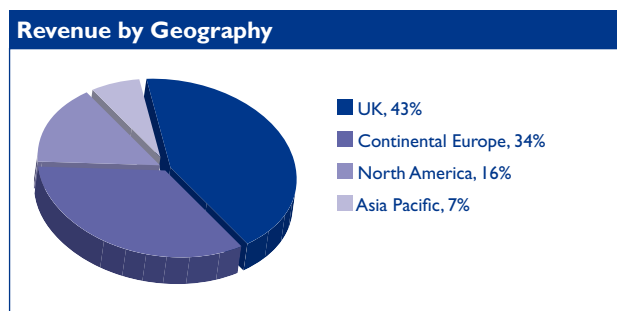
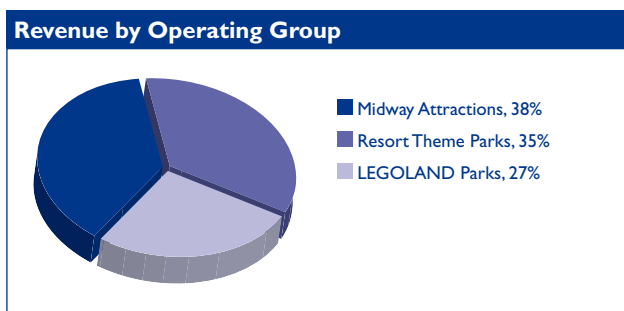
Revenue as reported in the consolidated income statement. 2011 is adjusted to be based on 52 weeks to 24/12/11 (Note 1).



EBITDA represents 'Underlying Trading EBITDA' as reported in the consolidated income statement. 2011 is adjusted to be based on 52 weeks to 24/12/11 (Note 1).



Operating profit represents 'Underlying Trading Operating Profit' as reported in the consolidated income statement. 2011 is adjusted to be based on 52 weeks to 24/12/11 (Note 1).



Our KPIs

| Like for like growth (Note 1 & 2) | |
|-----------------------------------|------|
| Visitors | 1.2% |
| Revenue | 6.4% |
| EBITDA | 8.6% |
| Operating Profit | 7.2% |

| Non-Financial KPIs | Target | 2011 |
|------------------------|--------|------|
| Customer Satisfaction* | 90%+ | ✓ |
| Staff Engagement** | 80%+ | ✓ |

*Source - customer satisfaction surveys

**Source - annual employee surveys

| Visitors by Operating Group | 2011 | 2010 | Growth % |
|-----------------------------|--------------|--------------|--------------|
| Midway Attractions | 26.8m | 22.0m | 21.8% |
| LEGOLAND Parks | 7.8m | 7.2m | 8.3% |
| Resort Theme Parks | 11.8m | 11.8m | - |
| Total | 46.4m | 41.0m | 13.2% |

| Sites by Operating Group | December 2010 | New 2011 | December 2011 |
|--------------------------|---------------|-----------|---------------|
| Midway Attractions | 52 | 13 | 65 |
| LEGOLAND Parks | 4 | 1 | 5 |
| Resort Theme Parks | 7 | - | 7 |
| Total | 63 | 14 | 77 |

Notes

(1) Figures presented are based on underlying trading figures compiled on a 52 week basis for ease of comparison. Statutory accounts for 2011 on a 53 week basis show underlying revenue of £945.7m, a growth of 18.1%, underlying EBITDA of £305.5m, growth of 19.4% and underlying operating profit of £231.4m, growth of 16.9%.

(2) Like for like growth is based on the 52 week figures of 2011 and includes businesses owned and opened before January 2010.

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PART 2

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MERLIN BRANDS



MERLIN ENTERTAINMENTS HAS A UNIQUE PORTFOLIO COMPRISING BOTH ICONIC GLOBAL AND NATIONAL BRANDS.

| | |
|---|---|
|  | <p>SEA LIFE is the world's biggest aquarium brand. There are 37 centres in all across the UK, Continental Europe, North America and Australia, 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 marine conservation issues from shark-finning and whaling to sea turtle protection.</p> |
|  | <p>Madame Tussauds operates twelve attractions around the globe with five in Europe, four in the USA and three in Asia. In 2011 the brand celebrated 250 years since the birth of Madame Tussaud and represents "Famous Fun", through the breathtaking artistry of the wax figures and the interactive experiences that together feed the ever popular fascination with fame.</p> |
|  | <p>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 seven Dungeons across Europe to our market of families, teenagers and young adults.</p> |
|  | <p>There are currently five LEGOLAND Discovery Centres (LDCs) across Europe and the USA, in Manchester, Berlin, Duisburg, Chicago and Dallas, with three more centres due to open in 2012. As with all LEGOLAND attractions, "Playful Learning" is at the heart of the experience. Targeted at families with young children, LDCs delight LEGO fans of all ages with a two to three hour, indoor, interactive and immersive experience.</p> |
|  | <p>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 "Inspiring Perspectives" of its town or city with unparalleled 360 degree views of its landscape and landmarks.</p> |

MERLIN BRANDS

| | |
|---|---|
|  | <p>Our five LEGOLAND Resorts across Europe and the USA 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.</p> |
|  | <p>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".</p> |
|  | <p>"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.</p> |
|  | <p>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.</p> |
|  | <p>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.</p> |
|  | <p>"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.</p> |
|  | <p>Warwick is in every way the "Ultimate Castle" experience. Jousting, Knights, Princesses, the Merlin Dragon's Tower; falconry, 'tableaux' by Madame Tussauds and a Dungeon all combine to make this an amazing day out for UK families and foreign tourists alike.</p> |

WORLD OF ATTRACTIONS



● UK ATTRACTIONS



Birmingham
Blackpool
Brighton
Great Yarmouth
Loch Lomond
London
Scarborough
Weymouth
Hunstanton



Gweek
Oban



Blackpool
Edinburgh
London
Warwick
York



Blackpool
London



Alton



Chessington



London
Blackpool



Warwick



Windsor



Manchester



Chertsey

★ NORTH AMERICA ATTRACTIONS



Arizona
California
Dallas
Minnesota



Hollywood
Las Vegas
New York
Washington DC



California
Florida



Chicago
Dallas

▲ EUROPE ATTRACTIONS



Benalmadena
Berlin
Blankenberge
Bray
Gardaland
Hannover
Helsinki
Jesolo
Königswinter
Konstanz
München
Oberhausen
Paris
Porto
Scheveningen
Speyer
Timmendorfer
Strand



Amsterdam
Berlin
Vienna



Amsterdam
Hamburg



Lake Garda



Milan



Soltau



Billund
Günzburg



Berlin
Duisburg



Oostende

■ ASIA ATTRACTIONS



Bangkok
Hong Kong
Shanghai

◆ AUSTRALIA/NEW ZEALAND ATTRACTIONS



Sydney



Sydney



Whitsunday Islands



Sydney



Sydney

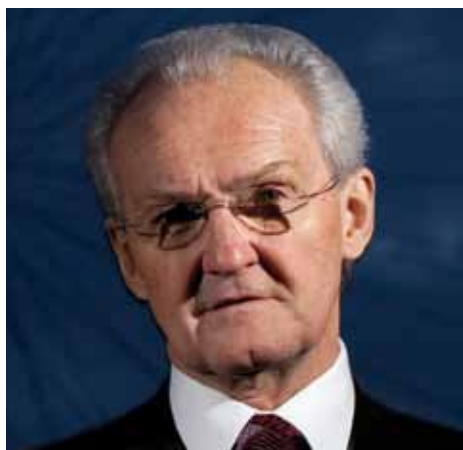


Auckland

CHAIRMAN'S STATEMENT



I AM PLEASED TO REPORT ANOTHER YEAR OF STRONG PROFIT GROWTH, CAPITAL INVESTMENT, OVERSEAS EXPANSION AND JOB CREATION. THE GROUP'S EXCELLENT PERFORMANCE IN THE TWELVE MONTHS TO DECEMBER 2011 IS TESTIMONY TO THE STRENGTH OF OUR BRANDS, STRATEGY AND MANAGEMENT TEAM.



Sir John Sunderland
Non-Executive Chairman

Trading across the Group has seen progress in all three of our Operating Groups and across all our geographies, with significant contributions from like for like growth as well as from new openings and acquisitions. This demonstrates the value of our balanced approach to investing in our portfolio of businesses.

The Management Committee's primary focus continues to be on Merlin's strategic development and 2011 saw significant progress in each of our growth drivers. The most notable developments were the acquisition and integration of the six major attractions in the Sydney Attractions Group of companies across Australia and New Zealand, and the opening of LEGOLAND Florida on the former Cypress Gardens site in Winterhaven, Florida, USA. The Management Committee visited the LEGOLAND Florida site at opening and we were very impressed with the team's achievements in creating a superb new theme park on time and to budget in a very compressed time period. It is a stunning site and compelling attraction, a view endorsed by many visitors and evidenced by the very strong start to trading there and the excellent customer satisfaction scores we are experiencing.

The Management Committee is also responsible for risk management through the Health, Safety & Security and Audit Committees, both of which I also chair. The Health and Safety Committee scrutinizes the work of the operational teams and makes recommendations for improvements to policies, procedures and structures. The Audit Committee oversees the relationship with the external auditors and monitors the environment for internal financial controls through oversight of the Internal Audit function.

CHAIRMAN'S STATEMENT

As a Management Committee, we are particularly conscious of our corporate social responsibilities. Our oversight at Group level covers three areas, namely: our own charity, Merlin's Magic Wand, which enables disadvantaged children and their families to enjoy a Merlin experience; our work on animal and marine conservation and welfare; and our initiatives in reducing the environmental impact of our business. I am delighted with the progress in each of these areas during 2011 and heartened by the vigour and dedication with which the Merlin team approach and deliver on them.

My thanks once again go to all our employees for their relentless focus on customer satisfaction and health and safety, which together produce safe and memorable experiences for all our guests. The fact that visitor numbers continue to grow despite an adverse external environment is testimony to the passion of the entire Merlin team, who have delivered another successful year for the company.

2012 outlook

Trading to date in 2012 is in line with expectations, although most of our locations are not yet into peak trading periods. We expect 2012 to present us with external challenges once again, particularly the impact of developments in the Eurozone. On the other hand, we have a strong programme of capital investments delivering new rides and attractions across our existing estate as well as new business openings. This year we have seven new midway attractions planned alongside the opening of our sixth LEGOLAND Park, due to launch in Malaysia later in the year. And to complement our organic growth we recently announced the acquisition of Living and Leisure Australia, which brings nine new attractions across our Asia Pacific region as well as a management contract to operate the Dubai Aquarium. All of these investments, along with strong marketing and promotional strategies, give us confidence in the continued growth of Merlin in 2012.

Sir John Sunderland
 Non-Executive Chairman
 Merlin Entertainments
 20 March 2012



Build-A-Raft River at the Water Park, LEGOLAND California

CHIEF EXECUTIVE'S REPORT



| | 2011* | 2010 | Growth % | Like for like** % |
|--------------|-------|-------|----------|-------------------|
| Visitors (m) | 46.4 | 41.0 | 13.2% | 1.2% |
| Revenue (£m) | 928.4 | 800.8 | 15.9% | 6.4% |
| EBITDA (£m) | 296.6 | 255.8 | 15.9% | 8.6% |

* Figures presented are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2010

** Like for like figures include businesses owned and opened before January 2010

I AM DELIGHTED TO REPORT THAT 2011 HAS BEEN ANOTHER GOODYEAR FOR MERLIN. IN THE 52 WEEK PERIOD OF 2011, WE HAVE WELCOMED FIVE MILLION MORE VISITORS TO OUR RESORTS AND ATTRACTIONS THAN IN THE EQUIVALENT PERIOD IN 2010, HAVE IMPROVED OUR ALREADY INDUSTRY LEADING CUSTOMER SATISFACTION SCORES, DELIVERED ON ALL OF OUR HEALTH AND SAFETY TARGETS AND ACHIEVED SOME TRULY OUTSTANDING STAFF ENGAGEMENT SCORES.



Nick Varney
Chief Executive Officer

Furthermore, we have pursued each of our six strategic growth drivers relentlessly throughout 2011 and have made significant steps forward in every single one of them. Particularly pleasing, is that we have done this all against a backdrop of continuing uncertain economic conditions in many of the markets in which we operate.

Total visitor numbers for 2011 were 47.3m for the full (53 week) year; being 46.4m on a 52 week basis, a rise of 13.2% on the comparative period of 2010. This came from a combination of growth in our like for like businesses, our new site openings and our new acquisitions at the start of the year in Australia and New Zealand. Our revenue growth over the same 52 week period was 15.9%, outstripping our volume growth, through our focus on driving yield opportunities whilst at the same time delivering value to our customers through well targeted promotions and pricing. Despite some unavoidable increases in the costs of our leasehold rents (many of which are linked to RPI at 5%) and pre-opening costs of £3.5m in our new LEGOLAND park in Florida (opened in October 2011), our constant focus on cost control and making every £ count meant that we converted this revenue growth into EBITDA growth of 15.9%. Whilst our new site openings and acquisitions accounted for almost half of this profit growth, of particular note is the EBITDA growth of 8.6% from our like for like businesses.

Strategic developments

Merlin has six strategic growth drivers that we follow in pursuing our vision and I am delighted with the pace of progress against all of them during 2011.

★ Growing the existing estate through planned capex cycles

Yet again our existing estate of attractions has delivered strong like for like growth (8.6%) across the Group. All projects including major new rides such as those at Gardaland (see case study on page 25), Heide Park and LEGOLAND Windsor, were delivered on time and on budget.

★ Rolling out new midway attractions

2011 saw Merlin Entertainments open seven new attractions across all five midway brands. Of particular note were the Blackpool projects in the UK (Eye, Dungeon and Madame Tussauds), delivered with Council funding but developed and operated by Merlin (see case study on page 28).

BUSINESS REVIEW - CHIEF EXECUTIVE'S REPORT



LEGOLAND Florida
"the most beautiful
Theme Park in
the World"

*We have welcomed
five million more
visitors to our resorts
and attractions.*

★ Transforming our theme parks into destination resorts

Despite challenging economic conditions we have continued to drive up leisure occupancy in our hotels and holiday villages and consequently multi-day visits to our parks. In 2011 we expanded the Holiday Village at LEGOLAND Deutschland by 50% (achieving near 100% occupancy through peak season) and began construction of a new 150 bedroom themed hotel at LEGOLAND Windsor, for opening in 2012.

★ Exploiting strategic synergies

2011 saw further expansion of our Merlin Annual Pass in the UK and Germany to over 270,000 (including the launch of a new Premium Pass). In addition full implementation of 'Zeus', a group-wide e-commerce platform, has significantly expanded our capacity for driving pre-booked business and yield enhancement, with 10% of revenue now taken via our websites.

★ Developing new LEGOLAND parks

The major achievement for 2011 was the highly successful, on time and on budget launch of LEGOLAND Florida into the world's largest family tourism market (see case study on page 20). With LEGOLAND Malaysia funded by the Malaysian Government to follow in 2012 and possible future projects in Asia, we continue to see significant long term potential in this area.

★ Strategic acquisitions

We completed the acquisition of the Sydney Attractions Group and have moved quickly to integrate this business and its team into Merlin (see case study on page 16). This gave us the perfect platform for the subsequent acquisition of Living and Leisure Australia, comprising of ten further attractions in the Asia Pacific region which was announced in December 2011 and completed in February 2012.

Our number one priority

Our aim is to deliver a memorable experience for every single guest every time they come, within an environment of the highest health and safety standards. We measure our success against this through both customer satisfaction scores taken at on-site survey points, as well as through a comprehensive, independent Mystery Visit programme delivered via an external partner. We encourage competitiveness so that all our locations are constantly vying to be top of the various league tables, which further drives our excellent performance in this area. We exceeded both our Satisfaction and Mystery Visit targets in 2011 and have set equally ambitious ones for 2012. Furthermore, we believe that dealing effectively with complaints is of paramount importance and our aim is to turn every complainant into an ambassador. In 2011 we surveyed guests who had previously complained and found that 78% had returned or intend to do so in the next twelve months.

Health and safety

Our focus on continuous improvement ensured that we maintained our high standards on H&S in 2011. Indeed, we improved upon two of our key measures, with a further reduction in overall incident rates and a rise in the already positive scores for H&S awareness in our staff survey.

Our winning team

Merlin Entertainments is a company with a very special team. How special can be seen from the extraordinary achievements in 2011 which have driven another year of strong growth and financial returns. Across Merlin the team is united by a common passion for the business and our unique approach and values which we call 'The Merlin Way'. This is reflected not only in what they deliver but also in low staff turnover rates and industry leading engagement scores. In 2011 we surveyed all our employees during peak season. 94% completed the survey and of those 95% said they "enjoyed working here". Going forward we aim to further harness this passion by engaging the whole team in demonstrating even greater creativity and innovation in every facet of their work.

It is also worth noting that in 2011 we employed more than 17,000 employees at peak season across 17 countries. This represented a growth of over 1,000 against the previous year, with many of the posts being taken by young people in the hard pressed 16 – 24 age group. This also stimulated economic activity in all the locations in which we operate, contributing more than £150 million directly through income, payroll and other direct and indirect taxes.

Merlin Entertainments is a company with a clear vision and a winning strategy which we continue to drive forward. Throughout 2011 our passion for delivering memorable and rewarding experiences for our visitors, coupled with a total focus on our six strategic growth drivers, has resulted in growth and profitable performances in all three Operating Groups (see pages 14 to 25). We have achieved this whilst at the same time delivering value to our customers, maintaining industry leading customer satisfaction scores and creating value for our shareholders. Every one of our employees should feel proud of their part in this success.

The magic continues in 2012...

Nick Varney
Chief Executive Officer
Merlin Entertainments
20 March 2012

MIDWAY ATTRACTIONS



BUSINESS REVIEW – MIDWAY ATTRACTIONS

| | 2011* | 2010 | Growth % | Like for like** % |
|--------------|-------|-------|----------|-------------------|
| Visitors (m) | 26.8 | 22.0 | 21.8% | 0.9% |
| Revenue (£m) | 351.1 | 273.5 | 28.4% | 5.5% |
| EBITDA (£m) | 140.0 | 115.8 | 20.9% | 6.2% |

* Figures presented are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2010

** Like for like figures include businesses owned and opened before January 2010

2011 WAS A SUCCESSFUL YEAR FOR THE MIDWAY ATTRACTIONS OPERATING GROUP, WITH STRONG GROWTH IN THE EXISTING ESTATE DRIVEN BY EFFECTIVE PEAK YEAR CAPITAL EXPENDITURE; AN ACCELERATED MIDWAY ROLL-OUT STRATEGY; AND THE ACQUISITION AND INTEGRATION OF THE SYDNEY ATTRACTIONS GROUP.

The existing estate saw pleasing growth around the globe with particularly strong performances in China and the USA. Towards the latter part of the year the Eurozone crisis had an impact on both our European midway performance and European visitation to important inbound markets such as London and Sydney. However, our overall volume remains strong in London and Sydney due to compensatory strong inbound growth from emerging Asian markets. Our planned capex cycle was particularly effective in 2011 with very good performances being achieved from high year capex investments including: Madame Tussauds in Washington DC launched an exhibition of all 44 USA Presidents; Madame Tussauds New York opened 'Spirit of New York'; SEA LIFE London Aquarium introduced Gentoo penguins in an arctic adventure; London Dungeon introduced a new concept ride/4D cinema attraction called 'Vengeance'; and the Minnesota aquarium was transformed and rebranded to SEA LIFE.

In addition to our high year capex investments, we also launched a number of new mobile features across our SEA LIFE centres, including 'Jelly Disco' and 'Claws', whilst the Madame Tussauds estate witnessed the simultaneous launch of nine Lady Gaga wax figures across the globe.

2011 was also a significant year for our midway roll-out programme, which we increased to seven new launches this year (2010: three) and opened attractions across all of our five roll-out brands for the first time in a calendar year. We successfully launched both a LEGOLAND Discovery Centre and SEA LIFE in Dallas, USA, whilst in Continental Europe we opened both a SEA LIFE in Jesolo, Italy, and a Madame Tussauds in Vienna, Austria. In the UK we created a new cluster when we took over the management of the iconic Blackpool Tower and added to our existing SEA LIFE attraction the Blackpool Tower Eye, Blackpool Dungeon and Madame Tussauds Blackpool, the first UK Madame Tussauds attraction outside London. The capital investment in Blackpool is provided by Blackpool Council, funded through the profit share arrangements in place as part of the operating agreements we signed with them in 2010.



All 44 US Presidents - Madame Tussauds Washington

The new midway launches in 2011, combined with the acquisition of a cluster of attractions in Sydney have ensured we have accelerated our midway cluster strategy by developing three new cluster cities in Blackpool, Dallas and Sydney. In these locations we realise significant economies of scale in our costs by operating with one management team and shared back-office functions, whilst at the same time enjoying a high level of 'cross selling' between the different attractions, offering customers the opportunity to purchase tickets to more than one attraction through a clear, strong promotional strategy. These two factors lead to our enjoying a growth rate in cluster cities which is significantly higher than that of non-cluster locations. At the end of 2011, we now benefit from cluster cities across all our major geographies, in London, Berlin, Amsterdam, Dallas, Blackpool and Sydney. Clustering midway attractions will continue to be central to Midway's future roll-out strategy.

