



# MERLIN

ENTERTAINMENTS



ANNUAL REPORT  
AND ACCOUNTS 2012

# 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 2012, Merlin ran 94 attractions in 21 countries across four continents. 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 shared ownership of KIRKBI and funds advised by Blackstone since 2005, with funds advised by CVC joining during 2010.
- ★ From 2000 to 2012 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 the following year.

- ★ In 2011 Merlin expanded into Australia and New Zealand with the acquisition of the Sydney Attractions Group (SAG).
- ★ 2012 saw the acquisition of Living and Leisure Australia (LLA), which owned and operated nine leisure attractions in the Asia Pacific region as well as running the Dubai Aquarium through a management contract.
- ★ With over 54 million visitors in 2012 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 midway attractions and theme parks.

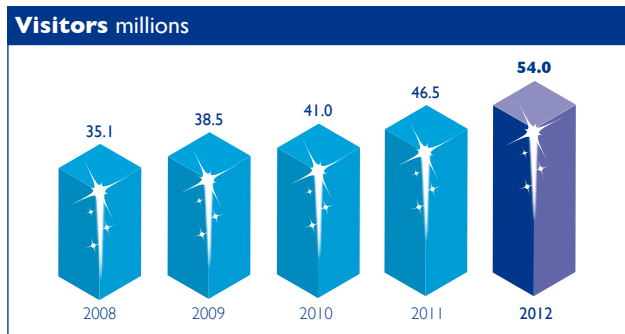
- ★ Midway sites are predominantly indoor attractions located in city centres or resorts providing visits of shorter duration (typically up to two hours). They are marketed primarily under five global brand names: SEA LIFE, Madame Tussauds, Dungeons, LEGOLAND Discovery Centre and the Eye.
- ★ Our theme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

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

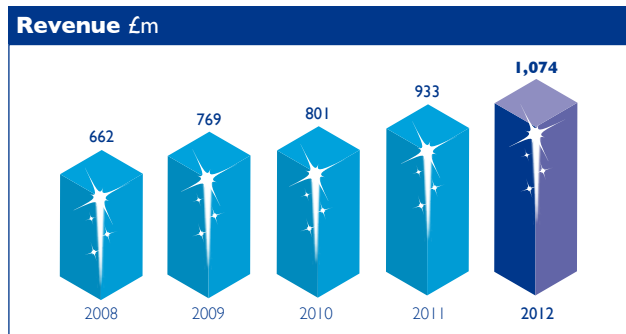
The Merlin business is driven forward by six highly complementary growth drivers:

- ★ **Growing the existing estate through planned capex cycles** appropriate to each Operating Group and broadly in line with depreciation overall.
- ★ **Rolling out new 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**, for which we hold the global, exclusive licence.
- ★ **Strategic acquisitions**, where they advance our strategic objectives in key regions and markets.

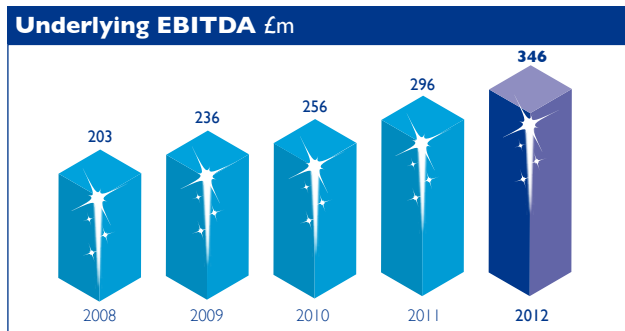
## Our financial performance



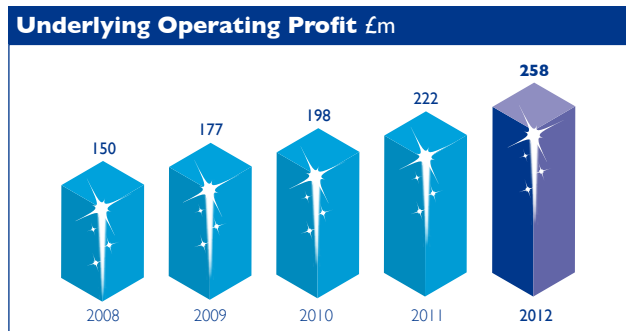
Visitors represents all visitors to Merlin owned or operated attractions. 2011 is adjusted to be based on 52 weeks to 31/12/11 (Note 1).