Underpinning the success of the Midway Attractions Operating Group is the emphasis we place on the customer experience. 2011 saw further growth in overall customer satisfaction within Midway, with some particularly pleasing performances from our new openings, as we continue to develop our product offering to enhance the customer experience.

| Merlin Midway Sites | December 2010 | New 2011 | December 2011 |
|---------------------|---------------|-----------|---------------|
| UK | 18 | 3 | 21 |
| Continental Europe | 23 | 2 | 25 |
| North America | 8 | 2 | 10 |
| Asia Pacific | 3 | 6 | 9 |
| Total | 52 | 13 | 65 |

BUSINESS REVIEW – MIDWAY ATTRACTIONS

SYDNEY ATTRACTIONS GROUP

6 NEW ATTRACTIONS ACROSS 2 NEW COUNTRIES

CASE STUDY

WHAT DID WE DO?

We made our first entry into the Australian and New Zealand markets by acquiring the Sydney Attractions Group (SAG). This added six new attractions to the Midway Operating Group, including the Sydney Aquarium, the Sydney Tower and Kelly Tarlton's Underwater World in Auckland. Together the SAG businesses contributed £41.9 million to Merlin revenues for 2011.



HOW DID WE DO IT?

We formed a team of experienced attraction operators to integrate each function of SAG into Merlin. Running a number of simultaneous work streams, project managers from Merlin Magic Making visited each site to determine the compelling propositions we could introduce into each attraction to integrate them into our existing brands and drive future revenues.



WHAT WAS THE RESULT?

We have quickly and successfully integrated the management team and have re-launched Sydney Wildlife World as WILD LIFE Sydney, which is an improved experience but in a smaller footprint. In the space created we will launch Madame Tussauds Sydney during 2012. Sydney Tower has been re-launched as Sydney Tower Eye and now includes a tailored 4D cinema pre-show, in the same way as The London Eye and Blackpool Tower Eye, and the whole attraction has been rebranded with a more contemporary look and feel. During 2012 Sydney Aquarium, Oceanworld Manly and Kelly Tarlton's will be relaunched as SEA LIFE attractions via significant capital expenditure which will transform the visitor experience. Across the attractions overall, EBITDA performance in 2011 exceeded our acquisition case by 13%.



LEGOLAND PARKS



BUSINESS REVIEW – LEGOLAND PARKS

| | 2011* | 2010 | Growth % | Like for like** % |
|--------------|-------|-------|----------|-------------------|
| Visitors (m) | 7.8 | 7.2 | 8.3% | 4.2% |
| Revenue (£m) | 246.4 | 215.0 | 14.6% | 8.3% |
| EBITDA (£m) | 83.6 | 73.7 | 13.4% | 11.1% |

* Figures presented are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2010

** Like for like figures include businesses owned and opened before January 2010

THE LEGOLAND PARKS OPERATING GROUP HAD A VERY GOOD YEAR IN 2011 WITH ALL FOUR OF THE EXISTING PARKS DELIVERING THEIR BEST RESULTS EVER IN REVENUE AND EBITDA. BY FAR THE MOST SIGNIFICANT EVENT HOWEVER WAS THE LAUNCH OF OUR FIFTH LEGOLAND IN FLORIDA IN OCTOBER.

LEGOLAND Florida was greeted with excellent media reviews and customer feedback and has traded strongly since opening. Alongside the commercial performance it is also pleasing to report another year of progress across all parks in driving up our already high customer satisfaction scores.

At the heart of our existing estate strategy is the continued application of our planned capital expenditure cycles allied with innovative product development. In 2011 the highlight of this was the introduction of new STAR WARS clusters in the mini-land areas of our parks in Denmark, Germany and California. These new additions, developed in conjunction with LEGO and Lucasfilm proved instantly popular and we plan to add similar clusters in the UK and Florida parks in 2012. Another major innovation in a high capex year was LEGOLAND Windsor's Atlantis Submarine Voyage. This unique combination of a ride and SEA LIFE ocean tank takes families on an amazing underwater adventure and has rapidly established itself as one of the iconic LEGOLAND experiences.



New themed chalets at LEGOLAND Deutschland Holiday Village



Successful LEGO Star Wars attraction at LEGOLAND Billund, Denmark

The transformation of the LEGOLAND parks into multi-day destination resorts is also progressing very well. During 2011 we expanded our Holiday Village at LEGOLAND Deutschland by 50% and added additional facilities to enhance the evening experience. The result has been very high occupancy levels in excess of our expectations, and more visitors expanding their stay to two days or more. We are certain that there is a very high demand from families to 'stay over' in the heart of the LEGOLAND experience and as such new themed hotels will open in Windsor (2012) and California (2013) alongside a continued drive to 'trade up' to multi-day tickets.

Finally LEGOLAND Malaysia will become the sixth LEGOLAND Park when it opens in September 2012. It is a significant project in that it is predominantly funded by the Malaysian Government with Merlin as operator holding a minority stake. It will also be our first LEGOLAND park in Asia, a region where we anticipate further exciting growth opportunities in the future.

BUSINESS REVIEW – LEGOLAND PARKS

CASE STUDY

LEGOLAND

FLORIDA

WHAT DID WE DO?

We acquired Cypress Gardens in Central Florida with its existing grounds, infrastructure and the beautiful historical botanical gardens for \$25m in 2010. We then developed the park into LEGOLAND Florida for around half the cost of a green field site and opened to the public on time in October 2011.

HOW DID WE DO IT?

The experienced LEGOLAND Development team, together with Merlin Magic Making, developed a creative solution for how best to integrate the LEGOLAND park into the existing landscape and infrastructure. Along with support from teams across all four existing LEGOLAND parks, we provided a project not just within budget but also successfully opened on time within about half the time it would have taken if we had started from scratch.

WHAT WAS THE RESULT?

With the lush and mature landscape on the side of Lake Eloise, we have created what we believe is one of the most beautiful theme parks in the world. The reception from guests has been outstanding with satisfaction scores already above our 90% target. From the first three months of operation we have seen the park consistently exceeding our visitors and revenue budgets by 20% and 59% respectively. This trend has continued in 2012 where the addition of a Water Park will add further momentum.





LEGOLAND[®]

FLORIDA



RESORT

THEME PARKS



BUSINESS REVIEW – RESORT THEME PARKS

| | 2011* | 2010 | Growth % | Like for like** % |
|--------------|-------|-------|----------|-------------------|
| Visitors (m) | 11.8 | 11.8 | - | - |
| Revenue (£m) | 328.1 | 310.5 | 5.7% | 5.7% |
| EBITDA (£m) | 96.9 | 89.0 | 8.9% | 8.9% |

* Figures presented are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2010

** Like for like figures include businesses owned and opened before January 2010

2011 WAS A YEAR OF SIGNIFICANT PROGRESS FOR RESORT THEME PARKS (RTP) BOTH IN TERMS OF FINANCIAL PERFORMANCE AND IN DEVELOPING A PLATFORM FOR CONSISTENT LONG TERM GROWTH. A KEY STRAND OF THE RTP GROWTH STRATEGY IS TO DELIVER HIGHLY COMPELLING NEW ATTRACTIONS ON A THREE YEAR CAPEX CYCLE ACROSS THE EXISTING ESTATE, WITH HIGH CAPEX YEARS IN 2011 IN GARDALAND RESORT WITH 'RAPTOR' AND HEIDE PARK RESORT IN GERMANY, WHICH SAW THE LAUNCH OF 'KRAKE', GERMANY'S FIRST 'DIVE' COASTER.

2011 also saw the early stages of our strategy to work with recognised and relevant Intellectual Property (IP) partners to enhance our new attractions and drive customer awareness. Warwick Castle teamed up with the BBC and Freemantle Productions to deliver a new attraction called 'Merlin: The Dragon Tower', based on the successful Merlin TV show. Use of the TV characters and actors for launch events as well as promotional activity around the TV series and DVD launch helped to drive visitation and awareness of Warwick Castle as Britain's Ultimate Castle. Further partnerships with film-based IP holders were developed during the year for introduction in 2012, such as Fox 'Ice Age' which will feature in both Alton Towers and Gardaland.

The ongoing strategy of developing our theme parks into destination resorts continued apace with all four RTP hotels growing leisure based business in 2011 and delivering budget-beating performance and extremely strong customer satisfaction scores. The introduction of new themed restaurants, Zafari (Chessington Hotel) and the Emperor Grill (Alton Towers Hotel), as well as new themed rooms at Gardaland and Chessington hotels, also helped to increase secondary spends and deliver improved average room rates. As a result of this focus we saw double digit growth in multi-day visits across our resorts. Further development work continued in 2011 for potential extensions to existing hotels and the introduction of new accommodation types such as themed camp sites and holiday villages at each resort, and plans continue to be developed for the introduction of a hotel at Thorpe Park.



Heide Park's 'Krake' Wing Coaster drove record returns

BUSINESS REVIEW – RESORT THEME PARKS



Chessington's African themed hotel

Delivering bookings through our websites is a key part of our strategy to increase pre-booked business, reducing volatility and providing a hedge against poor weather. Further advances were made during 2011 in the development of our e-commerce platform with significant increases in booking tickets through our branded websites and through mobile phone technology. The strong growth in visitors to our websites, combined with our increasing conversion rates, resulted in another record year in terms of the proportion of our visitors who purchased tickets through digital channels, something we expect to continue over the coming years. During 2011, we successfully trialled technology which would allow us to introduce variable pricing onto our websites, including increased discounts for early booking. This will be introduced to all resort websites during 2012. Further web activity was driven by strong social network initiatives particularly for brands such as Thorpe Park, where the age profile of our guests is a perfect fit.

Economic conditions in both the UK and Europe had an impact on consumer confidence and provided a challenging trading environment. Value for money and customer satisfaction become even more critical in these circumstances. All our resorts place heavy emphasis on customer KPIs through continued direct dialogue with our customers via touch screen surveys and feedback. Across RTP, performances improved across all these key measures during 2011 with particularly strong performances at Gardaland and Alton Towers.

BUSINESS REVIEW – RESORT THEME PARKS

GARDALAND

WHAT DID WE DO?

The introduction of 'Raptor' a world-first wing coaster into Gardaland resort was the first major investment since 1998 that targeted the teenager/young adult market in Italy.

HOW DID WE DO IT?

In a collaboration between a trusted ride manufacturer (who also supplied 'Krake' in Heide Park) and Merlin Magic Making, we redeveloped an area of the park and introduced the new coaster into a highly themed land. The new attraction was supported by a highly effective marketing, advertising and PR plan to drive awareness of both the ride and Gardaland Resort.

WHAT WAS THE RESULT?

Record visitor number growth in the target teenager/young adult market of c.20%, customers delighted by the thrilling ride experience and high awareness of 'Raptor' across Italy and beyond.



CASE STUDY

MERLIN

MAGIC MAKING



FOCUS ON MERLIN MAGIC MAKING

MERLIN MAGIC MAKING IS A CRITICAL COMPONENT OF MERLIN'S CENTRAL RESOURCE TEAM. IT WAS ESTABLISHED IN AUGUST 2011, HEADED UP BY A CHIEF DEVELOPMENT OFFICER, TO FOCUS ON RAISING THE BAR IN TERMS OF INNOVATION AND CREATIVITY; TO KEEP MERLIN WELL AHEAD OF THE COMPETITION.

Previously known as our Property and Development Group, this team has responsibility for:

- ★ Creating the Magic – through innovation and creativity.
- ★ Finding the Magic – new site search.
- ★ Producing the Magic – wax figures, LEGO models, aquarium displays development, attraction theming.
- ★ Delivering the Magic – project management and development.

Creating the Magic – through innovation and creativity

We have a strong heritage of being very successful in our delivery of new and compelling propositions both to the existing Merlin businesses and to our new openings. A core creative team deliver across the business from initial design all the way through to the finished product.

Notable developments in 2011 include 'Raptor' in Gardaland, Italy, 'Atlantis' in LEGOLAND Windsor, as well our new midway roll-out projects.

The team was further strengthened at the end of 2011 with the appointment of a new Group Creative Director, allowing us to step up to the future with confidence and tasked to encourage an innovative and creative approach at every level and location within the organisation.



Finding the Magic – new site search

The site search team spreads to all corners of the planet and is responsible for finding and delivering the sites for the organic roll-out of the Merlin businesses. With a network of contacts throughout the world, it is ideally placed to ensure that we are in a position to deliver a pipeline of new business openings each year. Particular highlights in 2011 include signing up our first two sites in Japan (opening 2012 and 2013); two LDC sites in the US; and two new SEA LIFE opportunities. From our extensive research and analysis we continue to track over 100 potential locations for Midway roll-out worldwide.



Producing the Magic – wax figures, LEGO models, aquarium displays development, attraction theming

One of the unique aspects of our attractions is our in-house expertise in delivering the content of our attractions. There are production facilities at eight locations in five different countries around the world. We produce wax figures, LEGO models and attraction theming, as well as supporting our SEA LIFE estate through central fish husbandry expertise. The highlight of 2011 was the delivery of all the models for the new LEGOLAND Park in Florida, closely followed by the successful launch of two new Madame Tussauds attractions.



Delivering the Magic - project management and development

We believe that we can build anything, anywhere in the world, on time, on budget and to the required specification. A long and distinguished track record of delivery is one that the project management and development team are very proud of. 2011 has seen the delivery of 25 major projects (a record!), including: three major rides, seven midway launches and the planning and development of the new LEGOLAND Windsor hotel, as well as setting up a successful project management base in Australia.

Merlin Magic Making is absolutely committed to driving a philosophy of innovative thinking throughout the business to ensure that we both stay one step ahead of our competitors and continue to produce compelling reasons for our customers to come and spend memorable time with us.

FOCUS ON MERLIN MAGIC MAKING

BLACKPOOL CLUSTER

WHAT DID WE DO?

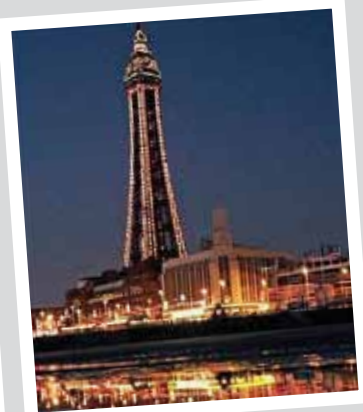
We entered a long term partnership with the local authorities to help rejuvenate the town of Blackpool, UK. We developed a plan to take over the management and development of the town's most iconic building, the Blackpool Tower, to introduce a number of Merlin's world-class brands to the town and then operate them as one of the most comprehensive Merlin clusters anywhere in the world.

HOW DID WE DO IT?

The council provided the funding and we did the rest! We utilised our in-house expertise, getting our creative teams to develop very unique 'Blackpool experiences', for our major midway brands. We then got our production teams to create the content, while the project management team planned and executed the build. It was all done in record time, on budget and to market leading quality.

WHAT WAS THE RESULT?

Happy customers, happy local authority and a happy Blackpool community. Blackpool is now home to a starry-eyed Madame Tussauds, a heart-stopping Dungeon, a world-class SEA LIFE aquarium and one of the best observation experiences on the planet, the Blackpool Tower Eye, complete with a 4D cinema pre-show which brings a tear to the eye!



CASE STUDY



THE BLACKPOOL TOWER



The Blackpool Tower Eye
With 40 Great Experiences



THE BLACKPOOL TOWER
CIRCUS

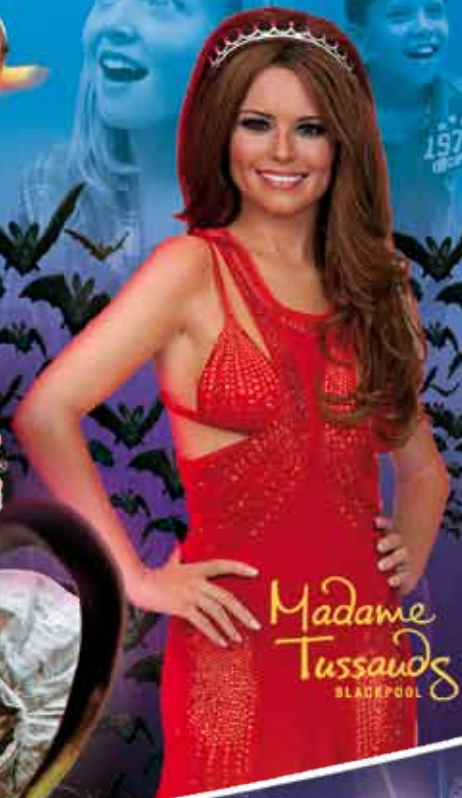


SEA LIFE
BLACKPOOL



THE BLACKPOOL TOWER
JUNGLE JIM'S
CHILDREN'S INDOOR PLAY

the Blackpool Tower
Dungeon



Madame
Tussauds
BLACKPOOL

The Blackpool Tower
Ballroom



MERLIN PEOPLE



MERLIN'S SUCCESS IS ACHIEVED THROUGH A FANTASTIC TEAM OF HIGHLY TALENTED, MOTIVATED AND WELL-TRAINED INDIVIDUALS, UNDERPINNED BY OUR VALUES AND CORE COMPETENCIES, WHICH WE REFER TO AS 'THE MERLIN WAY'. AND THE MORE WE EXPAND, THE MORE DEDICATED WE ARE TO RECRUITING, DEVELOPING AND NURTURING THE TALENT PIPELINE WE NEED FOR THE FUTURE. WE HAVE RE-FOCUSED OUR TRAINING AND DEVELOPMENT PLANS TOWARDS MORE STRATEGIC THINKING, CREATIVITY AND INNOVATION, WHILST AT THE SAME TIME INCREASING THE NUMBER OF PROGRAMMES AVAILABLE AND THE GEOGRAPHIC SPREAD.

We have introduced new internal reward and recognition schemes to celebrate outstanding performance and recognise our star employees, wherever they may be within our organisation. We have also greatly expanded our Graduate Programme, in order to support our growth plans and to deliver the Merlin leaders of the future.

The overall success of our people strategy is evidenced by the excellent staff engagement scores we obtained from our annual staff climate survey in 2011. The externally managed survey is run in August so as to include as many of our seasonal employees as possible. 94% of staff took the time to complete the survey, which we were very pleased with, and the overall engagement score, which is derived from the responses to a number of key questions, beat our 80% target by quite a distance.

The Merlin Way



The Merlin Way was launched to the business as a way of encapsulating the values and core competencies we live by in order to deliver memorable experiences to our customers and have lots of fun along the way.

To support our unique approach in 2011 we launched The Merlin Way Film Competition. Employees were encouraged to show us how they live and breathe The Merlin Way and what it means to them. The response was fabulous with over 100 team entries received from attractions and central teams across the globe. As a result of this a new celebration film has been produced that shows how our employees live The Merlin Way on a daily basis.

Recruitment

To achieve our objectives of delivering memorable experiences to guests around the globe, we need to have the best talent on board.

Our recruitment strategy "Serious about fun" delivers recruitment campaigns and processes which help us achieve this. In 2011 we introduced a variety of selection materials, from creative assessment centres to online ability testing for some of our more senior roles. In addition, as we continue to grow and with the increasing use of online systems and social media, our recruitment strategy has evolved to not only meet the pace of the business but also the expectations of our candidates.

XLR8



One of the ways we attract fresh new talent is through our 'XLR8' fast track graduate programme, which is open to graduates from across the world. It was first introduced in 2006, with the goal of providing a pipeline of Merlin leaders of the future. The programme has continued and expanded each year, increasing the number of

MERLIN PEOPLE

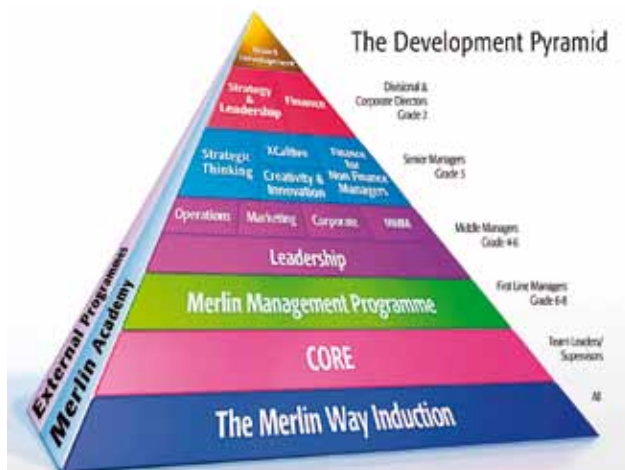
graduates recruited as well as the diversity of backgrounds (the 2011 intake included graduates from six countries), thus supporting our business strategy.

It is proving its success with the appointment this year of a number of graduates to senior management positions, including the first two to have been promoted to General Manager and who are now leading their own attractions.

Development

Merlin's growth strategy means that we are constantly creating career and progression opportunities and we need to prepare people to take on these roles. For this reason, it is a key priority to have in place development programmes to support these future leaders at the right time and in the right way.

In 2011 we launched the Development Pyramid. This is a transparent framework for all Merlin employees so they can see what development opportunities we offer them at Group level as they progress in the organisation. We have both refined and increased our management courses, including in 2011 the introduction of a five day management programme, which has been piloted successfully in both the UK and the US.



Nurturing Talent

At peak season, Merlin now employs more than 17,000 employees globally and it is our aim to nurture their talent so that they go on delivering memorable experiences to our visitors and growth to our business. We do this through:

- ★ Compensation and benefits.
- ★ Performance Development Plans (PDPs).
- ★ Global recognition schemes.
- ★ Wizard Wants to Know – staff survey and action plan.

In 2011 we also rolled out our online PDP process to ensure that each employee understands how their role contributes to the success of the company, as well as focusing them on their potential and career aspirations. For Merlin, the PDP supports our talent process, allowing the business to identify future leaders, putting them on development programmes or into roles which will assist them to achieve their full potential.

We believe that it is critical to recognise and reward our employees for their efforts, and have done so through the introduction of two global recognition schemes – STAR and the CEO Award Plan.

STAR

STAR gives our employees the voice to celebrate success instantly, by nominating colleagues online, in a very interactive way. Between April and December 2011 over 35,000 STARs were sent to employees worldwide.



CEO Award Plan

Announced in 2010, the CEO Award Plan annually recognises and rewards employees, granting company shares for long service, and/or outstanding performance. Approximately 1,000 employees have already been awarded CEO Award Plan shares, aimed at extending equity participation to as many employees as possible.

Wizard Wants to Know

'The Wizard Wants to Know' is the name that we give to our annual staff survey and it is an essential mechanism we use for obtaining feedback from our employees globally. We consistently achieve market leading response rates, including the 94% obtained in 2011 as previously noted. As a result, the survey gives us invaluable data on which we always act, to ensure that we deal with the issues that really matter to our employees.

CORPORATE

SOCIAL RESPONSIBILITY



AS ONE OF THE LEADING ENTERTAINMENT COMPANIES IN THE WORLD, MERLIN DEFINES ITS VALUES NOT JUST BY THE PASSIONATE WAY WE DO BUSINESS; BUT ALSO BY THE WAY WE TREAT OUR VISITORS, OUR PEOPLE, OUR CREATURES, OUR SUPPLIERS AND THE COMMUNITIES IN WHICH WE OPERATE. WE BELIEVE THAT ONE OF THE KEYS TO OUR BUSINESS SUCCESS IS THE FACT THAT OUR ENVIRONMENTAL AND SOCIAL PERFORMANCE IS MANAGED ALONGSIDE OUR FINANCIAL PERFORMANCE.

Animal and marine conservation and welfare

Merlin has an excellent record and reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment; a reputation acknowledged by expert organisations around the world. The company is proud of the campaigns and breeding programmes of which it is a part. We are also very aware of our responsibilities towards the welfare of the animals in our care and employ the highest possible standards of animal husbandry on every site.

Breeding success

Our breeding programmes recorded a number of notable successes in 2011, with some of the highlights listed below:

- ★ The zoo at Chessington World of Adventures reared the only condor chick, a male, in the whole of Europe, along with six capybaras and a solitary bleeding heart dove, a species that features on the IUCN Red List of critically endangered species. Chessington also patiently hand reared 150 fen raft spiders, one of only two protected British species, and released them back into the wild in Suffolk.
- ★ The Aquarium Displays Development team in Weymouth enjoyed a rare triumph with cephalopods when it bred and successfully reared dozens of mud octopuses, many of which have subsequently been moved to public displays at SEA LIFE centres across the estate. The husbandry techniques employed have also been relayed to others in the industry via key international conferences.

- ★ Many SEA LIFE centres bred undulate rays in 2011, notable as this species is now protected in the wild, whilst SEA LIFE California also successfully bred tropical cuttlefish.
- ★ Our newly acquired attractions in Australia and New Zealand have also joined in. Perhaps the most exciting event has been the rearing of 21 spiny sea dragons born at Kelly Tarlton's, a world first for this species. Memorable births at Sydney Aquarium included a trio of 'little penguins', while no fewer than twelve eagle rays were born at Oceanworld Manly. WILD LIFE Sydney reared four new baby koalas, five spotted-tailed quolls and three broods of rose-crowned fruit doves.

Conservation

Conservation action has been a feature across the estate throughout 2011, with a few examples as follows:

- ★ Chessington World of Adventures raised over £50,000 in donations for third-party conservation charities. Its efforts have helped save an area of Ecuadorian rainforest the size of Chessington World of Adventures itself.
- ★ SEA LIFE in Europe ran a very successful campaign in conjunction with the Whale & Dolphin Conservation Society targeting Icelandic whalers.
- ★ SEA LIFE Weymouth volunteers helped conduct a strandline audit of the local coastline to aid a Wildlife Trust bid to have the important tidal zone included within a new marine protected area.
- ★ Fundraising efforts continued apace to establish a sea turtle rescue and information centre on Zakynthos, Greece, and support NGO group Earth, Sea & Sky's efforts to monitor and protect loggerhead turtle nest beaches. The SEA LIFE estate also ran very well received turtle and shark conservation weeks during 2011.

CORPORATE SOCIAL RESPONSIBILITY

- ★ Sydney Aquarium supported important satellite tagging projects with green turtles and great white sharks. In addition, it has sponsored research into the health of wild dugongs, shark intelligence and the effects of climate change on sea anemones.
- ★ SEA LIFE Arizona has been involved in the breeding and reintroduction of some native freshwater species.

Rescue, rehabilitation and release

Rescue and rehabilitation has become an even more significant activity for the Group with the acquisitions in the Antipodes. Kelly Tarlton's in New Zealand has been preparing five rescued green turtles and two critically endangered hawksbill turtles for return to the wild. In Europe, more than 100 common and grey seals, mainly abandoned or injured pups, were rescued and returned to the wild by our Sanctuaries and the SEA LIFE centres in Blankenberge, Belgium and Scarborough, UK. And currently, SEA LIFE Scheveningen in Holland is caring for a rescued Kemp's Ridley turtle, pending a probable release mission to the US during 2012.

Environmental impact of the business

Merlin meets all of its legal obligations on waste and energy management. This includes the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme which has been introduced in the UK. Following publication of the CRC Scheme League Table in the autumn, our focus is on implementing further cost-effective measures that will reduce our energy consumption, including simple 'quick fix' good house-keeping measures and installing more LED and sensor-activated lighting. During 2011 we funded a number of pilot capital expenditure energy saving schemes at a variety of locations around the Group, the results of which will assist us in identifying other opportunities to further reduce our energy consumption.

In order to monitor and hence manage our consumption more effectively, Automated Meter Readers were installed in 2011 to all gas and non 'half-hour' electricity meters (half-hour electricity meters have always been read remotely). A group-wide energy forum was then held with all UK sites, so that our energy brokers could demonstrate how to access and then act on the information from these meters. At the same time, our lighting manufacturers and suppliers demonstrated the range of LED lighting available in the market that will not only reduce energy consumption but in most cases enhance the guest experience.

One of our values is 'Making every £, \$, €... count' and most of our sites now have active 'Green Team' or equivalent initiatives in place helping to deliver on this value, whilst also having a very positive effect on our environmental impact.



CORPORATE SOCIAL RESPONSIBILITY

Merlin in the Community

Our corporate responsibility programme 'Merlin in the Community' works alongside the important and valuable work that we do in the areas of **Animal and Marine Conservation and Welfare**, and on our overall **Environmental Impact**. At a Group-wide level we focus on our own Charity, 'Merlin's Magic Wand', and in addition, this is supplemented at individual site level with local initiatives focused on the communities around our sites.

Merlin's Magic Wand children's charity

Merlin's Magic Wand (MMW) was launched in May 2008 and enables children who are disadvantaged through ill health, disability, abuse or poverty to have a memorable experience at one of our many attractions around the world. The Group donates funds to the charity directly and continues to support the day to day running of the charity by subsidising the employment costs of the charity's manager and support staff, providing office accommodation and facilities at no cost and, most importantly, providing free tickets to our theme parks and attractions.

During 2011 we have made good progress with Merlin's Magic Wand, expanding our reach and impact:



- ★ We provided more than 34,000 visits to our attractions for disadvantaged children including associated travel grants when necessary.
- ★ We accepted 5,189 applications from individual families and organisations which is 2,110 more than in 2010 and nearly 5,000 more than when we started in 2008.
- ★ We have further developed the role of the MMW Champion at each attraction, whose primary focus is to ensure that employees and guests are aware of what the charity does and how they can get involved.
- ★ We developed our fundraising activities throughout the year, including a fantastic cricket event in the summer (it was pouring down but, despite this, we raised over £12,000 from that one event).
- ★ In total we raised some £140,000 from fundraising events across the estate. This cash supported, amongst other things, our second outreach project, which is a bespoke Merlin Play Area in the children's ward at the hospital in Kolding, near LEGOLAND Billund, Denmark. We develop these projects for the benefit of children who, due to serious illness or disability, are unable to visit one of our attractions in person.

Other charity and community activities

The nominated Merlin Magic Wand Champions at each site are also responsible for identifying and supporting suitable local and national good causes, as well as developing strong relations with their local communities.

As a result of these other charity and community activities, Merlin attractions have worked in support of many local and charitable initiatives. Examples of just a few of these initiatives include: cancer and heart disease charities and patients; adoption and fostering organisations; local police, ambulance and fire service charities; support to local schools; sponsorship of youth organisations; working with local wildlife and environmental trusts and projects; local children's homes and hospices; Christmas gifts and collections for homeless and deprived children.

CORPORATE SOCIAL RESPONSIBILITY



Merlin's Magic Wand - enabling children to have a great experience at a Merlin attraction



The Merlin Play Area, Kolding Hospital, Billund, Denmark

Other corporate responsibility initiatives

At Merlin we treat all our employees with respect and in accordance with our values as expressed in 'The Merlin Way'. This applies equally to employees who are disabled or who become disabled during their employment with us. Furthermore, we make any reasonable adjustments necessary to assist employees with disabilities to continue to perform their role. Where this is not possible, we work with them to seek re-training and other options of deployment elsewhere within the business. We continually assess all our locations as part of our ongoing commitment to health and safety to ensure that they are as accessible as possible to all.

On the broader responsibility front, we insist that all of our retail suppliers sign our ethical terms & 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.

As far as payment of suppliers is concerned, it is our policy to agree payment terms with suppliers and these normally provide for payment within 30 days of the invoice date, except where other arrangements have been negotiated. We commit to abide by the agreed payment terms provided that the supplier performs according to the terms of the contract.

GROUP FINANCIAL REVIEW



Andrew Carr
Chief Financial Officer

Financial highlights

During the year to 31 December 2011 Merlin delivered strong growth in the face of continued global economic uncertainty, with increased profits in all three of our Operating Groups, from both new site openings as well as our existing estate attractions.

2011 was a 53 week reporting period. In order to make a comparison with last year, the underlying operating results in the Group financial review are stated on a 52 week basis consistent with those within the business review sections of this document.

Profit before tax

| | 2011 £m (53 weeks) | 2011 £m (52 weeks) | 2010 £m (52 weeks) | Growth +/- £m (52 weeks) |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------------|
| Revenue | 945.7 | 928.4 | 800.8 | 127.6 |
| Underlying EBITDA⁽¹⁾ | 305.5 | 296.6 | 255.8 | 40.8 |
| Underlying operating profit⁽²⁾ | 231.4 | 222.5 | 198.0 | 24.5 |
| Total operating profit ⁽²⁾ | 229.7 | 220.8 | 158.4 | 62.4 |
| Net finance costs | (133.3) | | (132.4) | (0.9) |
| Underlying profit before tax | 109.4 | | 53.9 | 55.5 |
| Total profit before tax | 96.4 | | 26.0 | 70.4 |

(1) Underlying EBITDA is defined as EBITDA before exceptional and non-trading items.

(2) Operating profit is defined as EBITDA less depreciation, amortisation and impairment. The latter are considered as annual costs and accordingly are the same on a 53 or 52 week basis.

GROUP FINANCIAL REVIEW

Group revenue growth of £127.6 million and 15.9% includes £50.9 million (6.4% growth) from like for like businesses (sites owned and opened before January 2010) with the balance of £76.7 million coming from sites opened or acquired since that time. Like for like revenue growth was driven by increased visitation as well as growth in revenue per capita, as a result of effective yield management and targeted promotional activity. New business growth came predominantly from LEGOLAND Florida and the newly acquired businesses in Australia and New Zealand. 2011 saw revenue growth across all three business segments and all four geographies in which we operate. Further details are provided in note 2.1 to the consolidated financial statements.

Group underlying EBITDA growth of £40.8 million and 15.9% includes £22.0 million (8.6% growth) from like for like businesses whilst new sites delivered £18.8 million of incremental underlying EBITDA.

Group operational gearing, which measures the growth rate in underlying EBITDA compared to revenue, was impacted this year by the pre-opening costs associated with LEGOLAND Florida. Like for like operational gearing was 1.34x, evidencing our strong cost controls in spite of cost increases outside our control particularly in respect of rents, many of which are linked to RPI at 5%.

Group underlying operating profit growth of £24.5 million and 12.4% is driven by the growth in underlying EBITDA, with tightly controlled capex being reflected through the depreciation charge. There were no impairment charges incurred in 2011 (2010: £3.7 million).

Total operating profit is stated after exceptional and non-trading items of £1.7 million (53 weeks) in relation to business combinations. Further details are provided in note 2.2.

Net finance costs of £133.3 million (53 weeks) include net exceptional and non-trading items of £11.3 million as outlined in note 2.2. On an underlying basis, net finance costs have reduced by £22.1 million and 15.3% as a result of both the refinancing during 2010 and the facility amendments in 2011.

Cash flow

| 53 weeks | 2011 £m | 2010 £m |
|--|--------------|---------------|
| Underlying EBITDA | 305.5 | 255.8 |
| Decrease in cash tied up in working capital | 3.9 | 6.0 |
| Other operating cash flows | 1.6 | 3.8 |
| Exceptional and non-trading items | (1.7) | (35.9) |
| Cash-settled share-based transactions | - | (33.9) |
| Net operating cash flow before tax | 309.3 | 195.8 |
| Tax paid | (17.4) | (12.5) |
| Net cash inflow from operating activities | 291.9 | 183.3 |
| Capital expenditure | (174.1) | (103.8) |
| Acquisition of Sydney Attractions Group (2010: Cypress Gardens) | (102.1) | (15.6) |
| Proceeds from bank loans, net of financing costs | 99.6 | - |
| 2010 shareholder transactions and re-financing, net of financing costs | - | 28.3 |
| Interest paid, net of interest received | (115.3) | (108.6) |
| Dividends paid to non-controlling interest | (0.8) | - |
| Other | (3.5) | (2.0) |
| Net cash flow for the year | (4.3) | (18.4) |

Merlin remains highly cash-generative. During 2011 the Group generated a net operating cash flow before tax of £309.3 million.

Tax paid of £17.4 million in 2011 relates to direct corporation tax only.

GROUP FINANCIAL REVIEW

Capital expenditure of £174.1 million was incurred in order to invest in both the like for like businesses (£75.6 million) and new site openings (£98.5 million). The capex programme is targeted to deliver new attractions across existing businesses in accordance with the capex cycles laid down for each of the Operating Groups, as well as to deliver a pipeline of new businesses for the midway roll-out programme. The increase in capital expenditure in 2011 was driven predominantly by the development of LEGOLAND Florida. All proposed capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing the viability and prioritisation of capex projects.

The acquisition of the Sydney Attractions Group was £102.1 million including the purchase of assets net of cash acquired and repayment of borrowings. This was mainly funded from the £99.6 million net proceeds of bank loans. Further details are provided in note 3.1.

Net interest paid increased in 2011 as a result of the increase in net debt arising from the SAG acquisition, as well as due to the timing of payments at the year end. As noted below, the facility amendments put in place during 2011 reduced the interest rate on our borrowings.

Net debt

| | 2011 £m | 2010 £m |
|--|------------|------------|
| Cash net of bank overdrafts | 59.9 | 67.1 |
| Bank loans and borrowings | (1,182.8) | (1,073.1) |
| Net bank debt | (1,122.9) | (1,006.0) |
| Finance lease obligations | (86.0) | (88.1) |
| Net debt | (1,208.9) | (1,094.1) |
| Leverage on net bank debt to underlying EBITDA | 3.7 | 3.9 |
| Maturity of bank borrowing facilities | July 2017 | July 2015 |

Cash net of bank overdrafts at the year end was £59.9 million (2010: £67.1 million).

Loan facilities amended to lower the margin on the interest rate and extend the term to July 2017.

Merlin's bank loans and borrowings are available under a Facilities Agreement which was put in place in July 2010 and amended in May 2011. Further details are provided in note 5.2.

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

The financial covenants include annual limitations on capital expenditure and require the maintenance of certain minimum ratios of EBITDA to both net interest payable and net debt. In addition, there is a requirement that the net operating cash flows generated are not less than Merlin's cash cost of funding the bank debt. The Facilities Agreement is secured by a fixed and floating charge over the Group's assets. The Facilities Agreement also requires the Group to enter into interest rate swaps in respect of certain bank borrowings.

GROUP FINANCIAL REVIEW

Merlin has a revolving facility of £138.0 million (2010: £125.0 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 31 December 2011, £nil had been drawn down from the revolving facility (2010: £nil).

Leverage on net bank debt at the year end equates to 3.7x underlying EBITDA (2010: 3.9x), recognising the growth in EBITDA during the year.

Net assets

The net assets of the Group increased in 2011 from £504.5 million to £554.5 million, as a result of £67.9 million profit for the year; net of £14.9 million exchange differences arising on the retranslation of subsidiaries, and other movements in relation to hedge accounted items (£0.2 million) and the defined benefit pension scheme (£1.7 million).

The strength of trading, the robust balance sheet position, together with the bank loan facilities in place and secured until 2017, give Merlin a secure basis on which to pursue our growth strategy and continue our international expansion programme.

Andrew Carr

Chief Financial Officer

Merlin Entertainments

20 March 2012

PRINCIPAL RISKS AND UNCERTAINTIES

MERLIN ADOPTS A PROACTIVE APPROACH TO THE MANAGEMENT OF POTENTIAL RISKS AND UNCERTAINTIES WHICH COULD HAVE A MATERIAL IMPACT ON MERLIN'S PERFORMANCE AND EXECUTION OF ITS GROWTH STRATEGY. THE GROUP'S EXECUTIVE BOARD MEMBERS MANAGE SUCH RISKS AND ARE ACTIVELY INVOLVED IN THE GROUP'S CORPORATE RISK MANAGEMENT COMMITTEE, WHICH MEETS FOUR TIMES A YEAR TO OVERSEE THE GROUP RISK MANAGEMENT PROCESS. CORPORATE RISK REPORTS ARE CIRCULATED MONTHLY TO THE EXECUTIVE BOARD AND QUARTERLY TO THE MANAGEMENT COMMITTEE.

The Board, the Management Committee and the Executive Board believe appropriate processes are in place to monitor and mitigate these risks and their potential adverse consequences to Merlin. These risks include:

Operational risk factors

★ 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 this risk 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.

★ Brands and offerings

Merlin has a wide range of brands and offerings which have been built upon a reputation for quality and excellence in delivery. Revenues may be adversely affected by serious incident, accident or similar occurrence. The high profile nature of a number of the Group's sites means there is also a risk of being targeted by activists. Merlin mitigates these risks by maintaining industry leading standards of training, safety and security systems, intelligence and procedures.

★ New site and attraction developments

The Group's ability to grow its business is dependent on securing new sites in the right locations at the right price and on obtaining the necessary planning permissions. Merlin has a proactive new business development and site search team who are continuously identifying and evaluating options for new site locations and who work closely with developers and planners in key cities and other locations around the world.

★ Property and the environment

The Group operates from some leasehold sites and is subject to local environmental laws and regulations at the various locations from which it operates. Its ability to continue in business at its leasehold sites is dependent on securing lease renewals from time to time and on its ability to ensure that it meets all material environmental laws and regulations applicable to its locations. The Group's spread of businesses across different locations and jurisdictions reduces its exposure to any one site or jurisdiction and Merlin works proactively to manage property and environmental matters.

Market risk factors

★ 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 reviews its product offering and engages with its customers to ensure it provides value for money and meets its customers' needs. The Group's spread of businesses across different locations and economies reduces its exposure to the economy of any one country.

★ Competition

Merlin's brands are well known and valued in their markets but compete for consumer time and expenditure with other offers in the attractions sector and also with other leisure and recreational activities. The strength of the brands and the Group's significant marketing leverage help to mitigate this risk. In addition, the Group undertakes regular and thorough market research across each of its businesses, to provide insight and understanding of its customers' expectations and whether their needs are being met.

★ 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 and also has a good and increasing geographical spread of businesses particularly across North America and Europe and, more recently, the Asia Pacific region, thus reducing the potential impact of this risk. Furthermore, Merlin continues to grow its pre-booked business which provides a hedge against impulse visits, which are more inclined to be influenced by adverse weather.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk

Merlin's financial risks are managed by the Group's finance teams in accordance with documented internal control procedures. All significant financing transactions are authorised by the Management Committee. The four key financial risks affecting the Group are:

★ Interest rate risk

Merlin primarily finances its operations through bank borrowings. Merlin's bank borrowings are borrowed at floating interest rates, and Merlin utilises interest rate swaps wherever appropriate to mitigate the risk of increases in the interest rate applicable to its borrowing.

★ Credit risk

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

★ 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.

★ 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.