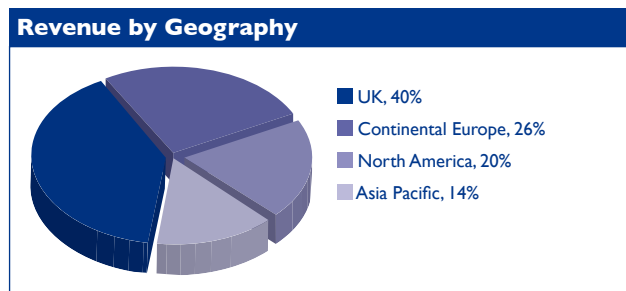
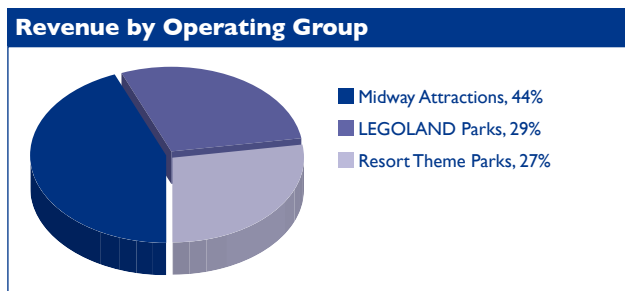
Revenue as reported in the consolidated income statement. 2011 is adjusted to be based on 52 weeks to 31/12/11 (Note 1).



EBITDA represents 'Underlying Trading EBITDA' as reported in the consolidated income statement. 2011 is adjusted to be based on 52 weeks to 31/12/11 (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 31/12/11 (Note 1).



## Our KPIs

Like for like growth (Notes 1, 2 & 3)	
Visitors	(1.4%)
Revenue	(0.5%)
EBITDA	1.9%
Operating Profit	1.0%

See commentary in the business review commencing on page 12.

Non-Financial KPIs	Target	2012	2011
Customer Satisfaction*	90%+	✓	✓
Staff Engagement**	80%+	✓	✓

\*Source - customer satisfaction surveys

\*\*Source - annual employee surveys (see page 32 for further details)

Visitors by Operating Group	2012	2011 (Note 1)	Growth % (Note 3)
Midway Attractions	33.0m	26.8m	23.2%
LEGOLAND Parks	10.5m	7.9m	32.7%
Resort Theme Parks	10.5m	11.8m	(11.1%)
<b>Total</b>	<b>54.0m</b>	<b>46.5m</b>	<b>16.1%</b>

Sites by Operating Group	December 2011	New 2012	December 2012
Midway Attractions	65	16	81
LEGOLAND Parks	5	1	6
Resort Theme Parks	7	-	7
<b>Total</b>	<b>77</b>	<b>17</b>	<b>94</b>

### Notes

(1) Figures presented for 2011 are based on underlying trading figures compiled on a 52 week basis for ease of comparison. Compared to the statutory accounts for 2011 that were prepared on a 53 week basis, 2012 shows a growth of 13.6% on underlying revenue of £946 million, growth of 13.3% on underlying EBITDA of £306 million and growth of 11.7% on underlying operating profit of £232 million.

(2) Like for like growth is based on the 52 week figures of 2011 and includes businesses owned and opened before January 2011, at constant currency using 2012 foreign exchange rates.

(3) Percentages shown are calculated on the underlying figures before rounding and are then rounded to one decimal place.

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# MERLIN BRANDS



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

	<p>SEA LIFE is the world's biggest aquarium brand. There are 45 centres across the UK, Continental Europe, North America and the Asia Pacific region, all of which are built around the notion of <b>"Amazing Discovery"</b>. 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 13 attractions around the globe with five in Europe, four in the USA, three in Asia and one in Australia. In 2011 the brand celebrated 250 years since the birth of Madame Tussaud and represents <b>"Famous Fun"</b>, 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. <b>"Scary Fun"</b> is the goal, delivered daily in seven Dungeons across Europe to our market of families, teenagers and young adults.</p>
	<p>In 2012 there were eight LEGOLAND Discovery Centres (LDCs) across Europe, the USA and Asia, with sites in Manchester, Berlin, Duisburg, Chicago, Dallas, Atlanta, Kansas City and Tokyo. Two more centres are opening in 2013 and LDC Duisburg is transferring to Oberhausen. As with all LEGOLAND attractions, <b>"Playful Learning"</b> 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 <b>"Inspiring Perspectives"</b> of its town or city with unparalleled 360 degree views of its landscape and landmarks.</p>