MERLIN'S MANAGEMENT TEAM



THE COMPANY IS MANAGED IN LUXEMBOURG BY ITS BOARD OF MANAGERS (THE BOARD), WHICH COMPRISES REPRESENTATIVES OF ITS PRINCIPAL SHAREHOLDERS. THE BOARD IS THE COMPANY'S DECISION-MAKING BODY. THE BOARD IS ADVISED ON KEY STRATEGIC DECISIONS BY A MANAGEMENT COMMITTEE MADE UP OF KEY MEMBERS OF THE EXECUTIVE BOARD AND REPRESENTATIVES OF SHAREHOLDERS. DAY TO DAY OPERATIONAL OVERSIGHT OF MERLIN'S BUSINESS IS THE RESPONSIBILITY OF ITS EXECUTIVE BOARD WHICH PROVIDES RECOMMENDATIONS ON OPERATIONAL MATTERS TO THE OPERATING COMPANIES IN THE GROUP.

Board of Managers

Members of the Board of Managers during the year and at the date of this report are as follows:

Robert L. Friedman served throughout 2011 and remains a member of the Board as at the date of this report. Mr Friedman is a Senior Managing Director of Blackstone based in New York. On joining Blackstone in 1999, Mr Friedman worked primarily in Blackstone's Private Equity group. He was Chief Legal Officer from January 2003 to August 2010 and was Chief Administrative Officer during most of that time.

Before joining Blackstone, Mr Friedman had been a partner with Simpson Thacher & Bartlett for 25 years, where he was a senior member of that law firm's Mergers and Acquisitions practice. At Simpson Thacher, Mr Friedman advised The Blackstone Group since its foundation in 1985.

Mr Friedman graduated from Columbia College and received a JD from the University of Pennsylvania Law School. He currently serves as a Director of Axis Capital Holdings Limited, FGIC Corporation, Orbitz Worldwide Inc., YRC Worldwide Inc. and TRW Automotive Holdings Corp. Mr Friedman is a member of the Board of Advisors of the Institute for Law and Economics of the University of Pennsylvania, a member of the Board of Visitors of Columbia College, a member of the Board of Directors of United Way of New York City, a Trustee of the Nantucket Land Council, and a Trustee of Chess-in-the-Schools and New Alternatives for Children, two charitable organisations with programmes for disadvantaged youth in New York City.

John Sutherland served throughout 2011 and remains a member of the Board as at the date of this report. Mr Sutherland is an independent Director who also sits on the Board of numerous other external Luxembourg companies. He was previously Managing Director of a company operating in the Luxembourg financial services sector for ten years and has 20 years experience working in the financial services industry.

Claus Andersen served throughout 2011 and remains a member of the Board as at the date of this report. Mr Andersen joined the LEGO Group in 2007 and is legal counsel and a member of the Board of a number of the LEGO Group and KIRKBI A/S subsidiaries. Prior to joining LEGO/KIRKBI, Mr Andersen worked in Copenhagen at the law firm DLA Piper.

Lars Boné served throughout 2011 and remains a member of the Board as at the date of this report. He is Vice President, Portfolio Management, and Group Treasurer at KIRKBI A/S. Prior to joining KIRKBI A/S, he was with Danfoss A/S, Sydbank A/S and has also worked as a Treasurer in LEGO System A/S.

Emanuela Brero served throughout 2011 and remains a member of the Board as at the date of this report. Ms Brero joined CVC Capital Partners in 2005 and is a Director of Corporate Administration in Luxembourg. Prior to joining CVC Ms Brero worked in the Corporate Department of Société Européenne de Banque (Luxembourg), where she was involved in the structuring and implementation of a wide range of Private Equity transactions. Ms Brero holds a Degree in Business Administration from Università Bocconi, Italy.

Stef Oostvogels was appointed on 31st January 2012 and remains a member of the Board as at the date of this report. Mr Oostvogels is an independent lawyer and represents CVC on the Merlin Board of Managers. Mr Oostvogels has over 20 years of professional experience, covering mergers and acquisitions, private equity, banking and finance, corporate law, international taxation, and general business law. Mr Oostvogels has been a

MERLIN'S MANAGEMENT TEAM

member of the Luxembourg Bar since 1990 and a member of the Brussels Bar since 1987. Mr Oostvogels was a founding partner of the Luxembourg business law firm, Oostvogels Pfister Feyten and also served as managing partner within the firm for ten years during the period 1999-2009.

Bénédicte Moens-Colleaux served throughout 2011 and resigned from the Board with effect from 31st January 2012.

The Management Committee

The Chairman and members of the Management Committee during the year and at the date of this report are as follows:

Sir John Sunderland

Chairman

Sir John Sunderland served throughout 2011 as Chairman of the Management Committee and Non-Executive Chairman of Merlin Entertainments and continues in these roles as at the date of this report.

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, President of the Incorporated Society of British Advertisers from 2002 to 2005 and a Non-Executive Director of the Rank Group from 1998 to 2006. Sir John is a Non-Executive Director of Barclays Bank plc, Chancellor of Aston University and a member of the Council of Reading University.

Nick Varney

Chief Executive Officer

Nick Varney served throughout 2011 and remains a member of the Management Committee as at the date of this report. He has over 20 years' experience in the visitor attractions industry and was appointed Chief Executive Officer in 1999. 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 Varney had senior positions within The Tussauds Group, including Marketing Director of Alton Towers and Head of Group Marketing.

Andrew Carr

Chief Financial Officer

Andrew Carr served throughout 2011 and remains a member of the Management Committee as at the date of this report. He is a qualified chartered accountant and was appointed Chief Financial Officer in 1999. 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 the two follow-on buyouts and the acquisitions of LEGOLAND, Gardaland and The Tussauds Group.

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

Soren Sorensen

Member and representative of KIRKBI A/S

Soren Sorensen served throughout 2011 and remains a member of the Management Committee as at the date of this report. He is the CEO of KIRKBI A/S, following his appointment in March 2010 and is the Chairman and member of the Boards of a number of KIRKBI A/S subsidiaries. Prior to joining the Group, he was Managing Partner of KPMG Denmark and CFO of A.P. Moller-Maersk. Soren is a qualified chartered accountant and holds an MSc from the Copenhagen Business School.

Thomas Lau Schleicher

Member and representative of KIRKBI A/S

Thomas Lau Schleicher was appointed on 14th February 2012 and remains a member of the Management Committee as at the date of this report. He was previously a Director at EQT Partners from 2001-2010. Thomas holds an MSc in Finance and Accounting.

Jørgen Vig Knudstorp

Member and representative of KIRKBI A/S

Jørgen Vig Knudstorp served throughout 2011 and resigned on 14th February 2012.

MERLIN'S MANAGEMENT TEAM

Joseph Baratta

Member and representative of Blackstone Group International

Joseph Baratta served throughout 2011 and remains a member of the Management Committee as at the date of this report. He is a Senior Managing Director in Blackstone's Private Equity business and is based in London. He is Head of European Private Equity and a member of Blackstone's Executive Committee. Since joining Blackstone in 1998, Joe has been involved in the execution of Blackstone's investments in Universal Orlando, Nycomed Pharmaceuticals, Houghton Mifflin, Spirit Group and the original investment in the Merlin Group. In addition to Merlin, Joe is responsible for Blackstone's investments in Seaworld Parks and Entertainment, Center Parcs, Tragus Group, Southern Cross and ICS Group. Joe Baratta serves as a Director of Seaworld Parks and Entertainment, Center Parcs plc and Tragus Group plc. Prior to joining Blackstone, Joe Baratta worked at Tinicum Incorporated, McCown De Leeuw & Company and at Morgan Stanley in its M&A Department.

Gerry Murphy

Member and representative of Blackstone Group International

Dr Gerry Murphy was appointed to the Management Committee on 29th April 2011 and remains a member of the Management Committee as at the date of this report. He is a Senior Managing Director in Blackstone's Corporate Private Equity group based in London. Gerry serves as Chairman of the firm's European holding company and is a director of United Biscuits, Kloeckner Pentaplast, Michaels Stores and Jack Wolfskin. Before joining Blackstone in 2008, Dr Murphy spent five years as CEO of Kingfisher plc, a FTSE 100 company and the leading home improvement retailer in Europe and Asia. He has previously been the CEO of Carlton Communications plc, Exel plc and Greencore Group plc and has also served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc. Gerry is a non-executive director of British American Tobacco plc and is a member of the Council of the British Venture Capital and Private Equity Association and the Advisory Board of the UK India Business Council.

Rob Lucas

Member and representative of CVC Capital Partners

Rob Lucas served throughout 2011 and remains a member of the Management Committee as at the date of this report. Rob is a Managing Partner and Head of UK Investments at CVC Capital Partners and is a member of the European Investment Committee. Rob Lucas holds a Degree in Electrical Engineering from Imperial College, London.

Pev Hooper

Member and representative of CVC Capital Partners

Pev Hooper served throughout 2011 and remains a member of the Management Committee as at the date of this report. He is a Senior Managing Director of CVC UK and, in addition to Merlin, is responsible for CVC's investments in the AA / Saga and Virgin Active. Prior to joining CVC, he worked at Citigroup and Schroders, in M&A. Pev Hooper holds an MA degree from Oxford University.

MERLIN'S MANAGEMENT TEAM

The Executive Board

The Executive Board comprises senior executives of the business. As at the date of this report the members of the Executive Board are:

Nick Varney

Chief Executive Officer and Member of the Management Committee, as noted above.

Andrew Carr

Chief Financial Officer and Member of the Management Committee, as noted above.



Colin Armstrong
*Group Legal Director
Company Secretary*



David Bridgford
Strategy Director



Tea Colaiani
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



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. THE PARAGRAPHS BELOW SET OUT THE KEY GOVERNANCE STRUCTURES AND INTERNAL CONTROLS. ALTHOUGH NONE OF THE SHARES OF ANY COMPANY IN THE MERLIN ENTERTAINMENTS GROUP ARE LISTED ON A STOCK EXCHANGE, MERLIN SEEKS, SO FAR AS APPROPRIATE, TO COMPLY WITH THE UK CORPORATE GOVERNANCE CODE.

Through the processes that are in place the Board, Management Committee and Executive Board believe that Merlin complies with the spirit of the Code in a manner that is appropriate to its ownership structure.

Management

The Company is managed in Luxembourg by the Board which comprises representatives of the principal shareholders. The Board is the Company's decision-making body.

Co-ordination of Merlin's operating subsidiaries is conducted by a UK company, Merlin Entertainments Group Limited, which provides central services to Merlin, covering development activities, brand management, and operational and administrative support.

Day to day operational oversight of Merlin's business is the responsibility of the Executive Board which provides recommendations on operational matters to the operating companies in the Group. The Board is advised on key strategic decisions by the Management Committee. The Management Committee's role is to make recommendations to companies in the Merlin Group on strategic and key non-operational matters. The recommendations of the Executive Board (on operational matters) and the Management Committee (on strategic and key non-operational matters) are not binding on any member of the Merlin Group and individual Group company decisions are taken by the boards of directors of each Group company.

Board constitution and procedures

The Board is responsible for overseeing Merlin, focusing, as its ultimate holding company, primarily on the Group's funding and capital structure. Other than these areas and where required

for the Company to exercise its rights as the ultimate holding company of Merlin, the Board does not involve itself in operational matters or the decisions of other companies in the Group.

The Management Committee is the body responsible for considering and providing recommendations to Group companies in relation to:

- ★ the development of strategy and major policies.
- ★ the review of management performance.
- ★ the approval of the annual operating plan, Managers' Reports 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 Management Committee and for communications with all board and committee members and shareholders. He ensures that the Management Committee receives sufficient information on financial trading and corporate issues prior to Management Committee meetings. The Chief Executive Officer, assisted by the other members of the Executive Board, is responsible for day-to-day operations and the development of strategic plans for consideration by the Management Committee as a whole.

Meetings of the Board are held periodically as required during the year. Meetings of the Management Committee are held eight times a year. Where urgent decisions are required on matters specifically reserved for the Board or Management Committee 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, Management Committee and Executive Board also have access to the advice and services of the Group Legal Director and Company Secretary.

CORPORATE GOVERNANCE

The Executive Board meets monthly 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. The Executive Board makes recommendations to the operating companies and the Management Committee in relation to matters within its remit. The Executive Board is chaired by the Chief Executive Officer and comprises members of the senior executive management of the Group.

Appropriate induction and subsequent training is available for new members of the Board, Management Committee, Executive Board and other committees.

Board Committees

The Board has three principal committees: a Health, Safety & Security Committee, an Audit Committee and a Remuneration Committee. All have clearly defined duties with written terms of reference that are approved by the Board. As in the case of the Management Committee and Executive Board, the Health, Safety & Security Committee, Audit Committee and Remuneration Committee provide recommendations to Merlin Entertainments Group companies but any decisions to accept or implement these recommendations are taken by the individual Group company boards.

Health, Safety & Security Committee

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

The Health, Safety & Security Committee meets at least four times during the year and at such other times as the Board, Management Committee or Chairman requires.

The Committee's remit includes recommending to the Board and other 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 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 & Safety function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

Audit Committee

The Audit Committee is chaired by Sir John Sunderland. The members of the Audit Committee are the Chairman and a representative of each of the major shareholders (Blackstone, CVC and KIRKBI). All members of the Audit Committee have recent and relevant experience for their roles.

The Audit Committee meets at least twice during the financial year at appropriate times in the audit cycle. In addition, it will meet at such other times as the Board, Management Committee or the Audit Committee chairman requires, or if requested by the external auditors. Only Audit Committee members have the right to attend its meetings but other individuals can be invited to attend all or any part of any meeting of the Committee as and when appropriate. The external auditors attend the Committee meetings on a regular basis and at least twice each year.

CORPORATE GOVERNANCE

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.

The Audit Committee's responsibilities include:

- ★ Monitoring the integrity of the financial statements of the Group and reviewing significant financial reporting judgments.
- ★ Reviewing the Group's internal financial control system and financial risk management systems.
- ★ Monitoring and reviewing the effectiveness of the Group's internal audit function.
- ★ Specific responsibilities with regard to the external auditors, as outlined below:
 - (i) The Committee regularly monitors the other services being provided to the Group by its external auditors, and seeks to ensure this does not impair their independence or objectivity. 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.
 - (ii) 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 or
 - puts the auditors in the role of advocate for Merlin.
 - (iii) A report on the level of non-audit services provided by the auditors is given to the Audit Committee annually and parameters are set for the appropriate level thereof.
 - (iv) Details of the related audit and other services are set out in note 2.1 to the consolidated financial statements.
 - (v) The company is not obliged to reappoint its auditors annually and KPMG Luxembourg S.à r.l. will therefore continue in office.

If the Committee's activities reveal any issues of concern or scope for improvement, it will make recommendations to the Board on actions needed to address the issue raised or make the necessary improvement.

Merlin's external auditors have confirmed for the year under review that they consider themselves to be independent in their professional judgement.

CORPORATE GOVERNANCE

Remuneration Committee

The Remuneration Committee is chaired by Sir John Sunderland. The members of the Remuneration Committee are the Chairman and a representative of each of the major shareholders (Blackstone, CVC and KIRKBI).

The Committee meets at least once a year and will also meet at such other times as the Board or Committee Chairman may require. Only members of the Committee have the right to attend meetings but other individuals may be invited to attend from time to time, when appropriate.

The Committee's remit includes recommending to the Board and other Group companies the policy for the remuneration of the Executive members of the Management Committee. The objective of such policy is to ensure that the senior executive 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 to individual executive management and the employing company 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.

Individuals do not participate in any discussions or vote in relation to their own remuneration.

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.

Internal controls

The Board has overall responsibility for the systems of internal control, which are designed to manage the risk of failure to achieve the objectives of the business, where such risk cannot be eliminated. The Board has considered the systems of internal control for the year under review and considers these to be appropriate and adequate for the purposes of the Group.

MANAGERS' REPORT



The managers present their Annual Report and the consolidated financial statements covering a trading period of 53 weeks ended 31 December 2011 (*2010: 52 weeks ended 25 December 2010*).

Principal activities

The Group's principal activity is the operation of visitor attractions and theme park resorts in the United Kingdom, Continental Europe, North America and the Asia Pacific region. The Group's results are detailed on page 54 of the consolidated financial statements.

The Company's principal activity is that of a holding company. The Company has established a US branch with the sole activity of holding certain loan instruments assigned to it by the Company.

Business review

Information on the results of the business and its KPIs are given on page 3.

Detailed reviews of the performance of the Group for the year are set out in the business review on pages 12 to 25 and the Group financial review on pages 36 to 39.

Further information on the principal risks and uncertainties of the business are given in the Group's business review on pages 40 to 41.

Proposed dividend

The managers do not recommend the payment of a dividend.

Subsequent events

On 10 February 2012 the Group's A\$140 million takeover offer for Living and Leisure Australia (LLA), that was announced in December 2011, went unconditional. LLA owns and operates nine leisure attractions in the Asia Pacific region as well as a management contract to operate an aquarium in Dubai, through three divisions: Oceanis Group aquaria; Australia Alpine Enterprises ski fields; and Australian Treetop Adventures attractions.

This acquisition offers the Group an excellent opportunity to build on the acquisition of the Sydney Attractions Group in 2011 by increasing its network of world class international attractions in Asia and Australia.

As part of financing this acquisition, the Group drew down new debt under its existing financing facilities.

Group's likely future development

The managers consider that the Group's existing operations will continue, attracting increasing market share and generating profits. Opportunities to increase its portfolio by opening new attractions will be sought out and evaluated, and, where appropriate, the Group will acquire other existing businesses. The Group will continue as a market leader in branded visitor attractions.

Managers and managers' interests

The managers who held office during the year were as follows:

John Sutherland
Claus Andersen
Lars Boné
Emanuela Brero
Robert Friedman
Bénédicte Moens-Colleaux (resigned 31 January 2012)
Stef Oostvogels (appointed 31 January 2012)

None of the managers who held office at the end of the financial year had any disclosable interest in the shares of Group companies.

Certain managers benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

MANAGERS' REPORT

Substantial interests

The Company's equity as at the date of this report is owned as follows:

| | Ordinary shares |
|---|------------------------|
| | % |
| KIRKBI A/S (KIRKBI) | 31.63 |
| Funds managed by Blackstone | |
| Group International (Blackstone) | 29.80 |
| Funds managed by CVC Capital Partners (CVC) | 24.54 |
| Management | 14.03 |
| | 100.00 |

Financial instruments

Information on financial instruments is detailed in note 5.6 of the consolidated financial statements.

Research and development

The Group does not engage in significant research and development activities.

Market value of land and buildings

In the opinion of the managers, the market value of the land and buildings of the Group is not materially different from their net book value.

Employees

Regular informal meetings are held between management and employees in order to keep employees informed on current developments within the Group and to take account of their views in making decisions likely to affect their interests. Works councils operate at some sites. In addition a quarterly newsletter is produced.

Essential contracts and arrangements

The right to use the LEGOLAND and LEGO brands in the LEGOLAND Parks and LEGOLAND Discovery Centres is granted to members of the Group by KIRKBI, a significant shareholder in Merlin, on an exclusive, perpetual and worldwide basis pursuant to the terms of a Licence and Co-operation

Agreement. KIRKBI has the right to terminate the use of these brands in certain exceptional circumstances. No such circumstances exist at the date of this report, nor are any foreseen at this time. The company considers the risk of such termination to be remote.

Disclosure of information to auditors

The managers who held office at the date of approval of this managers' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each manager has taken all the steps that he ought to have taken as a manager to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to a partners' resolution, the company is not obliged to reappoint its auditors annually and KPMG Luxembourg S.à.r.l. will therefore continue in office.

By order of the Board

John Sutherland
Manager

19, rue de Bitbourg, L-1273, Luxembourg
20 March 2012

INDEPENDENT AUDITOR'S REPORT

To the Partners of
Merlin Entertainments S.à r.l.
19, rue de Bitbourg
L-1273 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGRÉÉ

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Merlin Entertainments S.à r.l. for the 53 week period ended 31 December 2011, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the 53 week period then ended, and a summary of significant accounting policies and other explanatory information.

Board of Managers' responsibility for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Merlin Entertainments S.à r.l. as of 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the 53 week period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Managers, is consistent with the consolidated financial statements.

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

Thierry Ravasio
Luxembourg, 20 March 2012

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CONSOLIDATED INCOME STATEMENT

For the 53 weeks ended 31 December 2011

(2010: 52 weeks ended 25 December 2010)

| | Note | Underlying trading £m | 2011 Exceptional & non-trading items ⁽²⁾ £m | Total £m | Underlying trading £m | 2010 Exceptional & non-trading items ⁽²⁾ £m | Total £m |
|--|----------|--------------------------|--|-------------|--------------------------|--|--------------|
| Revenue | 2.1 | 945.7 | - | 945.7 | 800.8 | - | 800.8 |
| Cost of sales | 2.1 | (128.2) | - | (128.2) | (105.0) | - | (105.0) |
| Gross profit | | 817.5 | - | 817.5 | 695.8 | - | 695.8 |
| Staff expenses | 2.1 | (228.8) | - | (228.8) | (198.9) | (20.5) | (219.4) |
| Other operating expenses | | (283.2) | (1.7) | (284.9) | (241.1) | (15.4) | (256.5) |
| EBITDA ⁽¹⁾ | 2.1 | 305.5 | (1.7) | 303.8 | 255.8 | (35.9) | 219.9 |
| Depreciation, amortisation and impairment | 4.1, 4.2 | (74.1) | - | (74.1) | (57.8) | (3.7) | (61.5) |
| Operating profit | | 231.4 | (1.7) | 229.7 | 198.0 | (39.6) | 158.4 |
| Finance income | 5.5 | 5.7 | 2.5 | 8.2 | 0.6 | 19.1 | 19.7 |
| Finance costs | 5.5 | (127.7) | (13.8) | (141.5) | (144.7) | (7.4) | (152.1) |
| Profit before tax | | 109.4 | (13.0) | 96.4 | 53.9 | (27.9) | 26.0 |
| Taxation | 2.3 | (28.2) | (0.3) | (28.5) | (32.6) | 4.3 | (28.3) |
| Profit/(loss) for the year | | 81.2 | (13.3) | 67.9 | 21.3 | (23.6) | (2.3) |
| Profit/(loss) attributable to: | | | | | | | |
| Owners of the Company | | 80.6 | (13.3) | 67.3 | 19.5 | (23.6) | (4.1) |
| Non-controlling interest | | 0.6 | - | 0.6 | 1.8 | - | 1.8 |
| Profit/(loss) for the year | | 81.2 | (13.3) | 67.9 | 21.3 | (23.6) | (2.3) |

⁽¹⁾ EBITDA – this is defined as earnings before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of 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 53 weeks ended 31 December 2011

(2010: 52 weeks ended 25 December 2010)

| | Note | 2011 £m | 2010 £m |
|---|------|-------------|------------|
| Profit/(loss) for the year | | 67.9 | (2.3) |
| Other comprehensive income | | | |
| Exchange differences on retranslation of subsidiaries | | (14.9) | (19.3) |
| Exchange differences relating to the net investment in foreign operations | 5.5 | 6.2 | 24.3 |
| Effective portion of changes in fair value of cash flow hedges | | (7.0) | (0.6) |
| Defined benefit plan actuarial gains and losses | 6.2 | (1.7) | 1.5 |
| Income tax on other comprehensive income | 2.3 | 0.6 | (1.1) |
| Other comprehensive income for the year net of income tax | | (16.8) | 4.8 |
| Total comprehensive income for the year | | 51.1 | 2.5 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 50.6 | 0.9 |
| Non-controlling interest | | 0.5 | 1.6 |
| Total comprehensive income for the year | | 51.1 | 2.5 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2011

(2010: 25 December 2010)

| | Note | 2011 €m | 2010 €m |
|---|------|--------------|--------------|
| Non-current assets | | | |
| Property, plant and equipment | 4.1 | 1,111.9 | 951.6 |
| Intangible assets | 4.2 | 970.2 | 916.9 |
| Investment in joint ventures | 6.1 | 0.6 | 0.6 |
| Other receivables | 4.4 | 3.6 | 3.2 |
| Deferred tax assets | 2.3 | 16.4 | 16.4 |
| | | 2,102.7 | 1,888.7 |
| Current assets | | | |
| Inventories | 4.4 | 28.7 | 16.1 |
| Trade and other receivables | 4.4 | 42.4 | 48.2 |
| Other financial assets | 5.4 | 2.3 | 2.0 |
| Cash and cash equivalents | 5.1 | 59.9 | 67.5 |
| | | 133.3 | 133.8 |
| Total assets | | 2,236.0 | 2,022.5 |
| Current liabilities | | | |
| Bank overdrafts | 5.1 | - | 0.4 |
| Interest-bearing loans and borrowings | 5.2 | 5.2 | 11.5 |
| Finance leases | 5.1 | 2.1 | 2.2 |
| Other financial liabilities | 5.4 | 81.3 | 65.0 |
| Trade and other payables | 4.4 | 141.6 | 126.6 |
| Tax payable | | 14.9 | 6.4 |
| Provisions | 4.5 | 9.0 | 7.3 |
| | | 254.1 | 219.4 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 5.2 | 1,177.6 | 1,061.6 |
| Finance leases | 5.1 | 83.9 | 85.9 |
| Other payables | 4.4 | 19.7 | 17.4 |
| Provisions | 4.5 | 24.9 | 17.4 |
| Employee benefits | 6.2 | 4.8 | 3.1 |
| Deferred tax liabilities | 2.3 | 116.5 | 113.2 |
| | | 1,427.4 | 1,298.6 |
| Total liabilities | | 1,681.5 | 1,518.0 |
| Net assets | | 554.5 | 504.5 |
| Issued capital and reserves attributable to owners of the Company | | 550.0 | 499.2 |
| Non-controlling interest | | 4.5 | 5.3 |
| Total equity | 5.7 | 554.5 | 504.5 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 53 weeks ended 31 December 2011

(2010: 52 weeks ended 25 December 2010)

| | Note | Share capital £m | Share premium £m | Capital reserve £m | Translation reserve £m | Hedging reserve £m | Reserve for own shares £m | Retained earnings £m | Total parent equity £m | Non controlling interest £m | Total equity £m |
|---|------|---------------------|---------------------|-----------------------|---------------------------|-----------------------|------------------------------|-------------------------|---------------------------|--------------------------------|--------------------|
| At 27 December 2009 | | 1.3 | 1,229.9 | (1,142.6) | (46.6) | - | - | (160.0) | (118.0) | 3.7 | (114.3) |
| Loss for the year | | - | - | - | - | - | - | (4.1) | (4.1) | 1.8 | (2.3) |
| Other comprehensive income for the year net of income tax | | - | - | - | 4.4 | (0.5) | - | 1.1 | 5.0 | (0.2) | 4.8 |
| Total comprehensive income for the year | | - | - | - | 4.4 | (0.5) | - | (3.0) | 0.9 | 1.6 | 2.5 |
| Reverse acquisition | 5.7 | - | - | 649.5 | - | - | (0.2) | 0.2 | 649.5 | - | 649.5 |
| Equity-settled share-based transactions | 5.7 | - | - | - | - | - | - | 0.3 | 0.3 | - | 0.3 |
| Cash-settled share-based transactions | 5.7 | - | - | - | - | - | - | (33.5) | (33.5) | - | (33.5) |
| At 25 December 2010 | | 1.3 | 1,229.9 | (493.1) | (42.2) | (0.5) | (0.2) | (196.0) | 499.2 | 5.3 | 504.5 |
| Profit for the year | | - | - | - | - | - | - | 67.3 | 67.3 | 0.6 | 67.9 |
| Other comprehensive income for the year net of income tax | | - | - | - | (10.0) | (5.5) | - | (1.2) | (16.7) | (0.1) | (16.8) |
| Total comprehensive income for the year | | - | - | - | (10.0) | (5.5) | - | 66.1 | 50.6 | 0.5 | 51.1 |
| Shares issued | 5.7 | - | 0.2 | - | - | - | - | - | 0.2 | - | 0.2 |
| Dividends to non-controlling interest | | - | - | - | - | - | - | - | - | (1.3) | (1.3) |
| At 31 December 2011 | | 1.3 | 1,230.1 | (493.1) | (52.2) | (6.0) | (0.2) | (129.9) | 550.0 | 4.5 | 554.5 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 53 weeks ended 31 December 2011

(2010: 52 weeks ended 25 December 2010)

| | Note | 2011 £m | 2010 £m |
|--|---------|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit/(loss) for the year | | 67.9 | (2.3) |
| <i>Adjustments for:</i> | | | |
| Depreciation, amortisation and impairment charges | 4.1,4.2 | 74.1 | 61.5 |
| Finance income | 5.5 | (8.2) | (19.7) |
| Finance costs | 5.5 | 141.5 | 152.1 |
| Taxation | 2.3 | 28.5 | 28.3 |
| | | 303.8 | 219.9 |
| Amortisation of grants | | (0.4) | (0.4) |
| Loss on sale of property, plant and equipment | | - | 0.1 |
| Working capital changes | | 3.9 | 6.0 |
| Increase in provisions and other non-current liabilities | | 2.0 | 4.1 |
| Cash-settled share-based transactions | | - | (33.9) |
| | | 309.3 | 195.8 |
| Tax paid | | (17.4) | (12.5) |
| Net cash inflow from operating activities | | 291.9 | 183.3 |
| Cash flows from investing activities | | | |
| Interest received | | 1.8 | 0.6 |
| Acquisition of subsidiaries | 3.1 | (58.6) | (15.6) |
| Acquisition of intangibles | | (0.2) | (0.5) |
| Acquisition of property, plant and equipment | | (173.9) | (103.3) |
| Disposal of property, plant and equipment | | 0.1 | 0.5 |
| Government grants received | | 1.1 | 1.8 |
| Net cash outflow from investing activities | | (229.7) | (116.5) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | | 0.2 | 8.8 |
| Proceeds from bank loans | | 113.3 | 1,093.1 |
| Proceeds from shareholder loans | | - | 75.4 |
| Financing costs | | (13.7) | (42.7) |
| Capital repayments of finance leases | | (2.4) | (2.0) |
| Interest paid | | (117.1) | (109.2) |
| Acquisition of foreign exchange contracts | | (1.2) | - |
| Repayment of borrowings | | (44.8) | (1,056.9) |
| Repayment of shareholder loans | | - | (51.7) |
| Dividends paid to non-controlling interest | | (0.8) | - |
| Net cash outflow from financing activities | | (66.5) | (85.2) |
| Net decrease in cash and cash equivalents | | (4.3) | (18.4) |
| Cash and cash equivalents, net of bank overdrafts, at beginning of period | | 67.1 | 86.6 |
| Effect of exchange rate fluctuations | | (2.9) | (1.1) |
| Cash and cash equivalents, net of bank overdrafts, at end of period | 5.1 | 59.9 | 67.1 |

SECTION I BASIS OF PREPARATION

53 weeks ended 31 December 2011

Basis of preparation

Merlin Entertainments S.à r.l. (the Company) is a company incorporated in Luxembourg and its registered office is 19, rue de Bitbourg, L-1273, Luxembourg.

These consolidated financial statements were approved by the Board of Managers on 20 March 2012.

The consolidated financial statements have been prepared and approved by the managers in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS).

In preparing these 2011 financial statements the format and layout have been changed to follow the principles outlined in the UK Financial Reporting Council's publication 'Louder than words'. These changes have been made to make the Group's financial statements less complex, more relevant to shareholders and to provide readers with a clearer understanding of what drives the financial performance of the Group. Notes have been grouped under key headings and each section sets out the accounting policies applied in producing these notes together with any key judgements and estimates used. No comparative information has been restated.

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 53 weeks ended 31 December 2011 (2010: 52 weeks ended 25 December 2010). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments measured at their fair value.

The consolidated financial statements have been prepared on the going concern basis. The Group has net current liabilities of £120.8 million (2010: £85.6 million), net assets of £554.5 million (2010: £504.5 million), a profit for the year of £67.9 million (2010: loss of £2.3 million) and operating cash inflows of £291.9 million (2010: £183.3 million). This basis of preparation assumes that the Group will continue in operational existence, and will be able to meet its liabilities as they fall due, for at least twelve months from when the consolidated financial statements were approved. As highlighted in note 5.2 the Group is funded by a bank loan facility, due for renewal in 2017. The Group's forecasts show that it will be able to operate within the level of that facility. The managers consider this assumption to be reasonable because after reviewing the Group's cash flow forecasts and trading budgets and making appropriate enquiries, they 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 consolidated financial statements are presented in Sterling based on the preference of the managers. The functional currency of the Company is Euros.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainments S.à r.l. 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)

53 weeks ended 31 December 2011

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:

- 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
- 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)
- Brand useful lives (note 4.2)
- Impairment testing (note 4.3)

During the year the following specific items also required a level of management judgement:

- Accounting for the acquisition of the Sydney Attractions Group and the fair value of the assets and liabilities acquired (note 3.1)
- Accounting for the Group's amendment to its financing facilities in May 2011 (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 6.6.

SECTION 2 RESULTS FOR THE YEAR

53 weeks ended 31 December 2011

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.

| | Midway Attractions | | LEGOLAND Parks | | Resort Theme Parks | | Total | |
|---------------------------|--------------------|------------|----------------|------------|--------------------|------------|------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Segment revenue | 360.1 | 273.5 | 252.4 | 215.0 | 330.4 | 310.5 | 942.9 | 799.0 |
| Central and other revenue | | | | | | | 2.8 | 1.8 |
| Revenue | | | | | | | 945.7 | 800.8 |

| | Midway Attractions | | LEGOLAND Parks | | Resort Theme Parks | | Total | |
|--|--------------------|------------|----------------|------------|--------------------|------------|------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Segment profit, being segment EBITDA | 146.1 | 115.8 | 86.9 | 73.7 | 96.7 | 89.0 | 329.7 | 278.5 |
| Central costs | | | | | | | (24.2) | (22.7) |
| EBITDA before exceptional and non-trading items | | | | | | | 305.5 | 255.8 |
| Exceptional and non-trading items within EBITDA (note 2.2) | | | | | | | (1.7) | (35.9) |
| Total EBITDA | | | | | | | 303.8 | 219.9 |
| Depreciation, amortisation and impairment | | | | | | | (74.1) | (61.5) |
| Net finance costs | | | | | | | (133.3) | (132.4) |
| Consolidated profit before tax | | | | | | | 96.4 | 26.0 |

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

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 2011 £m | Non-current assets 2011 £m | Revenues 2010 £m | Non-current assets 2010 £m |
|---------------------|------------------------|-------------------------------------|------------------------|-------------------------------------|
| United Kingdom | 403.8 | 733.1 | 382.3 | 717.5 |
| Continental Europe | 324.3 | 858.9 | 282.0 | 861.7 |
| North America | 154.0 | 344.7 | 120.0 | 277.2 |
| Asia Pacific | 63.6 | 149.0 | 16.5 | 15.3 |
| | 945.7 | 2,085.7 | 800.8 | 1,871.7 |
| Deferred tax assets | | 16.4 | | 16.4 |
| Investments | | 0.6 | | 0.6 |
| | | 2,102.7 | | 1,888.7 |

The Company does not generate revenues or hold any significant assets in Luxembourg, which is its country of domicile.

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 £128.2 million (2010: £105.0 million) represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Food and beverage and retail consumables are the principal expenses included under this category.

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

2.1 Profit before tax (continued)

Operating costs

Staff numbers and costs

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

| | 2011 | 2010 |
|--|--------|--------|
| Operations | 10,831 | 9,129 |
| Attraction management and central administration | 1,533 | 1,511 |
| | 12,364 | 10,640 |

The aggregate payroll costs of these persons were as follows:

| | 2011 £m | 2010 £m |
|-----------------------|------------|------------|
| Wages and salaries | 196.4 | 179.4 |
| Share-based payments | - | 6.4 |
| Social security costs | 26.5 | 28.3 |
| Other pension costs | 5.9 | 5.3 |
| | 228.8 | 219.4 |

Auditors' remuneration

| | 2011 £m | 2010 £m |
|--|------------|------------|
| Audit of these financial statements | 1.0 | 0.8 |
| Audit of financial statements of subsidiaries pursuant to legislation | 0.1 | 0.1 |
| Other services pursuant to such legislation | 0.2 | 0.3 |
| Other services relating to taxation | 0.4 | 0.4 |
| Services relating to corporate finance transactions entered into or proposed | - | 0.7 |
| All other services | 0.1 | 0.1 |
| | 1.8 | 2.4 |

2.2 Exceptional and non-trading items

Accounting policy

Due to their material nature, certain exceptional and non-trading items have been classified separately in order to draw them to the attention of the reader. They are adjustments that, in the judgement of the managers, are required in order to show the underlying business performance of the Group more accurately.

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

2.2 Exceptional and non-trading items (continued)

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:

| | 2011 £m | 2010 £m |
|---|-------------|--------------|
| <i>Within staff expenses:</i> | | |
| Cash-settled share-based payments and other related costs ⁽³⁾ | - | 20.5 |
| | - | 20.5 |
| <i>Within other operating expenses:</i> | | |
| Costs in respect of potential IPO ⁽⁴⁾ | - | 4.9 |
| Costs in respect of group re-organisation ⁽⁵⁾ | - | 8.7 |
| Acquisition costs ⁽¹⁾ | 1.7 | 1.8 |
| | 1.7 | 15.4 |
| <i>Within depreciation, amortisation and impairment:</i> | | |
| Impairment of property, plant and equipment (note 4.1) | - | 3.7 |
| | - | 3.7 |
| <i>Within finance income and costs:</i> | | |
| Unrealised gain on re-measurement of financial derivatives at fair value ⁽²⁾ | (2.5) | (19.1) |
| Unrealised loss on re-measurement of financial derivatives at fair value ⁽²⁾ | 13.8 | - |
| Foreign currency translation differences for foreign operations ⁽⁶⁾ | - | 7.4 |
| | 11.3 | (11.7) |
| Exceptional and non-trading items before income tax | 13.0 | 27.9 |
| Exceptional and non-trading income tax charge/(credit) | 0.3 | (4.3) |
| Exceptional and non-trading items for the year | 13.3 | 23.6 |

2011

- (1) Directly attributable acquisition costs were incurred in respect of the business combinations described in note 3.1, as well as the transaction that completed after the year end as described in note 6.5. These are separately presented as they are not part of the Group's underlying operating expenses.
- (2) 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).

2010

- (3) Prior to the shareholder transaction undertaken in 2010, the Group's existing share option scheme that enabled key management personnel and senior employees to purchase options in the Group was accounted for on an equity-settled basis, with the fair value of options granted recognised as an employee expense together with a corresponding increase in equity. On 23 June 2010, in anticipation of the shareholder transaction, the scheme rules were modified to enable the settlement of these options in cash. As part of this modification the Group elected to take the resulting charge, insofar as it related to options already granted, directly to equity. Where grants of options were made subsequent to the scheme modification and prior to the completion of the shareholder transaction, the resulting charge was taken as part of operating expenses. These, together with other related payments to employees, and any social insurance or other costs, were separately presented as they were not part of the Group's underlying operating expenses.

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

2.2 Exceptional and non-trading items (continued)

- (4) During 2010 the Group considered a number of future financing options, including the possibility of listing shares in the Group through an Initial Public Offering. Certain professional and advisory fees were incurred as part of this process which were separately presented as they were not part of the Group's underlying operating expenses.
- (5) Certain professional and advisory fees were incurred in connection with the shareholder transaction, the creation of the new holding company for the Group and subsequent group re-organisation. These were separately presented as they were not part of the Group's underlying operating expenses.
- (6) The shareholder transaction and subsequent group re-organisation resulted in the settlement of certain intra-group loans that had previously been treated as net investment hedging instruments. Historic foreign exchange gains and losses that had been taken direct to equity were therefore recycled through the income statement as the hedges became ineffective. These were separately presented as they were not part of the Group's underlying finance cost.

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 through the consolidated 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

| | 2011 £m | 2010 £m |
|---|-------------|-------------|
| <i>Current tax expense</i> | | |
| Current year | 19.1 | 12.1 |
| Adjustment for prior periods | 4.6 | 2.3 |
| Total current income tax | 23.7 | 14.4 |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 5.2 | 15.3 |
| Change in tax rate | (2.9) | (1.1) |
| Adjustment for prior periods | 2.5 | (0.3) |
| Total deferred tax | 4.8 | 13.9 |
| Total tax expense in income statement | 28.5 | 28.3 |

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

2.3 Taxation (continued)

Reconciliation of effective tax rate

| | 2011 % | 2011 £m | 2010 % | 2010 £m |
|--|--------------|-------------|---------------|-------------|
| Profit before tax | | 96.4 | | 26.0 |
| Income tax using the domestic corporation tax rate | 28.8% | 27.8 | 29.6% | 7.7 |
| Non-deductible expenses | 12.3% | 11.9 | 60.4% | 15.7 |
| Tax exempt income | (25.8%) | (24.9) | (170.0%) | (44.2) |
| Effect of tax rates in foreign jurisdictions | 7.4% | 7.1 | 18.1% | 4.7 |
| Effect of changes in tax rate | (3.0%) | (2.9) | (4.2%) | (1.1) |
| Unrecognised temporary differences | 2.5% | 2.4 | 167.3% | 43.5 |
| Adjustments from prior years | 7.4% | 7.1 | 7.7% | 2.0 |
| Total tax shown in income statement | 29.6% | 28.5 | 108.9% | 28.3 |

Recognised directly in equity through the consolidated statement of other comprehensive income

| | 2011 £m | 2010 £m |
|---|--------------|------------|
| Foreign exchange translation differences relating to the net investment in foreign operations | 1.4 | 0.8 |
| Effective portion of changes in fair value of cash flow hedges | (1.5) | (0.1) |
| Actuarial gains and losses | (0.5) | 0.4 |
| Total tax (income)/expense in consolidated statement of other comprehensive income | (0.6) | 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 | |
|--|-------------|-------------|----------------|----------------|----------------|---------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Property, plant and equipment | - | - | (88.3) | (60.7) | (88.3) | (60.7) |
| Other short term temporary differences | 13.1 | 8.0 | - | (1.3) | 13.1 | 6.7 |
| Intangible assets | - | - | (50.4) | (51.2) | (50.4) | (51.2) |
| Tax value of loss carry-forwards | 25.5 | 8.4 | - | - | 25.5 | 8.4 |
| Tax assets/(liabilities) | 38.6 | 16.4 | (138.7) | (113.2) | (100.1) | (96.8) |
| Set-off tax | (22.2) | - | 22.2 | - | - | - |
| Net tax assets/(liabilities) | 16.4 | 16.4 | (116.5) | (113.2) | (100.1) | (96.8) |

Other short term temporary differences primarily relate to investments, deferred foreign exchange gains, and revaluation of financial instruments.