## MERLIN BRANDS

	<p>Six LEGOLAND resorts across Europe, the USA and Asia offer a unique LEGO themed experience for families with children aged two to twelve years, based on interactivity, imagination, family fun and quality. <b>"Playful Learning"</b> 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 <b>"Fantastical Escapism"</b>.</p>
	<p><b>"Wild Adventure"</b> 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. <b>"Big Fantasy Adventure"</b> 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 <b>"Legendary Adventure"</b>. 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><b>"Insane fun"</b> 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 <b>"Ultimate Castle"</b> experience. Jousting, Knights, Princesses, the Merlin Dragon Tower, falconry, 'tableaux' by Madame Tussauds and a Dungeon all combine to make this an amazing day out for UK families and overseas tourists alike.</p>

# WORLD OF ATTRACTIONS





## ★ NORTH AMERICA ATTRACTIONS



Arizona  
California  
Dallas  
Kansas City  
Minnesota



Hollywood  
Las Vegas  
New York  
Washington DC



California  
Florida



Atlanta  
Chicago  
Dallas  
Kansas City

## ● UK ATTRACTIONS



Birmingham  
Blackpool  
Brighton  
Great Yarmouth  
Hunstanton  
Loch Lomond  
London  
Scarborough  
Weymouth  
and Tower



Gweek  
Oban



Blackpool  
Edinburgh  
London  
Warwick  
York



Blackpool  
London



Alton



Chessington



London  
Blackpool



Warwick



Windsor



Manchester



Chertsey

## ■ ASIA ATTRACTIONS



Bangkok  
Busan  
Shanghai



Bangkok  
Hong Kong  
Shanghai



Malaysia



Tokyo

## ▲ 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

## ◆ AUSTRALIA/NEW ZEALAND ATTRACTIONS



Auckland  
Melbourne  
Mooloolaba  
Sydney



Manly



Sydney  
Hamilton Island



Sydney



Sydney



Otway  
Illawarra



Mount Hotham

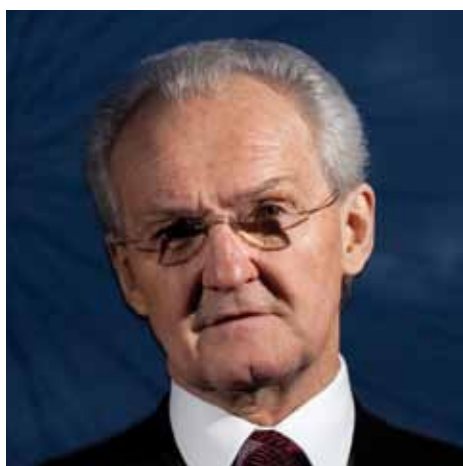


Falls Creek

# CHAIRMAN'S STATEMENT



I AM PLEASED TO REPORT ON MERLIN'S PERFORMANCE FOR 2012. THE COMPANY HAS DELIVERED CONTINUED GROWTH IN UNDERLYING EARNINGS, ONGOING CAPITAL INVESTMENT, FURTHER OVERSEAS EXPANSION AND JOB CREATION. THE CHALLENGING ECONOMIC ENVIRONMENT, PARTICULARLY IN SOUTHERN EUROPE, HAS IMPACTED THE GROUP'S BUSINESSES THERE AND MANAGEMENT HAS RESPONDED APPROPRIATELY BY CUTTING COSTS AND REVIEWING STRUCTURES. THIS HAS ENABLED MERLIN TO WITHSTAND THIS YEAR'S CHALLENGES AND WILL ALSO SUPPORT ITS PROFITABLE GROWTH IN THE FUTURE.



**Sir John Sunderland**  
Non-Executive Chairman

Trading across the Group has seen EBITDA growth from both the like for like estate of businesses as well as from acquisitions and new openings. To have achieved this in such a difficult trading environment demonstrates the value of Merlin's balanced portfolio of businesses and the strength of the brands, strategy and management team.