Set-off tax is separately presented to show deferred tax assets and liabilities by category before the effect of off-setting these amounts in the statement of financial position where the Group has the right and intention to off-set these amounts.

SECTION 2 RESULTS FOR THE YEAR (continued)

53 weeks ended 31 December 2011

2.3 Taxation (continued)

Movement in deferred tax during the current year

| | 26 December 2010 £m | Acquired in business combinations (note 3.1) £m | Recognised in income £m | Recognised in other comprehensive income £m | Effects of movement in foreign exchange £m | 31 December 2011 £m |
|--|------------------------------|---|-------------------------------|---|--|------------------------------|
| Property, plant and equipment | (60.7) | (1.0) | (26.3) | - | (0.3) | (88.3) |
| Other short term temporary differences | 6.7 | 0.9 | 3.3 | 2.1 | 0.1 | 13.1 |
| Intangible assets | (51.2) | (1.2) | 1.7 | - | 0.3 | (50.4) |
| Tax value of loss carry-forwards | 8.4 | - | 16.5 | - | 0.6 | 25.5 |
| Net tax assets/(liabilities) | (96.8) | (1.3) | (4.8) | 2.1 | 0.7 | (100.1) |

Movement in deferred tax during the previous year

| | 27 December 2009 £m | Recognised in income £m | Recognised in other comprehensive income £m | Effects of movement in foreign exchange £m | 25 December 2010 £m |
|--|------------------------------|-------------------------------|---|--|------------------------------|
| Property, plant and equipment | (57.2) | (6.7) | - | 3.2 | (60.7) |
| Other short term temporary differences | 13.2 | (5.9) | (0.1) | (0.5) | 6.7 |
| Intangible assets | (53.5) | 0.8 | - | 1.5 | (51.2) |
| Tax value of loss carry-forwards | 10.4 | (2.1) | - | 0.1 | 8.4 |
| Net tax assets/(liabilities) | (87.1) | (13.9) | (0.1) | 4.3 | (96.8) |

Unrecognised deferred tax assets

| | 2011 £m | 2010 £m |
|--|--------------|--------------|
| Property, plant and equipment | 39.6 | 30.8 |
| Other short term temporary differences | 38.1 | 28.6 |
| Intangible assets | 7.5 | 5.8 |
| Tax value of loss carry-forwards | 91.4 | 80.6 |
| Net tax assets | 176.6 | 145.8 |

The unrecognised deferred tax assets relating to loss carry-forwards include £1.6 million which expire within 5 years and £1.6 million which expire within 10 years. The remaining losses and other timing differences do not expire under current tax legislation.

SECTION 3 BUSINESS COMBINATIONS

53 weeks ended 31 December 2011

3.1 Business combinations

Accounting policies

When a business combination takes place, the managers consider the rights and intentions of the managers 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 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.

2011

The Group acquired the Sydney Attractions Group of companies for £61.3 million from Village Roadshow Limited, with effect from 26 December 2010. This included the Sydney Aquarium, Sydney Wildlife World and the Sydney Tower Observatory and Skywalk, together with Kelly Tarlton's Antarctic Encounter Underwater World in Auckland, New Zealand. This acquisition marked the Group's entry into the Australian and New Zealand markets. As part of financing this acquisition, the Group drew down new debt under its existing financing facilities, and the consideration was settled in cash. Directly attributable acquisition costs of £1.5 million were incurred on the transaction in 2010.

The acquisition had the following effect on the Group's assets and liabilities:

| | Acquiree's book values £m | Fair value adjustments £m | Fair values at acquisition £m |
|---|---------------------------------|---------------------------------|-------------------------------------|
| <i>Acquiree's net assets at the acquisition date:</i> | | | |
| Property, plant and equipment | 51.0 | 3.5 | 54.5 |
| Brands | - | 2.8 | 2.8 |
| Other intangible assets | 8.8 | (7.6) | 1.2 |
| Inventories | 1.0 | - | 1.0 |
| Trade and other receivables | 1.2 | (0.1) | 1.1 |
| Cash and cash equivalents | 2.7 | - | 2.7 |
| Bank loans and amounts owed to former shareholders | (43.8) | - | (43.8) |
| Trade and other payables | (5.2) | (0.4) | (5.6) |
| Provisions and employee benefits | (8.6) | 5.0 | (3.6) |
| Current tax liabilities | (1.7) | - | (1.7) |
| Deferred tax assets and liabilities | 5.5 | (6.8) | (1.3) |
| Net identifiable assets and liabilities | 10.9 | (3.6) | 7.3 |
| Goodwill | | | 54.0 |
| Consideration | | | 61.3 |
| <i>Analysis of consideration:</i> | | | |
| Cash | | | 61.3 |
| | | | 61.3 |
| <i>Analysis of net cash outflow:</i> | | | |
| Cash acquired | | | (2.7) |
| Cash paid at acquisition | | | 61.3 |
| Net cash outflow | | | 58.6 |

SECTION 3 BUSINESS COMBINATIONS (continued)

53 weeks ended 31 December 2011

3.1 Business combinations (continued)

In the period to 31 December 2011 this acquisition contributed £41.9 million to the consolidated revenue and £9.8 million to the consolidated underlying operating profit of the Group.

Goodwill has arisen on the above acquisition as it provides opportunities for the Group both to expand into new territories as well as to facilitate the roll-out of further Midway attractions. This goodwill is not deductible for tax purposes.

2010

Cypress Gardens

On 7 January 2010, the Group acquired the business and assets of Cypress Gardens, a theme park in Florida, USA, for the sum of £15.6 million. Of this £14.9 million was settled in cash at completion and £0.7 million was deferred and paid within four months of completion. Directly attributable acquisition costs of £0.3 million were incurred on the transaction.

A significant redevelopment of the site took place and it reopened as LEGOLAND Florida in October 2011.

During the period to 25 December 2010, while the site was closed, the business incurred net costs of £1.3 million, which formed part of the consolidated underlying operating profit of the Group. Had this acquisition occurred on 27 December 2009, there would have been no impact on the Group's revenue or operating profit.

The acquisition had the following effect on the Group's assets and liabilities:

| | Fair values at acquisition £m |
|---|-------------------------------------|
| <i>Acquiree's net assets at the acquisition date:</i> | |
| Land and buildings | 13.9 |
| Plant and equipment | 1.2 |
| Net identifiable assets and liabilities | 15.1 |
| Goodwill | 0.5 |
| Consideration | 15.6 |
| <i>Analysis of consideration:</i> | |
| Cash | 15.6 |
| | 15.6 |
| <i>Analysis of net cash outflow:</i> | |
| Cash paid at acquisition | 15.6 |
| Net cash outflow | 15.6 |

Goodwill arose on the above acquisition as it provided opportunities to further deliver the Group's strategy of growth through the creation of a fifth LEGOLAND Park.

Blackpool Tower Complex

On 31 March 2010 the Group was appointed by Blackpool Council, in the United Kingdom, to manage the redevelopment and operations of the Blackpool Tower complex and Louis Tussauds Waxworks and subsequently took over the operations of the Blackpool Tower in November 2010.

The business combination had no effect on the Group's assets and liabilities. No consideration was paid and no assets were acquired, with the sites being occupied under operating lease arrangements over the period of the development and management agreements.

SECTION 4 OPERATING ASSETS AND LIABILITIES

53 weeks ended 31 December 2011

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)

53 weeks ended 31 December 2011

4.1 Property, plant and equipment (continued)

Property, plant and equipment

| | Land and buildings £m | Plant and equipment £m | Under construction £m | Total £m |
|---|--------------------------|---------------------------|--------------------------|----------------|
| <i>Cost</i> | | | | |
| Balance at 27 December 2009 | 595.0 | 454.4 | 40.5 | 1,089.9 |
| Acquisitions through business combinations (note 3.1) | 13.9 | 1.2 | - | 15.1 |
| Additions | 4.8 | 32.8 | 74.4 | 112.0 |
| Movements in asset retirement provisions | (1.0) | 0.7 | - | (0.3) |
| Disposals | (0.3) | (4.1) | - | (4.4) |
| Transfers | 16.1 | 43.3 | (59.4) | - |
| Effect of movements in foreign exchange | (16.2) | (9.4) | (0.5) | (26.1) |
| Balance at 25 December 2010 | 612.3 | 518.9 | 55.0 | 1,186.2 |
| Acquisitions through business combinations (note 3.1) | 29.6 | 22.9 | 2.0 | 54.5 |
| Additions | 29.9 | 59.3 | 88.4 | 177.6 |
| Movements in asset retirement provisions | 1.8 | 1.8 | - | 3.6 |
| Disposals | (0.1) | (3.2) | - | (3.3) |
| Transfers | 30.6 | 60.7 | (91.3) | - |
| Effects of movements in foreign exchange | (4.6) | (3.2) | 3.0 | (4.8) |
| Balance at 31 December 2011 | 699.5 | 657.2 | 57.1 | 1,413.8 |
| <i>Depreciation</i> | | | | |
| Balance at 27 December 2009 | 72.8 | 108.1 | - | 180.9 |
| Depreciation for the year - owned assets | 14.2 | 37.5 | - | 51.7 |
| Depreciation for the year - leased assets | 2.1 | 2.8 | - | 4.9 |
| Impairment | 2.7 | 1.0 | - | 3.7 |
| Disposals | (0.1) | (3.7) | - | (3.8) |
| Effect of movements in foreign exchange | 0.2 | (3.0) | - | (2.8) |
| Balance at 25 December 2010 | 91.9 | 142.7 | - | 234.6 |
| Depreciation for the year - owned assets | 18.2 | 50.3 | - | 68.5 |
| Depreciation for the year - leased assets | 1.9 | 2.6 | - | 4.5 |
| Disposals | - | (3.2) | - | (3.2) |
| Effects of movements in foreign exchange | (0.7) | (1.8) | - | (2.5) |
| Balance at 31 December 2011 | 111.3 | 190.6 | - | 301.9 |
| <i>Carrying amounts</i> | | | | |
| At 27 December 2009 | 522.2 | 346.3 | 40.5 | 909.0 |
| At 25 December 2010 | 520.4 | 376.2 | 55.0 | 951.6 |
| At 31 December 2011 | 588.2 | 466.6 | 57.1 | 1,111.9 |

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

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 (2010: £2.7 million in land and buildings and £1.0 million in plant and equipment). The impairment in 2010 was in respect of one of the Group's midway attractions, arising from a review of the market conditions unique to the location. 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 31 December 2011 the net carrying amount of leased buildings was £41.6 million (2010: £43.7 million) and the net carrying amount of leased plant and machinery was £41.7 million (2010: £44.5 million).

Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to £62.0 million (2010: £39.2 million), for which no provision has been made. These commitments are expected to be settled in the following two financial years.

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 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. Certain brands 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 managers' intentions regarding the future use of brands. The managers 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 (from 5 to 15 years) |
| Other intangible assets | Relevant contractual period (up to 30 years) |

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

4.2 Goodwill and intangible assets (continued)

Goodwill and intangible assets

| | Intangible assets | | | Total £m |
|---|-------------------|--------------|-------------|----------------|
| | Goodwill £m | Brands £m | Other £m | |
| <i>Cost</i> | | | | |
| Balance at 27 December 2009 | 885.9 | 194.8 | 17.4 | 1,098.1 |
| Acquisitions through business combinations (note 3.1) | 0.5 | - | - | 0.5 |
| Additions | - | - | 1.3 | 1.3 |
| Effect of movements in foreign exchange | (25.3) | (4.6) | (0.1) | (30.0) |
| Balance at 25 December 2010 | 861.1 | 190.2 | 18.6 | 1,069.9 |
| Acquisitions through business combinations (note 3.1) | 54.0 | 2.8 | 1.2 | 58.0 |
| Additions | - | - | 0.2 | 0.2 |
| Effects of movements in foreign exchange | (2.9) | (1.1) | (0.1) | (4.1) |
| Balance at 31 December 2011 | 912.2 | 191.9 | 19.9 | 1,124.0 |
| <i>Amortisation and impairment</i> | | | | |
| Balance at 27 December 2009 | 133.3 | 12.8 | 6.3 | 152.4 |
| Amortisation for the year | - | - | 1.2 | 1.2 |
| Effect of movements in foreign exchange | (0.1) | (0.3) | (0.2) | (0.6) |
| Balance at 25 December 2010 | 133.2 | 12.5 | 7.3 | 153.0 |
| Amortisation for the year | - | - | 1.1 | 1.1 |
| Effects of movements in foreign exchange | (0.1) | (0.1) | (0.1) | (0.3) |
| Balance at 31 December 2011 | 133.1 | 12.4 | 8.3 | 153.8 |
| <i>Carrying amounts</i> | | | | |
| At 27 December 2009 | 752.6 | 182.0 | 11.1 | 945.7 |
| At 25 December 2010 | 727.9 | 177.7 | 11.3 | 916.9 |
| At 31 December 2011 | 779.1 | 179.5 | 11.6 | 970.2 |

Intangible assets were tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. As a result, no goodwill has been written off in the year (2010: £nil).

Goodwill

Goodwill is allocated to the Group's operating segments which represent the lowest level at which it is monitored and tested for impairment:

| | 2011 £m | 2010 £m |
|--------------------|--------------|--------------|
| Midway Attractions | 500.1 | 444.8 |
| LEGOLAND Parks | 39.3 | 39.6 |
| Resort Theme Parks | 239.7 | 243.5 |
| | 779.1 | 727.9 |

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

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 rate.

| | 2011 €m | 2010 €m |
|---------------------------|------------|------------|
| <i>Midway Attractions</i> | | |
| Madame Tussauds | 26.4 | 26.4 |
| SEA LIFE | 16.3 | 13.5 |
| London Eye | 9.7 | 9.7 |
| Other | 8.2 | 8.2 |
| | 60.6 | 57.8 |
| <i>Resort Theme Parks</i> | | |
| Gardaland Resort | 48.2 | 49.0 |
| Alton Towers Resort | 32.1 | 32.1 |
| Thorpe Park | 14.8 | 14.8 |
| Heide Park | 11.5 | 11.7 |
| Other | 12.3 | 12.3 |
| | 118.9 | 119.9 |
| | 179.5 | 177.7 |

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 aquaria 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 at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, 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 identified and reviewed at the level of cash-generating units (CGUs). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. These correspond to the Group's operating segments as identified for segmental reporting purposes. |
| Brands | Brands are reviewed individually. |
| PPE | PPE is reviewed at an attraction level. |

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

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, and are allocated first to reduce the carrying amount of any goodwill allocated to CGUs, then to reduce the carrying amount of other intangible assets and the carrying amount of the other assets in the CGU 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's internally approved five year business plans are used as the basis for these calculations, with cash flows beyond the 5 year business plan horizon then extrapolated using a long term growth rate.

Common assumptions have been adopted for the purpose of testing goodwill across each CGU 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 | |
|--|--|
| 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% 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. Presented on a pre-tax basis, the discount rate used was between 10% and 13% (2010: 10% and 12%). |

The managers 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 evaluation.

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

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. Where the Group is constructing assets over a period of time for sale, as part of future development activity, they are classified as work in progress.

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

| | 2011 £m | 2010 £m |
|-----------------------|------------|------------|
| Maintenance inventory | 4.6 | 3.2 |
| Work in progress | 11.8 | 3.3 |
| Goods for resale | 12.3 | 9.6 |
| | 28.7 | 16.1 |

Trade and other receivables

| | Current assets | | Non-current assets | |
|--------------------------------|----------------|------------|--------------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Trade receivables | 10.6 | 14.4 | - | - |
| Other receivables | 4.4 | 7.4 | - | - |
| Prepayments and accrued income | 27.4 | 26.4 | 3.6 | 3.2 |
| | 42.4 | 48.2 | 3.6 | 3.2 |

Ageing of trade receivables

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

| | 2011 £m | 2010 £m |
|--------------------------------|------------|------------|
| Neither past due nor impaired | 5.8 | 9.7 |
| Up to 30 days overdue | 2.9 | 1.9 |
| Between 30 and 60 days overdue | 1.5 | 2.4 |
| Over 60 days overdue | 0.4 | 0.4 |
| | 10.6 | 14.4 |

Trade and other payables

| | Current liabilities | | Non-current liabilities | |
|------------------------------|---------------------|------------|-------------------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Trade payables | 34.6 | 32.9 | - | - |
| Accruals and deferred income | 100.0 | 86.9 | 3.8 | 3.2 |
| Other payables | 7.0 | 6.8 | 15.9 | 14.2 |
| | 141.6 | 126.6 | 19.7 | 17.4 |

SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

53 weeks ended 31 December 2011

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 managers' 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 26 December 2010 | 14.3 | 10.4 | 24.7 |
| Business combinations (note 3.1) | 3.5 | 0.1 | 3.6 |
| Provisions made during the year | 3.8 | 3.0 | 6.8 |
| Utilised during the year | - | (1.8) | (1.8) |
| Unused amounts reversed | (0.1) | (0.3) | (0.4) |
| Unwinding of discount | 0.9 | - | 0.9 |
| Effects of movements in foreign exchange | - | 0.1 | 0.1 |
| Balance at 31 December 2011 | 22.4 | 11.5 | 33.9 |
| 2011 | | | |
| Current | - | 9.0 | 9.0 |
| Non-current | 22.4 | 2.5 | 24.9 |
| | 22.4 | 11.5 | 33.9 |
| 2010 | | | |
| Current | - | 7.3 | 7.3 |
| Non-current | 14.3 | 3.1 | 17.4 |
| | 14.3 | 10.4 | 24.7 |

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

53 weeks ended 31 December 2011

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 and call deposits.

| | 2011 £m | 2010 £m |
|--|----------------|----------------|
| Cash and cash equivalents | 59.9 | 67.5 |
| Bank overdrafts used for cash management purposes | - | (0.4) |
| Cash and cash equivalents, net of bank overdrafts, per statement of cash flows | 59.9 | 67.1 |
| Interest-bearing loans and borrowings (note 5.2) | 1,182.8 | 1,073.1 |
| Net bank debt | 1,122.9 | 1,006.0 |
| Current finance leases (note 5.3) | 2.1 | 2.2 |
| Non-current finance leases (note 5.3) | 83.9 | 85.9 |
| Net debt | 1,208.9 | 1,094.1 |

Included in cash and cash equivalents above are restricted funds of £6.1 million (2010: £5.2 million). Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

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 date of repayment, 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.

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 | |
|--------------------|------------|------------|-------------|------------|------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Secured bank loans | 3.5 | 4.7 | 1,177.6 | 1,061.6 | 1,181.1 | 1,066.3 |
| Interest payable | 1.7 | 6.8 | - | - | 1.7 | 6.8 |
| | 5.2 | 11.5 | 1,177.6 | 1,061.6 | 1,182.8 | 1,073.1 |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

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 | 2011 | | 2010 | |
|-------------------|----------|-----------------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | | | Principal value £m | Carrying amount £m | Principal value £m | Carrying amount £m |
| Secured bank loan | GBP | 5.02% | 2017 | 396.0 | 386.6 | 396.0 | 383.2 |
| Secured bank loan | EUR | 5.08% | 2017 | 421.8 | 410.1 | 428.9 | 414.5 |
| Secured bank loan | USD | 4.55% | 2017 | 270.9 | 264.8 | 272.5 | 263.9 |
| Secured bank loan | AUD | 9.03% | 2017 | 121.2 | 116.1 | - | - |
| Secured bank loan | RMB | 7.00% | 2012 | 3.5 | 3.5 | 4.7 | 4.7 |
| | | | | 1,213.4 | 1,181.1 | 1,102.1 | 1,066.3 |

In July 2010, pre-existing financing arrangements were either legally settled or substantially modified, so that refinancing was accounted for as an extinguishment and reissue, with new loans repayable in July 2015. In May 2011 the Group then amended this facility such that the loans bear interest at lower rates and now fall due in July 2017. Reflecting management's judgement that this is a non-substantive change to an existing facility, the Group has accounted for this on a continuation accounting basis. The Group's estimated date of repayment remains December 2014. The loans are secured by a fixed and floating charge over the assets held by the Group.

The nominal interest rate for secured bank loans in the table above represents the floating interest rate 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 acquired operating units. The leases entered into are accounted for as finance or operating leases depending on the specific circumstances of each lease.

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.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.3 Lease obligations (continued)

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 2011 £70.5 million (2010: £55.3 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 2011 £m | Interest 2011 £m | Present value of minimum lease payments 2011 £m | Future minimum lease payments 2010 £m | Interest 2010 £m | Present value of minimum lease payments 2010 £m |
|----------------------------|--|---------------------|--|--|---------------------|--|
| Less than one year | 7.6 | 5.5 | 2.1 | 7.4 | 5.2 | 2.2 |
| Between one and five years | 23.3 | 22.8 | 0.5 | 24.1 | 21.5 | 2.6 |
| More than five years | 259.8 | 176.4 | 83.4 | 262.8 | 179.5 | 83.3 |
| | 290.7 | 204.7 | 86.0 | 294.3 | 206.2 | 88.1 |

| | Currency | Nominal interest rate | Year of maturity | 2011 £m | 2010 £m |
|---------------------------|----------|-----------------------|------------------|------------|------------|
| Finance lease liabilities | GBP | 5.64% | 2042 | 54.2 | 54.5 |
| Finance lease liabilities | EUR | 3.01% | 2012 | 2.1 | 4.1 |
| Finance lease liabilities | EUR | 9.11% | 2042 | 29.7 | 29.5 |
| | | | | 86.0 | 88.1 |

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:

| | 2011 £m | 2010 £m |
|----------------------------|------------|------------|
| Less than one year | 58.8 | 49.2 |
| Between one and five years | 233.0 | 205.8 |
| More than five years | 1,288.9 | 1,229.9 |
| | 1,580.7 | 1,484.9 |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

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 in specific circumstances where the Group adopts hedge accounting as described below.

The fair value of interest rate swaps are 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.

The fair value of derivative provisions for committed share issues is determined by reference to contractually agreed amounts and the value of the shares to be issued, which the managers have assessed based on the value attributed in the last transaction of the Group's shares.

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%. 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 are recognised immediately in profit or loss.

Other financial assets

| | 2011 £m | 2010 £m |
|---|------------|------------|
| Derivative financial instruments - foreign exchange contracts | 2.3 | 2.0 |

Other financial liabilities

| | 2011 £m | 2010 £m |
|---|------------|------------|
| <i>Derivative financial instruments</i> | | |
| Hedge accounted interest rate swaps | 7.8 | 0.6 |
| Non-hedge accounted interest rate swaps | 69.0 | 64.4 |
| Non-hedge accounted foreign exchange contracts | 0.3 | - |
| Non-hedge accounted committed share issues (note 5.7) | 4.2 | - |
| | 81.3 | 65.0 |

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)

53 weeks ended 31 December 2011

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.

Where it is probable that the Group is committed to issue shares in the future, any difference between the consideration to be received and the value of the shares to be issued is recognised as an expense within finance costs as a loss on recognition of committed share issues.

Interest income and interest expense is recognised as it accrues, using the effective interest method.

Capitalisation of borrowing costs

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset 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 inter-company 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

| | 2011 £m | 2010 £m |
|--|------------|------------|
| <i>In respect of assets not held at fair value</i> | | |
| Interest income | 1.9 | 0.6 |
| <i>In respect of assets held at fair value</i> | | |
| Unrealised gain on re-measurement of financial derivatives at fair value | | |
| - Interest rate swaps and foreign exchange contracts | 2.5 | 19.1 |
| <i>Other</i> | | |
| Net foreign exchange gain | 3.8 | - |
| | 8.2 | 19.7 |

Finance costs

| | 2011 £m | 2010 £m |
|--|------------|------------|
| <i>In respect of liabilities not held at fair value</i> | | |
| Interest expense on financial liabilities measured at amortised cost | 126.1 | 114.7 |
| Interest expense on shareholder loans | - | 32.4 |
| Other interest expense | 1.6 | 1.4 |
| <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 | 9.6 | - |
| - Committed share issues (note 5.4) | 4.2 | - |
| <i>Other</i> | | |
| Net foreign exchange loss | - | 3.6 |
| | 141.5 | 152.1 |

Capitalised borrowing costs amounted to £4.6 million in 2011 (2010: £1.7 million), with a capitalisation rate of 8.1% (2010: 8.7%).

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.5 Finance income and costs (continued)

Recognised in consolidated statement of other comprehensive income

| | 2011 £m | 2010 £m |
|---|------------|------------|
| Foreign currency translation differences for foreign operations | (6.2) | (24.3) |

Foreign currency translation differences for foreign operations are stated before a charge of £1.4 million (2010: £0.8 million) of 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 significant changes in interest rates. The Group has drawn floating rate debt in Sterling, Euros, US Dollars, Australian Dollars and Chinese Renminbi.

The Group hedges its exposure to floating rate borrowings with interest rate swaps. At the reporting date, at year end exchange rates, 98% (2010: 98%) of the secured bank loans is hedged in this way. The majority of the interest rate swaps mature in 2014 in line with the Group's estimated date of repayment of the debt facility.

The interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|-----------------|------------|
| | 2011 £m | 2010 £m |
| <i>Fixed rate instruments</i> | | |
| Financial liabilities - finance leases | (86.0) | (88.1) |
| Financial liabilities - interest rate swaps | (76.8) | (65.0) |
| | (162.8) | (153.1) |
| <i>Variable rate instruments</i> | | |
| Financial assets - cash and cash equivalents | 59.9 | 67.5 |
| Financial liabilities - bank loans and overdrafts | (1,181.1) | (1,066.7) |
| | (1,121.2) | (999.2) |

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 cash flows to which the Group is currently sensitive are outflows on the fixed leg.

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

Fair value sensitivity analysis for fixed rate instruments

The Group's sensitivity to interest rates on fixed rate instruments is calculated at the end of the reporting period 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) (2010: 50bp). A change in interest rates would have no impact on the carrying value of finance leases as they are held at amortised cost.

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

| | 2011 | | 2010 | |
|----------------------------------|----------------------|--------------|----------------------|--------------|
| | Profit or loss £m | Equity £m | Profit or loss £m | Equity £m |
| 50bp increase in interest rates | 12.5 | 2.6 | 17.2 | 3.1 |
| 50bp reduction in interest rates | (12.7) | (2.6) | (17.6) | (3.2) |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.6 Financial risk factors and fair value analysis (continued)

Cash flow sensitivity analysis for variable rate instruments

The cash flow sensitivity analysis demonstrates the economic hedging the Group has against variable rate financial liabilities.

It is performed by comparing the annual interest expense/income which would apply to balances held at the year end using year end interest rates, to the annual charge which would apply using year end interest rates plus a reasonably possible parallel shift of +50bp/-50bp.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant. Any remaining sensitivity is attributable to the Group's exposure to interest rates on its unhedged variable rate borrowings.

| | Profit or (loss) | |
|------------------------------------|------------------|------------|
| | 2011 £m | 2010 £m |
| Variable rate liabilities | (6.0) | (5.5) |
| Fixed rate liabilities | 5.9 | 5.4 |
| Variable rate assets | 0.3 | 0.3 |
| Cash flow sensitivity (net) | 0.2 | 0.2 |

If all other variables remain constant a decrease of 50bp (2010: 50bp) would have the equal but opposite effect to the amounts shown above.

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury Department produces weekly short-term cash forecasts and monthly long-term cash forecasts to identify liquidity requirements and headroom over the coming twelve months, 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 line with Group policies on counterparty exposure. 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 £138.0 million (2010: £125.0 million) in addition to its existing borrowings to meet any shortfalls.

At 31 December 2011, the Group had cash and cash equivalents of £59.9 million together with these revolving credit facilities, 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 years £m | 1 to <2 years £m | 2 to <5 years £m | 5 years and over £m |
|--|-----------------------|------------------------------|------------------------|------------------------|------------------------|---------------------------|
| 2011 | | | | | | |
| <i>Non derivative financial liabilities</i> | | | | | | |
| Secured bank loans | 1,181.1 | (1,576.9) | (66.4) | (63.5) | (200.5) | (1,246.5) |
| Finance lease liabilities | 86.0 | (211.3) | (7.6) | (5.8) | (17.5) | (180.4) |
| Trade payables | 34.6 | (34.6) | (34.6) | - | - | - |
| <i>Derivative financial liabilities</i> | | | | | | |
| Hedge-accounted interest rate swaps | 7.8 | (11.1) | (1.9) | (4.0) | (5.2) | - |
| Non-hedge accounted interest rate swaps | 69.0 | (72.5) | (25.7) | (22.9) | (23.9) | - |
| Non-hedge accounted foreign exchange contracts | 0.3 | (0.3) | (0.3) | - | - | - |
| | 1,378.8 | (1,906.7) | (136.5) | (96.2) | (247.1) | (1,426.9) |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.6 Financial risk factors and fair value analysis (continued)

| | Carrying amount £m | Contractual cash flows £m | 0 to <1 years £m | 1 to <2 years £m | 2 to <5 years £m | 5 years and over £m |
|--|-----------------------|------------------------------|------------------------|------------------------|------------------------|---------------------------|
| 2010 | | | | | | |
| <i>Non derivative financial liabilities</i> | | | | | | |
| Secured bank loans | 1,066.3 | (1,389.5) | (72.1) | (56.7) | (1,260.7) | - |
| Finance lease liabilities | 88.1 | (214.3) | (7.4) | (7.6) | (16.4) | (182.9) |
| Bank overdrafts | 0.4 | (0.4) | (0.4) | - | - | - |
| Trade payables | 32.9 | (32.9) | (32.9) | - | - | - |
| <i>Derivative financial liabilities</i> | | | | | | |
| Hedge-accounted interest rate swaps | 0.6 | (4.1) | (0.5) | (0.7) | (2.9) | - |
| Non-hedge accounted interest rate swaps | 64.4 | (114.1) | (34.7) | (27.3) | (52.1) | - |
| Non-hedge accounted foreign exchange contracts | (2.0) | (1.3) | (1.3) | - | - | - |
| | 1,250.7 | (1,756.6) | (149.3) | (92.3) | (1,332.1) | (182.9) |

Foreign currency risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign exchange rates. Foreign exchange risk arises from differences in the dates commercial transactions are entered into and the date they are settled; recognised assets and liabilities; and net investments in foreign operations. The Group's revenues and costs are primarily in the functional currencies of the reporting entities. The Group uses a portfolio of foreign exchange trades to manage specific foreign exchange exposures on cross border transactions where they arise.

The Group has operating assets in territories where the local currency is Sterling, Euros, US Dollars, Danish Kroner, Australian Dollars, New Zealand Dollars, Chinese Renminbi, Hong Kong Dollars and Thai Baht. It has bank debt in Sterling, Euros, US Dollars, Australian Dollars and Chinese Renminbi in a ratio intended to provide a match between the funding requirements and cash generation capabilities of the Group's operations in each of its locations.

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 |
|---------------------------|----------------|------------|--------------------|----------------------------|-------------|-------------|
| 2011 | | | | | | |
| Cash and cash equivalents | 35.6 | 10.4 | 8.0 | 2.5 | 3.4 | 59.9 |
| Trade receivables | 5.0 | 1.7 | 2.0 | 1.0 | 0.9 | 10.6 |
| Secured bank loans | (386.6) | (410.1) | (264.8) | (116.1) | (3.5) | (1,181.1) |
| Finance lease liabilities | (54.2) | (31.8) | - | - | - | (86.0) |
| Derivatives | (28.3) | (31.1) | (14.3) | (1.1) | - | (74.8) |
| Trade payables | (14.2) | (10.1) | (5.9) | (0.8) | (3.6) | (34.6) |
| | (442.7) | (471.0) | (275.0) | (114.5) | (2.8) | (1,306.0) |
| 2010 | | | | | | |
| Cash and cash equivalents | 52.3 | 6.2 | 4.1 | - | 4.5 | 67.1 |
| Trade receivables | 10.2 | 1.5 | 1.9 | - | 0.8 | 14.4 |
| Secured bank loans | (383.2) | (414.5) | (263.9) | - | (4.7) | (1,066.3) |
| Finance lease liabilities | (54.5) | (33.6) | - | - | - | (88.1) |
| Derivatives | (26.4) | (26.4) | (10.2) | - | - | (63.0) |
| Trade payables | (12.8) | (16.1) | (1.7) | - | (2.3) | (32.9) |
| | (414.4) | (482.9) | (269.8) | - | (1.7) | (1,168.8) |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.6 Financial risk factors and fair value analysis (continued)

The Group treats certain structural inter-company loans as net investment hedging instruments. At 31 December 2011 the Group had £563.3 million (2010: £572.7 million) in Euro denominated loans, £57.3 million (2010: £57.3 million) in Sterling denominated loans and £41.8 million (2010: £42.1 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 demonstrates sensitivity to a 10% 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 +/- 10% 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 in the table below. In addition, the sensitivity analysis for forward foreign exchange contracts has applied a 10% strengthening/weakening of Sterling against Euros, US Dollars, Hong Kong Dollars, Australian Dollars and Swiss Francs to a discounted cash flow technique. The impact of these retranslations on the profit/loss for the reporting entities across the Group has been aggregated and is disclosed below. The analysis assumes that all other variables, in particular interest rates, remain constant.

The sensitivity at the reporting date, split by category of financial instrument, was as follows:

10% strengthening of Sterling

| | Profit or (loss) impact | | | | Total £m |
|---------------------|-------------------------|----------------------------|-----------------------------|---------------------------------|-------------|
| | Cash £m | Trade receivables £m | Secured bank loans £m | Derivatives (unhedged) £m | |
| 2011 | | | | | |
| Euro | - | - | - | 2.9 | 2.9 |
| US Dollars | (0.1) | - | 9.0 | (1.1) | 7.8 |
| Danish Kroner | - | - | - | (0.7) | (0.7) |
| Hong Kong Dollars | - | - | - | (0.1) | (0.1) |
| Australian Dollars | - | - | - | (3.0) | (3.0) |
| Swiss Francs | - | - | - | (0.1) | (0.1) |
| New Zealand Dollars | - | - | - | (0.1) | (0.1) |
| Thai Baht | - | - | - | 0.1 | 0.1 |
| | (0.1) | - | 9.0 | (2.1) | 6.8 |
| 2010 | | | | | |
| Euro | (0.1) | - | - | 0.9 | 0.8 |
| US Dollars | - | (0.1) | 9.1 | (5.3) | 3.7 |
| Hong Kong Dollars | - | - | - | (0.6) | (0.6) |
| Australian Dollars | - | - | - | 0.3 | 0.3 |
| Swiss Francs | - | - | - | (0.4) | (0.4) |
| | (0.1) | (0.1) | 9.1 | (5.1) | 3.8 |

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.6 Financial risk factors and fair value analysis (continued)

10% weakening of Sterling

| | Profit or (loss) impact | | | | Total £m |
|---------------------|-------------------------|----------------------------|-----------------------------|---------------------------------|-------------|
| | Cash £m | Trade receivables £m | Secured bank loans £m | Derivatives (unhedged) £m | |
| 2011 | | | | | |
| Euro | - | - | - | (2.9) | (2.9) |
| US Dollars | 0.1 | - | (9.0) | 1.3 | (7.6) |
| Danish Kroner | - | - | - | 0.8 | 0.8 |
| Hong Kong Dollars | - | - | - | 0.1 | 0.1 |
| Australian Dollars | - | - | - | 5.1 | 5.1 |
| Swiss Francs | - | - | - | 0.2 | 0.2 |
| New Zealand Dollars | - | - | - | 0.1 | 0.1 |
| Thai Baht | - | - | - | (0.1) | (0.1) |
| | 0.1 | - | (9.0) | 4.6 | (4.3) |
| 2010 | | | | | |
| Euro | 0.1 | - | - | (0.9) | (0.8) |
| US Dollars | - | 0.1 | (9.1) | 7.1 | (1.9) |
| Hong Kong Dollars | - | - | - | 0.7 | 0.7 |
| Australian Dollars | - | - | - | (0.3) | (0.3) |
| Swiss Francs | - | - | - | 0.5 | 0.5 |
| | 0.1 | 0.1 | (9.1) | 7.1 | (1.8) |

A 10% strengthening/weakening of Sterling would respectively increase/decrease the hedging reserve by £0.4m (2010: £nil).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group 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.

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

Derivatives are carried at fair value, as defined in section 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

The carrying value of secured bank loans is based on the present value of future cash flows over the borrowing period until the expected repayment date in December 2014, and discounted using effective interest rates calculated following the May 2011 amendment to the bank facility. In contrast, the calculation of fair value requires that a similar calculation is undertaken but using the contractual repayment date in July 2017 and the market rate of interest at the reporting date. The discount rate used for determining the fair value of the secured bank loans was 7.8% (2010: 7.8%). For finance leases the market rate of interest is determined by reference to similar lease agreements.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.6 Financial risk factors and fair value analysis (continued)

Fair values 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:

| | 2011 | | 2010 | |
|--|-----------------------|------------------|-----------------------|------------------|
| | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| <i>Derivative asset and liabilities:</i> | | | | |
| Hedge accounted interest rate swaps | (7.8) | (7.8) | (0.6) | (0.6) |
| Non-hedge accounted interest rate swaps | (69.0) | (69.0) | (64.4) | (64.4) |
| Non-hedge accounted foreign exchange contracts | 2.0 | 2.0 | 2.0 | 2.0 |
| Non-hedge accounted committed share issues | (4.2) | (4.2) | - | - |
| <i>Non-derivative asset and liabilities:</i> | | | | |
| Trade and other receivables | 15.0 | 15.0 | 21.8 | 21.8 |
| Cash and cash equivalents | 59.9 | 59.9 | 67.5 | 67.5 |
| Secured bank loans | (1,181.1) | (1,117.6) | (1,066.3) | (1,067.1) |
| Finance lease liabilities | (86.0) | (86.0) | (88.1) | (88.1) |
| Trade and other payables | (34.6) | (34.6) | (32.9) | (32.9) |
| Bank overdraft | - | - | (0.4) | (0.4) |
| | (1,305.8) | (1,242.3) | (1,161.4) | (1,162.2) |

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 31 December 2011 the Group had £79.0 million (2010: £63.0 million) of derivative financial liabilities classified as Level 2.

There have been no transfers between levels in 2011 (2010: nil). No other financial instruments are held at fair value.

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.

The managers monitor returns on capital through constant review of earnings generated from the Group's capital investment programme, and manage capital in a manner so as to ensure 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. As such, the growth of the Group does not erode the established capital base.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.7 Equity and capital management (continued)

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.

To assist with the acquisition and development of the Cypress Gardens theme park in 2010, the Group entered into an agreement with an existing shareholder to invest US\$30 million in return for the issue of shares and Preferred Equity Certificates, in the previous holding company of the Group. A clause in the share subscription agreement under which these shares were issued allows for additional shares to be issued to the shareholder should a listing or sale of the Group not take place before 31 August 2012. In the managers' judgement it is considered probable that such an event will not occur, and accordingly this committed share issue has been recognised at the reporting date at a value of £4.2 million (2010: £nil), as disclosed in note 5.4.

Share capital and reserves

Share capital

| | Ordinary shares | |
|---|--------------------|--------------------|
| | 2011 | 2010 |
| On issue at beginning of year - fully paid | 156,249,710 | 156,249,710 |
| Issued in the year | 22,135 | - |
| On issue at end of year - fully paid | 156,271,845 | 156,249,710 |

| | 2011 £m | 2010 £m |
|---|------------|------------|
| <i>Authorised</i> | | |
| A ordinary shares of €0.01 each | 1.1 | 1.1 |
| B ordinary shares of €0.01 each | 0.2 | 0.2 |
| | 1.3 | 1.3 |
| <i>Allotted, called up and fully paid</i> | | |
| A ordinary shares of €0.01 each | 1.1 | 1.1 |
| B ordinary shares of €0.01 each | 0.2 | 0.2 |
| | 1.3 | 1.3 |

Issue of new shares

During the year 22,135 A ordinary shares were issued at a premium of £0.2 million. All issued shares are fully paid.

Ordinary shares

Each of the classes of shares are treated as normal ordinary shares and have the same voting rights. Each share is entitled to one vote at ordinary and extraordinary general meetings. In the event a distribution is made by the Company of amounts available under Luxembourg law, these are made initially to the A class shareholders, up to the amount equal to the issue price of the equity plus a preferred return of 8% per annum, and thereafter pro rata between the A and B class shares. There are no shareholder rights of redemption of either the capital or the preferred return.

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

As a result of a Group restructuring, in 2010 these consolidated financial statements were issued in the name of Merlin Entertainments S.à r.l., but were a continuation of the consolidated financial statements of Merlin Entertainments Group Luxembourg S.à r.l. Comparative information was adjusted as if Merlin Entertainments S.à r.l. had always been the Group's ultimate controlling party. This restructuring was accounted for as a reverse acquisition and resulted in the creation of a capital reserve.

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.7 Equity and capital management (continued)

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.

Reserve for own shares

By way of control of the Merlin Entertainments Employee Benefit Trust, the Group owns 20,000,000 B class (2010: 20,000,000 B class) Treasury shares held on trust for the beneficiaries of share-based payment plans. These shares are carried at par value, being £169,205 (2010: £169,205) and are shown as a reduction to equity. These shares are legally owned by Merlin Entertainments Share Plan Nominee Limited, a company controlled by certain key management.

Share-based payments

Accounting policies

Share-based payment transactions – equity-settled arrangements

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted.

Share-based payment transactions – cash-settled arrangements

The fair value of options granted is recognised directly as an employee expense. The fair value is measured at grant date with any subsequent changes in fair value being recognised in profit or loss.

Summary of schemes

Equity-settled schemes

Equity-settled schemes have been created that enable certain senior employees to acquire B ordinary shares at market value. Market value is determined based on an analysis of profit multiples in the Group's industry sector. At the discretion of the CEO further shares can also be granted in recognition of long service or exceptional performance. These shares are expected to vest on a qualifying transaction, including an IPO.

No charge arose during the year (2010: £nil). The number of shares issued is as follows:

| | Number 2011 | Number 2010 |
|---------------------------|-------------------|----------------|
| Issued during the year | 18,388,300 | - |
| Forfeited during the year | (391,800) | - |
| At end of year | 17,996,500 | - |

Equity and cash-settled scheme (closed in 2010)

During 2008 the Group had established a share option scheme that enabled key management personnel and senior employees to purchase options in the Group. The fair value of options granted was determined on the date of the award. The share options vested upon listing or sale of the Company and there were no performance related vesting conditions. The scheme was originally accounted for on an equity-settled basis.