The Management Committee's primary focus is on driving the business strategy and this continued at full pace throughout 2012, with significant progress achieved on all of our growth drivers. Most notably, last year saw the acquisition and integration of Living and Leisure Australia, which brought nine attractions to our Asia Pacific region as well as operational responsibility for the Dubai Aquarium. The latest LEGOLAND Hotel, which was launched last year in Windsor, proved very popular with guests and was a significant milestone in the evolution of our theme parks into destination resorts. The final highlight of the year was the opening of LEGOLAND Malaysia in September, bringing the total to six LEGOLAND parks and resorts. This further demonstrates our commitment to expanding the brand, coming so soon after LEGOLAND Florida which we opened in the final quarter of 2011.

The Management Committee is responsible for risk management through the Health, Safety & Security and Audit Committees, both of which I also chair. The Health, Safety & Security Committee scrutinises 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 risk analysis and internal financial controls through oversight of the Internal Audit function. 2012 has seen investment in resources in each of these areas, further strengthening the overall risk management environment.

## CHAIRMAN'S STATEMENT

The role of the Management Committee also extends to oversight of our corporate social responsibilities, covering three areas in particular: The first of these is Merlin's Magic Wand, our own charity, which enables disadvantaged children and their families to enjoy a Merlin experience. We are very proud of the work of the charity as well of Merlin's employees who both campaign tirelessly to raise funds and work hard to make the children's visits as enjoyable and memorable as possible. Emphasis last year was placed on 'taking the magic to the children' through installing Merlin themed rooms and activity areas within Children's Homes, hospitals and other locations for children unable to visit one of our attractions, something we will continue in the future.

Secondly, we oversee Merlin's work on animal and marine conservation and welfare and in this regard I am delighted to announce the recent launch of the SEA LIFE Marine Conservation Trust. This will be the focus for all our conservation activities in the future. Finally, the Management Committee is very conscious of the work that Merlin does to reduce the environmental impact of our business and we welcome the effort that the management team devotes to this area.

I would like to take this opportunity to thank all our employees for their dedication to providing memorable experiences to every single one of our guests, each and every time they visit us. Our teams have remained steadfast in their focus on customer satisfaction and health and safety during some challenging times throughout 2012 and can be very proud of their contribution to the success of the Company.

### 2013 Outlook

Trading to date is in line with our expectations, albeit our peak trading seasons are still to come. The outlook for the business this year is mixed, due to a continuation of some of the challenges that the business faced in 2012. We also face cost pressures from increased environmental energy levies in the UK and Germany, legislative increases in UK pension costs, and global input price pressures. Having said that, our growing presence in faster growing Asian economies will provide a natural hedge against some of these factors and the cost saving initiatives that the business has implemented over the last twelve months will support our future growth and profitability. We therefore enter 2013 with confidence.

### Sir John Sunderland

Chairman  
Merlin Entertainments  
20 March 2013



Tucker (age 5) at Merlin's Magic Wand installation, Sunshine Village, Florida

# CHIEF EXECUTIVE'S REPORT



	2012	2011 <sup>(1)</sup>	Growth <sup>(2)</sup>	Like for like <sup>(2),(3)</sup>
Visitors (m)	54.0	46.5	16.1%	(1.4%)
Revenue (£m)	1,074	933	15.2%	(0.5%)
EBITDA (£m)	346	296	16.9%	1.9%

<sup>(1)</sup> Figures presented for 2011 are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2012

<sup>(2)</sup> Like for like figures include businesses owned and opened before January 2011, at constant currency using 2012 foreign exchange rates

<sup>(3)</sup> Percentages are calculated based on the underlying figures before rounding and are then rounded to one decimal place

2012 MARKED ANOTHER YEAR OF SUBSTANTIAL PROGRESS FOR MERLIN ENTERTAINMENTS WITH THE COMPANY DELIVERING DOUBLE DIGIT EBITDA GROWTH AND EXPANDING TO 94 ATTRACTIONS IN 21 COUNTRIES. WE ALSO ACHIEVED TWO OTHER SIGNIFICANT LANDMARKS IN THE YEAR, SURPASSING 50 MILLION VISITORS AND £1 BILLION IN REVENUE ON AN ANNUAL BASIS FOR THE FIRST TIME.



**Nick Varney**  
Chief Executive Officer

This progress was achieved despite the year being one of the most testing we have experienced since founding the company in 1999, with three significant external factors combining to create very difficult trading conditions for many of our European businesses. The second wettest year on record in the UK (and wettest ever in England) was matched by similarly poor weather in other parts of the continent, adversely affecting theme park attendances across the operating season. This was compounded in the UK by the Olympics which cannibalised attraction visits across the country and deterred normal tourist visitation to London at what is traditionally peak season. Finally the eurozone crisis had its most profound impact in southern Europe where austerity measures and high unemployment led to a severe contraction in leisure spending.

In the light of this backdrop I believe it is a true reflection of the robustness of our strategy and quality of our team that Merlin beat its profit target for the 13th year in a row while also increasing our customer satisfaction and staff engagement scores. Moreover, we have made substantial progress on every one of our six strategic growth drivers.

In terms of trading, total visitor numbers for last year were 54 million, being 7.5 million up on the comparative 52 weeks of 2011, a rise of 16.1%. Our revenue growth over the same period was 15.2%, slightly lower than our volume growth as a result of the LEGOLAND Malaysia operating contract as well as a change in mix across our portfolio of sites. We have also introduced online pricing initiatives which both deliver value to our customers and drive pre-booked revenues to our businesses. Revenues at our like for like businesses were hit last year by the adverse factors already outlined, so we were pleased to see them virtually flat. Whilst most of our £50 million EBITDA growth has come from new site openings and acquisitions, it is however pleasing to note 1.9% growth from our like for like businesses despite flat revenues, through strong cost controls, some re-engineering of our cost base and other initiatives, including more efficient use of our marketing budgets. Furthermore, the changes we made during 2012 will underpin our future performance, as we will continue to benefit from many of the efficiency savings as well as from the advances we have made through our e-commerce channel and dynamic pricing.

## BUSINESS REVIEW - CHIEF EXECUTIVE'S REPORT



Opening of LEGOLAND Malaysia

*We surpassed 50 million visitors and £1 billion in revenue*

Among the many highlights in 2012, I was privileged to be at the official opening ceremony of LEGOLAND Malaysia. This is a significant development for the Group, because it is the first theme park we operate in Asia and means that LEGOLAND parks are now present on three continents. The event was attended by His Royal Highness the Sultan of Johor and the Prime Minister of Malaysia, underlining the importance of LEGOLAND Malaysia to that country. The highlight for me was seeing 10,000 Malaysian and Singaporean visitors immersing themselves in the LEGOLAND experience with the same excitement, engagement and energy that we see the world over. The park is truly spectacular; was built on time and on budget and has sold the highest number of annual passes we have ever seen.

### 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 2012.

#### ★ Growing the existing estate through planned capex cycles

We have launched imaginative new rides and attractions across our existing estate of attractions, which have underpinned the like for like performances across the Group this year. Whilst our Resort Theme Parks Operating Group was particularly affected by the conditions in southern Europe, we have delivered like for like growth in our other operating business units. We again delivered our portfolio of capital projects on time and within budget.

#### ★ Rolling out new midway attractions

2012 saw Merlin Entertainments open six new attractions across three midway brands including our first permanent presence in Japan (LEGOLAND Discovery Centre, Tokyo). In Sydney, our innovative design and efficient use of space saw Madame Tussauds open in the same building as the WILD LIFE Sydney attraction. This business was acquired as part of the Sydney Attractions Group portfolio at the start of 2011, resulting in the original footprint now supporting two successful businesses.

#### ★ Transforming our theme parks into destination resorts

Our resort positioning during 2012 focused on delivering hotels and holiday villages. Most notably, our second LEGO-themed hotel was opened at LEGOLAND Windsor in March to great acclaim and the delight of the many families and conference guests who have stayed there. We also added

another phase of themed lodges at the LEGOLAND Deutschland Holiday Village and began construction of our next LEGO-themed hotel to open at LEGOLAND California in 2013. We continue to see a direct correlation between the development of on-site accommodation and the number of multi-day visits to the parks, something which further enhances guest satisfaction, drives repeat visitation and delivers increased returns overall.