On 23 June 2010, in anticipation of a shareholder transaction, the scheme rules were modified to enable the settlement of options in cash. This had the effect of modifying the scheme to a cash-settled scheme. The fair value on modification of the scheme was £33.5 million, which the company elected to recognise through equity. Subsequent grants were then made up until the date of the shareholder transaction at which point all options were exercised for cash. The charge resulting from these grants was included within operating expenses (note 2.2).

SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

53 weeks ended 31 December 2011

5.7 Equity and capital management (continued)

The number and weighted average exercise prices (WAEP) of share options were as follows:

| | Number 2010 | WAEP (£) 2010 |
|------------------------------------|----------------|------------------|
| Outstanding at beginning of year | 90,510 | 0.37 |
| Forfeited during the year | (280) | 0.37 |
| Transferred to cash-settled scheme | (90,230) | 0.37 |
| Outstanding at end of year | - | - |

Cash-settled scheme

Following the change in scheme rules on 23 June 2010 noted above, the following movements in share options took place, until all options were exercised on completion of the shareholder transaction:

| | Number 2010 | WAEP (£) 2010 |
|--|----------------|------------------|
| Transferred from equity-settled scheme | 90,230 | 0.37 |
| Granted during the year | 16,395 | 0.37 |
| Exercised | (106,625) | 0.37 |
| Outstanding at end of year | - | - |

Share option valuation assumptions

The fair value of options granted was measured using the Black-Scholes method. The weighted average assumptions used in determining the fair value of options granted were as follows:

| | Cash-settled scheme 2010 |
|--|--------------------------------|
| Share price | £375.81 |
| Exercise price | £0.37 |
| Expected volatility (weighted average volatility based on statistical estimates) | 30% |
| Option life (expected weighted average life) | Less than 1 year |
| Expected dividends | - |
| Risk-free interest rate (based on Government Bonds) | 4% |

Compensation expense

| | 2010 £m |
|--|------------|
| <i>Total expense recognised as employee costs, within underlying trading:</i> | |
| Equity-settled scheme: share options granted in 2008 | 0.3 |
| <i>Total expense recognised as employee costs, within exceptional and non-trading items:</i> | |
| Cash-settled scheme: share options granted in 2010 | 6.1 |
| Total expense recognised as employee costs | 6.4 |

SECTION 6 OTHER NOTES

53 weeks ended 31 December 2011

6.1 Investment in joint ventures

Accounting policy

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.

Investment in joint ventures

| | 2011 £m | 2010 £m |
|---|------------|------------|
| At beginning of year | 0.6 | 0.7 |
| Effects of movement in foreign exchange | - | (0.1) |
| At end of year | 0.6 | 0.6 |

Summary financial information on joint ventures is as follows, based on 100% of their results:

| | 2011 £m | 2010 £m |
|-----------------------------------|------------|--------------|
| Non-current assets | 1.1 | 1.5 |
| Current assets | 0.6 | 0.3 |
| Total assets | 1.7 | 1.8 |
| Non-current liabilities | 0.6 | 0.7 |
| Current liabilities | 0.5 | 0.4 |
| Total liabilities | 1.1 | 1.1 |
| Revenue | 2.2 | 2.4 |
| Expenses | 2.1 | 2.5 |
| Profit/(loss) for the year | 0.1 | (0.1) |

6.2 Employee benefits

Accounting policies

Defined contribution schemes

Under the 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 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 off-set 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 into equity through other comprehensive income.

Defined contribution schemes

The Group operates a number of defined contribution pension schemes, and the total expense relating to those schemes in the current year was £5.7 million (2010: £5.2 million).

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.2 Employee benefits (continued)

Defined benefit schemes

The Group operates two defined benefit schemes: a closed scheme for certain former employees of The Tussauds Group, which was acquired in 2007, and a closed scheme for certain employees of Gardaland. The Tussauds Group scheme entitles retired employees to receive an annual payment equal to either 1/60 or 1/80 of final salary for each year of service that the employee provided. The entitlement of the retired employees under the Gardaland scheme is dependant 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 |
|--|-------------------------|-----------------|--------------|
| 2011 | | | |
| <i>Scheme assets at fair value</i> | | | |
| Equities | 5.7 | - | 5.7 |
| Corporate bonds and cash | 4.5 | - | 4.5 |
| Property | 2.4 | - | 2.4 |
| Fair value of scheme assets | 12.6 | - | 12.6 |
| Present value of defined benefit obligations | (15.7) | (1.7) | (17.4) |
| Net pension liability | (3.1) | (1.7) | (4.8) |
| 2010 | | | |
| <i>Scheme assets at fair value</i> | | | |
| Equities | 6.2 | - | 6.2 |
| Corporate bonds and cash | 4.1 | - | 4.1 |
| Property | 2.1 | - | 2.1 |
| Fair value of scheme assets | 12.4 | - | 12.4 |
| Present value of defined benefit obligations | (13.7) | (1.8) | (15.5) |
| Net pension liability | (1.3) | (1.8) | (3.1) |

Movement in the present value of scheme assets

| | Tussauds Group £m | Gardaland £m | Total £m |
|--------------------------------------|-------------------------|-----------------|-------------|
| At 27 December 2009 | 10.7 | - | 10.7 |
| Expected return on scheme assets | 0.6 | - | 0.6 |
| Contributions by employer | 0.5 | - | 0.5 |
| Contributions by scheme participants | 0.1 | - | 0.1 |
| Benefits paid | (0.3) | - | (0.3) |
| Actuarial gains | 0.8 | - | 0.8 |
| At 25 December 2010 | 12.4 | - | 12.4 |
| Expected return on scheme assets | 0.7 | - | 0.7 |
| Contributions by employer | 0.4 | - | 0.4 |
| Contributions by scheme participants | 0.1 | - | 0.1 |
| Benefits paid | (0.4) | - | (0.4) |
| Actuarial losses | (0.6) | - | (0.6) |
| At 31 December 2011 | 12.6 | - | 12.6 |

The actual return on scheme assets for the Tussauds Group Pension scheme was a profit of £0.1 million (2010: profit of £1.4 million).

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.2 Employee benefits (continued)

Movement in the present value of the defined benefit obligations

| | Tussauds Group £m | Gardaland £m | Total £m |
|--------------------------------------|-------------------------|-----------------|---------------|
| At 27 December 2009 | (13.6) | (2.0) | (15.6) |
| Current service cost | (0.2) | 0.1 | (0.1) |
| Interest cost | (0.8) | - | (0.8) |
| Benefits paid | 0.3 | - | 0.3 |
| Contributions by scheme participants | (0.1) | - | (0.1) |
| Actuarial gains | 0.7 | - | 0.7 |
| Exchange adjustments | - | 0.1 | 0.1 |
| At 25 December 2010 | (13.7) | (1.8) | (15.5) |
| Current service cost | (0.2) | - | (0.2) |
| Interest cost | (0.8) | (0.1) | (0.9) |
| Benefits paid | 0.4 | - | 0.4 |
| Contributions by scheme participants | (0.1) | - | (0.1) |
| Actuarial (losses)/gains | (1.3) | 0.2 | (1.1) |
| At 31 December 2011 | (15.7) | (1.7) | (17.4) |

Analysis of amounts charged against profits

| | Tussauds Group £m | Gardaland £m | Total £m |
|--|-------------------------|-----------------|-------------|
| 2011 | | | |
| Operating cost | | | |
| Current service cost | 0.2 | - | 0.2 |
| Finance cost | | | |
| Interest on defined benefit pension scheme obligation | 0.8 | 0.1 | 0.9 |
| Expected return on defined benefit pension scheme assets | (0.7) | - | (0.7) |
| | 0.1 | 0.1 | 0.2 |
| Total | 0.3 | 0.1 | 0.4 |
| 2010 | | | |
| Operating cost | | | |
| Current service cost | 0.2 | (0.1) | 0.1 |
| Finance cost | | | |
| Interest on defined benefit pension scheme obligation | 0.8 | - | 0.8 |
| Expected return on defined benefit pension scheme assets | (0.6) | - | (0.6) |
| | 0.2 | - | 0.2 |
| Total | 0.4 | (0.1) | 0.3 |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.2 Employee benefits (continued)

Actuarial gains and losses recognised directly in other comprehensive income

| | Tussauds Group £m | Gardaland £m | Total £m |
|---|----------------------|-----------------|--------------|
| Cumulative amount at 27 December 2009 | (2.2) | 0.1 | (2.1) |
| Net actuarial gains recognised in the year | 1.5 | - | 1.5 |
| Cumulative amount at 25 December 2010 | (0.7) | 0.1 | (0.6) |
| Net actuarial (losses)/gains recognised in the year | (1.9) | 0.2 | (1.7) |
| Cumulative amount at 31 December 2011 | (2.6) | 0.3 | (2.3) |

Actuarial assumptions

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

| | Tussauds Group 2011 | Tussauds Group 2010 | Gardaland 2011 | Gardaland 2010 |
|--|------------------------|------------------------|-------------------|-------------------|
| Discount rate | 4.7% | 5.5% | 5.7% | 4.1% |
| Expected rate of return on scheme assets | 5.4% | 5.5% | - | - |
| Future salary increases | 3.2% | 3.7% | - | - |
| Rate of price inflation | 2.9% | 3.4% | 2.0% | 2.0% |

To develop the expected long-term rate of return on assets assumption of 5.4%, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

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 86 and a female would have a life expectancy to age 89.

The assumption considered to be the most significant for the Tussauds Group scheme is the discount rate adopted. If the discount rate were to change by 0.1% then it is predicted that the deficit in the scheme would change by £0.4 million (2010: £0.3 million).

History of actuarial gains and losses

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|------------|------------|------------|------------|------------|
| Present value of the defined benefit obligation | (17.4) | (15.5) | (15.6) | (13.4) | (13.7) |
| Fair value of scheme assets | 12.6 | 12.4 | 10.7 | 9.0 | 10.7 |
| Deficit in the schemes | (4.8) | (3.1) | (4.9) | (4.4) | (3.0) |
| Actuarial adjustments arising on scheme liabilities | (1.1) | 0.7 | (1.7) | 1.5 | 0.7 |
| Actuarial adjustments arising on scheme assets | (0.6) | 0.8 | 0.8 | (2.9) | (0.5) |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.2 Employee benefits (continued)

Statement of financial position reconciliation

| | 2011 £m | 2010 £m |
|--|--------------|--------------|
| Liability at beginning of year | (3.1) | (4.9) |
| Pension expense recognised in profit and loss in the financial year | (0.4) | (0.3) |
| Amounts recognised in other comprehensive income in the financial year | (1.7) | 1.5 |
| Employer contributions made in the financial year | 0.4 | 0.5 |
| Exchange movements | - | 0.1 |
| Liability at end of year | (4.8) | (3.1) |

The Group expects £0.6 million in contributions to be paid to its defined benefit schemes in 2012.

6.3 Related party transactions

Related party transactions

Identity of related parties

The Group has related party relationships with its subsidiaries (note 6.8), shareholders, key management personnel and joint ventures. 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 shareholders KIRKBI 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 LEGO, a related party of KIRKBI A/S. In 2010 the Group entered into transactions with Dubai International Capital (DIC), a previous shareholder and Tatweer, a related party of DIC. Transactions entered into, and trading balances outstanding at 31 December 2011, are as follows:

| | Fees | | | Goods | | |
|-----------------------------|-------------|---------------|--|-----------------|--|--|
| | Sales £m | Charged £m | Amounts owed to related party £m | Purchases £m | Amounts owed to related party £m | Amounts owed by related party £m |
| 2011 | | | | | | |
| KIRKBI A/S | - | 5.3 | 0.8 | - | - | - |
| Blackstone Capital Partners | - | 0.9 | 0.2 | - | - | - |
| CVC Capital Partners | - | 0.7 | 0.2 | - | - | - |
| LEGO | - | - | - | 29.6 | - | - |
| | - | 6.9 | 1.2 | 29.6 | - | - |
| 2010 | | | | | | |
| KIRKBI A/S | - | 4.7 | 0.2 | - | - | - |
| Blackstone Capital Partners | - | 1.1 | 0.2 | - | - | - |
| CVC Capital Partners | - | 0.3 | - | - | - | - |
| DIC | - | 0.1 | - | - | - | - |
| LEGO | - | - | - | 21.3 | 0.3 | 1.4 |
| Tatweer | 0.2 | - | - | - | - | - |
| | 0.2 | 6.2 | 0.4 | 21.3 | 0.3 | 1.4 |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.3 Related party transactions (continued)

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 31 December 2011 are: KIRKBI A/S £54.3 million (2010: £55.2 million), funds advised by parties related to Blackstone Capital Partners £44.6 million (2010: £50.6 million) and funds advised by parties related to CVC Capital Partners £32.1 million (2010: £32.6 million).

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

During the period, and based on contractually agreed amounts, the Group recognised a derivative liability in respect of a committed share issue to a certain shareholder which is expected to complete during 2012.

Transactions with key management personnel

Key management of the Group (the members of the Executive Board) and their immediate relatives control 7.1% (2010: 0.7%) of the voting shares of the Company.

The compensation of key management was as follows:

| | 2011 £m | 2010 £m |
|---|------------|------------|
| Key management emoluments including social security costs | 3.4 | 3.5 |
| Contributions to money purchase pension schemes | 0.2 | 0.2 |
| Share-based payments and other related payments | - | 20.8 |
| | 3.6 | 24.5 |

Transactions with joint ventures

During the year the Group entered into transactions with the following joint ventures:

| | Sales to related party £m | Amounts owed by related party (non trading) £m |
|-------------------------------|------------------------------------|---|
| 2011 | | |
| SEA LIFE Centre Helsinki Oy | - | 0.3 |
| | - | 0.3 |
| 2010 | | |
| Pirate Adventure Golf Limited | 0.1 | - |
| SEA LIFE Centre Helsinki Oy | 0.2 | 0.3 |
| | 0.3 | 0.3 |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

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 £0.4 million (2010: £0.4 million).

6.5 Subsequent events

On 10 February 2012 the Group's A\$140 million takeover offer for Living and Leisure Australia (LLA), that was announced in December 2011, went unconditional. LLA owns and operates nine leisure attractions in the Asia Pacific region as well as a management contract in Dubai, through three divisions: Oceanis Group aquaria; Australia Alpine Enterprises ski fields; and Australian Treetop Adventures attractions. An exercise to determine the fair value of the net assets and contingent liabilities acquired is still ongoing.

This acquisition offers the Group an excellent opportunity to build on the acquisition of the Sydney Attractions Group in 2011 by increasing its network of world class international attractions in Asia and Australia.

As part of financing this acquisition, the Group drew down new debt under its existing financing facilities.

6.6 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IFRS 3 (Amendment) "Business Combinations – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS"; "Measurement of non-controlling interests" and "Unreplaced and voluntarily replaced share-based payment awards";
- IFRS 7 (Amendment) "Financial Instruments: Disclosures – Amendments to disclosures";
- IAS 1 (Amendment) "Presentation of Financial Statements – Presentation of statement of changes in equity";
- IAS 24 (Revised) "Related Party Disclosures";
- IAS 27 (Amendment) "Consolidated and Separate Financial Statements – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31";
- IAS 32 (Amendment) "Classification of Rights Issues";
- IFRIC 13 (Amendment) "Customer Loyalty Programmes – Fair value of award credit";
- IFRIC 14 (Amendment) "Prepayments of a Minimum Funding Requirement";
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".

IFRS and interpretations with effective dates after 31 December 2011 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 2012 or after. The Group does not expect any significant impact of these amendments on its consolidated financial statements.

- IFRS 7 (Amendment) "Transfers of financial assets".

6.7 Ultimate parent company information

The largest Group in which the results of the Company are consolidated is that headed by Merlin Entertainments S.à r.l., incorporated in Luxembourg. No other Group financial statements include the results of the Company.

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

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 2011 | Ownership 2010 |
|--|--------------------------|---------------------|----------------|----------------|
| Merlin Entertainments Group Luxembourg S.à r.l. | Luxembourg | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group Luxembourg 2 S.à r.l. | Luxembourg | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group Luxembourg 3 S.à r.l. | Luxembourg | Ordinary | 100.0% | 100.0% |
| Alton Towers Limited | UK | Ordinary | 100.0% | 100.0% |
| Alton Towers Resort Operations Limited | UK | Ordinary | 100.0% | 100.0% |
| Charcoal CLG 1 Limited (<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% |
| 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% |
| 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 Finance 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 US Holdings Limited | UK | Ordinary | 100.0% | 100.0% |
| SEA LIFE Centre (Blackpool) Limited | UK | Ordinary | 100.0% | 100.0% |
| SEA LIFE Centres Limited | UK | Ordinary | 100.0% | 100.0% |
| The London Eye Company Limited | UK | Ordinary | 100.0% | 100.0% |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.8 Subsidiary and joint venture undertakings (continued)

| Subsidiary undertaking | Country of incorporation | Class of share held | Ownership 2011 | Ownership 2010 |
|--|--------------------------|---------------------|----------------------|----------------|
| 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% |
| Gardaland S.r.l. | Italy | Ordinary | 97.8% | 97.8% |
| Incoming Gardaland S.r.l. | Italy | Ordinary | 97.8% | 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⁾ 44.7% | 44.7% |
| Ronchi S.p.A. | Italy | Ordinary | 88.5% | 88.5% |
| 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% |
| LLD Grundstücksverwaltungs 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% |
| LEGOLAND ApS | Denmark | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group Denmark Holdings ApS | Denmark | 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% |
| Dirk Frimout Centrum N.V. | Belgium | Ordinary | 100.0% | 100.0% |
| SEA LIFE Centre Belgium N.V. | Belgium | Ordinary | 100.0% | 100.0% |
| SEA LIFE France SARL | France | Ordinary | 100.0% | 100.0% |

SECTION 6 OTHER NOTES (continued)

53 weeks ended 31 December 2011

6.8 Subsidiary and joint venture undertakings (continued)

| Subsidiary undertaking | Country of incorporation | Class of share held | Ownership 2011 | Ownership 2010 |
|---|--------------------------|---------------------|----------------|----------------|
| SLCS SEA LIFE Centre Spain S.A. | Spain | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda | Portugal | Ordinary | 100.0% | 100.0% |
| SEA LIFE Centre Bray Limited | Ireland | Ordinary | 100.0% | 100.0% |
| Madame Tussauds Austria GmbH | Austria | Ordinary | 100.0% | 100.0% |
| MT Austria Holdings GmbH | Austria | Ordinary | 100.0% | 100.0% |
| LEGOLAND California LLC | USA | Ordinary | 100.0% | 100.0% |
| LEGOLAND Discovery Centre (Dallas) LLC | USA | Ordinary | 100.0% | 100.0% |
| LEGOLAND Discovery Centre (Meadowlands) LLC | USA | Ordinary | 100.0% | 100.0% |
| LEGOLAND Discovery Centre US LLC | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussauds Hollywood LLC | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussaud Las Vegas LLC | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussaud's New York LLC | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussauds Orlando LLC | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussauds Washington LLC | USA | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group Florida LLC | USA | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group US Holdings Inc | USA | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group US LLC | USA | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments Group Wheel LLC | USA | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments US NewCo LLC | USA | Ordinary | 100.0% | 100.0% |
| SEA LIFE Minnesota LLC | USA | Ordinary | 100.0% | 100.0% |
| SEA LIFE US LLC | USA | Ordinary | 100.0% | 100.0% |
| The Tussauds Group LLC | USA | Ordinary | 100.0% | 100.0% |
| Tussauds Harbour Gateway Inc | USA | Ordinary | 100.0% | 100.0% |
| Madame Tussauds Exhibition (Shanghai) Company Limited | China | 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% | - |
| Merlin Entertainments (Thailand) Limited | Thailand | Ordinary | 100.0% | 100.0% |
| Merlin Entertainments (Australia) Pty Limited | Australia | Ordinary | 100.0% | 100.0% |
| AQDEV Pty Limited | Australia | Ordinary | 100.0% | - |
| Sydney Attractions Group Pty Limited | Australia | Ordinary | 100.0% | - |
| Sydney Tower Observatory Pty Limited | Australia | Ordinary | 100.0% | - |
| Sydney Wildlife World Pty Limited | Australia | Ordinary | 100.0% | - |
| The Sydney Aquarium Company Pty Limited | Australia | Ordinary | 100.0% | - |
| Merlin Entertainments (New Zealand) Limited | New Zealand | Ordinary | 100.0% | 100.0% |
| Auckland Aquarium Limited | New Zealand | Ordinary | 100.0% | - |
| Merlin Entertainments (Japan) Limited | Japan | Ordinary | 100.0% | - |

| Joint venture | Country of incorporation | Class of share held | Ownership 2011 | Ownership 2010 |
|-------------------------------|--------------------------|---------------------|----------------|----------------|
| Pirate Adventure Golf Limited | UK | Ordinary | 50.0% | 50.0% |
| SEA LIFE Helsinki Oy | Finland | Ordinary | 50.0% | 50.0% |

⁽¹⁾ Merlin Entertainments S.à.r.l. 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 S.à r.l.
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