#### ★ Exploiting strategic synergies

Our groupwide initiatives in e-commerce drove revenues through this channel to increase by more than 50% in 2012, as well as delivering pre-booked revenues for visits further in advance than previously (see case study on page 26). The Merlin Annual Pass was launched for the first time in the USA and Australia and again delivered increased sales volumes in the UK and Germany. We also continued to drive our strategy of clustering sites in city locations and resorts, where we enjoy marketing benefits and cost savings. As a result of the midway rollout programme and our acquired businesses we now operate in nine city cluster locations.

#### ★ Developing new LEGOLAND parks

I am very pleased with the performance of LEGOLAND Florida in its first full year of trading and equally delighted with the launch of LEGOLAND Malaysia in September 2012, as mentioned above (see case study on page 22). We continue to pursue other opportunities for LEGOLAND parks and hope to be able to announce more concrete plans very shortly.

#### ★ Strategic acquisitions

We completed the acquisition of Living and Leisure Australia (LLA) at the start of 2012 and have very quickly integrated these businesses and their teams into Merlin (see case study on page 18). LLA businesses in Australia, Thailand and China were slotted in alongside our existing attractions there, whilst the acquired site in South Korea and the management contract in Dubai represent new countries of operation for us.

## BUSINESS REVIEW – CHIEF EXECUTIVE'S REPORT

*Our number one priority is to provide a memorable experience for every guest*

### **Memorable experiences for every visitor**

Our number one priority is to provide a memorable experience for every guest, from booking to departure. We continually measure our performance via the use of on-site, real-time electronic survey kiosks and we also run an extensive externally operated Mystery Visit programme.

We are highly competitive across our attractions which, combined with the regular use of league tables, serves to encourage further improvement. As a result of this focus and a cultural commitment to excellence, our overall guest satisfaction scores defied the significant challenges posed by a back-drop of strong cost controls and we again exceeded our 90% target. We also view complaints as a real opportunity to exceed expectations. As a result, our 2012 survey of previous complainants revealed that more than four out of five had returned or intend to do so within the next twelve months.



An example customer survey point

### **Health and safety**

Of equal importance is that our guests and employees always enjoy a safe and secure environment. Our focus is on proactive and continuous improvement, which has ensured that we maintain our high standards. We have shown improvements in our Health & Safety measures for five years in a row, with a continuing reduction in the overall guest incident rate and further improvement in the already high positive scores in the Health & Safety related questions in our annual employee survey. We are certainly not complacent, however and continue to invest in this key area.

### **Our winning team**

The Merlin team of more than 20,000 at peak season is truly outstanding, having again delivered guest satisfaction scores well in excess of our 90% target throughout some challenging times in 2012. We place great importance on how staff interact with guests and our rating for this measure has also risen again this year, supporting our aim to have the most friendly and helpful staff in our industry. The level of engagement of staff is measured through our annual employee survey. Our target for this measure is 80% and our 2012 score was once again ahead of this and higher than the score in 2011. This time around a staggering 97% of our employees completed the survey and 96% of those said they 'enjoyed working here'.

I am proud of the commitment and enthusiasm of all our employees, spread across 94 sites in 21 countries. As well as their focus on customer care, I am also proud of their passion for our two charities, the Merlin's Magic Wand children's charity and the SEA LIFE Marine Conservation Trust, which is focused on animal and marine conservation and welfare. I am also proud of the contribution that Merlin makes to the local communities and economies in which we operate by generating employment and stimulating broader economic activity.

## BUSINESS REVIEW - CHIEF EXECUTIVE'S REPORT

*Our unique resources  
are raising the bar in  
innovation and creativity*

### Looking ahead

With some very exciting ride and attraction launches planned over the next few months we are approaching 2013 with confidence. While underlying economic pressures undoubtedly remain, the business has historically demonstrated its resilience to all but the most extreme external impacts. Indeed this is only increasing as the pursuit of our expansion strategy sees us diversify geographically and by product type. While one cannot say for certain that the weather in 2012 was a one-off, it is though a fairly safe bet that the UK market will not see a repeat of the Olympics effect in the immediate future.

In this context we expect to see good like for like growth in all markets except southern Europe where we are projecting several more years of depressed leisure spending. This growth will be given added impetus by the progressive shift in focus of our new openings and acquisitions to the faster growing markets of the Asia Pacific region.

Our unique resources are raising the bar in innovation and creativity, inspiring all our hardworking teams and businesses to bring more Merlin magic in 2013 and beyond. Watch this space!

**Nick Varney**  
Chief Executive Officer  
Merlin Entertainments  
20 March 2013



Premium Adventure room at LEGOLAND Windsor Resort Hotel

# MIDWAY

ATTRACTIONS





## BUSINESS REVIEW – MIDWAY ATTRACTIONS

	2012	2011 <sup>(1)</sup>	Growth <sup>(2)</sup>	Like for like <sup>(2),(3)</sup>
Visitors (m)	33.0	26.8	23.2%	0.7%
Revenue (£m)	458	352	30.1%	2.6%
EBITDA (£m)	179	140	28.2%	5.9%

<sup>(1)</sup> Figures presented for 2011 are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2012

<sup>(2)</sup> Like for like figures include businesses owned and opened before January 2011, at constant currency using 2012 foreign exchange rates

<sup>(3)</sup> Percentages are calculated based on the underlying figures before rounding and are then rounded to one decimal place

2012 WAS A SUCCESSFUL YEAR FOR THE MIDWAY ATTRACTIONS OPERATING GROUP, WITH STRONG GROWTH IN OUR ASIAN MARKETS; AN ACCELERATED MIDWAY ROLL OUT PLAN; THE SUCCESSFUL RELAUNCH OF MANY OF THE SYDNEY ATTRACTION GROUP ATTRACTIONS AND THE EFFECTIVE INTEGRATION OF LIVING AND LEISURE AUSTRALIA.

The existing estate saw some pleasing growth with particularly strong performances in Asia, USA, Australia and New Zealand. The eurozone crisis had an impact on our European midway performance, particularly in southern Europe where increased taxes combined with unfavourable economic conditions had a negative impact. The London Olympics also had a deep but relatively brief impact on trading at our central London attractions.

Our existing estate growth was underpinned by our strategy of planned capex cycles across each brand. LEGOLAND Discovery Centre peak capex investments included launching LEGO Forest Pursuit Driving attractions at Manchester and Dallas and adding laser shooting to the ride at Chicago. Our peak year SEA LIFE capex focused on the relaunch of the acquired Sydney Attractions Group businesses, with other key investments including the relaunch of Brighton and the addition of crocodiles in Hannover. Madame Tussauds Amsterdam was enhanced to include the contemporary figures and theming which are prevalent in the new launches around the world. In addition to our high year capex investments, we also launched a number of mobile features which move between attractions over a five year period, thereby providing new experiences for guests and good capital efficiency for the company. New mobile feature launches in 2012 included touring attractions in Madame Tussauds of 'The Beatles' and 'ABBA', with SEA LIFE adding touring 'Turtle Shelter' attractions to the existing 'Jelly Disco', 'Claws' and 'Octopus Gardens' offerings.

We continued our rapid expansion of midway attractions around the world, successfully launching a further six, including: a SEA LIFE and LEGOLAND Discovery Centre adjacent to each other in Kansas City, USA – for the first time, sharing a common entrance; further LEGOLAND Discovery Centres in Atlanta, USA and Tokyo, our first permanent attraction in Japan; a Madame Tussauds in Sydney, Australia and a SEA LIFE Observation Tower in Weymouth, UK. Overall this was one of our most successful years of launching new attractions, combining the delivery of outstanding commercial performance together with excellent customer satisfaction scores.



Madame Tussauds mobile 'Beatles' attraction

Several of the Sydney Attractions Group sites we acquired in 2011 have been relaunched and rebranded during 2012. We also furthered our attraction clustering strategy by adding a new Madame Tussauds in half of the original space of WILD LIFE Sydney, next door to the SEA LIFE Sydney Aquarium in Darling Harbour. This was a very cost effective way of expanding the cluster in that fabulous location. At the start of 2012, we acquired Living and Leisure Australia, which brought us nine attractions across Australia and Asia as well as a management contract in Dubai. This has enabled us to develop our footprint of attractions in Asia Pacific and further our effective strategy of clustering midway attractions, which provides a proven platform for stronger growth than stand alone sites due to our ability to dominate key markets and grow market share. At the end of 2012, we had clusters in Amsterdam, Bangkok, Berlin, Blackpool, Dallas, Kansas City, London, Shanghai and Sydney. Clustering will continue to be central to our future midway roll out strategy.

2012 has been a year of expansion, integration and at times cost pressure. However, underpinning our success has been some strong customer satisfaction scores, with more of our customers than ever before willing to recommend our attractions to their friends and family.

Merlin Midway Sites	December 2011	New 2012	December 2012
UK	21	1	22
Continental Europe	25	-	25
North America	10	3	13
Asia Pacific	9	12	21
<b>Total</b>	<b>65</b>	<b>16</b>	<b>81</b>

## BUSINESS REVIEW – MIDWAY ATTRACTIONS

## LIVING AND LEISURE AUSTRALIA

## ACQUISITION OF NINE NEW ATTRACTIONS ACROSS FOUR COUNTRIES

## CASE STUDY

## WHAT DID WE DO?

We made our first entry into the rapidly expanding Asian aquarium market as well as expanding further in Australia. We have also created two new cluster cities in Bangkok and Shanghai. Overall, this acquisition has added nine new attractions to the Midway Operating Group comprising Melbourne Aquarium, Hotham and Falls Creek Ski Resorts, Illawarra and Otway Treetop Adventures, Mooloolaba Underwater World, Siam Ocean World, Shanghai Changfeng Ocean World and Busan Aquarium, as well as the management contract for the Dubai Aquarium.



## HOW DID WE DO IT?

We formed a team of experienced attraction operators to integrate each function of Living and Leisure Australia 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 successfully integrated Living and Leisure Australia into Merlin. The Bangkok and Shanghai attractions are now part of the newly created cluster teams which have seen an improved performance at the aquaria as well as at the established Madame Tussauds attractions due to cross selling and sharing trade contacts. We have significantly reduced the operating cost base at the acquired attractions whilst improving the level of customer satisfaction. We have developed a phased investment plan for the aquaria which will see them relaunched as SEA LIFEs during 2013 - 2016, starting with Melbourne Aquarium in September 2013. The cumulative impact of cost savings, a new marketing approach and targeted capital investment has led to a significant increase in profitability for the Living and Leisure Australia attractions.





# LEGOLAND PARKS



## BUSINESS REVIEW – LEGOLAND PARKS

	2012	2011 <sup>(1)</sup>	Growth <sup>(2)</sup>	Like for like <sup>(2),(3)</sup>
Visitors (m)	10.5	7.9	32.7%	7.0%
Revenue (£m)	308	250	23.4%	5.6%
EBITDA (£m)	113	85	32.9%	11.1%

<sup>(1)</sup> Figures presented for 2011 are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2012

<sup>(2)</sup> Like for like figures include businesses owned and opened before January 2011, at constant currency using 2012 foreign exchange rates

<sup>(3)</sup> Percentages are calculated based on the underlying figures before rounding and are then rounded to one decimal place

2012 WAS A VERY GOOD YEAR FOR THE LEGOLAND PARKS OPERATING GROUP. THREE OF THE FOUR ORIGINAL PARKS DELIVERED THEIR BEST RESULTS EVER IN TERMS OF VISITORS, REVENUE AND EBITDA; LEGOLAND FLORIDA, WHICH OPENED IN LATE 2011, HAD A FANTASTIC FIRST FULL YEAR OF TRADING; THE LEGOLAND WINDSOR HOTEL OPENED IN MARCH AND HAS PROVED VERY POPULAR WITH GUESTS EVER SINCE; AND OUR VIGOROUS EXPANSION PLANS CONTINUED WITH THE OPENING OF THE SIXTH LEGOLAND PARK – AND THE FIRST IN ASIA – IN JOHOR, MALAYSIA IN SEPTEMBER.

LEGOLAND Malaysia is not only the first park in Asia, but also a brand new business model. Designed by Merlin, the park has been funded by our Malaysian partner, Themed Attractions and Resorts. Merlin is responsible for its ongoing operation and over time will take an increasing equity stake in the business. The park opened on time and on budget, and achieved more than double its visitor and revenue expectations during 2012. A 249 bedroom LEGOLAND Hotel and a LEGOLAND Water Park are under construction and will be added during 2013.

At the heart of our existing estate strategy is the continued application of our planned capital expenditure cycles allied with innovative product development. In 2012 the highlight of this was the investment in a new 'Polar Land' experience in LEGOLAND Billund, as well as the highly successful LEGO Star Wars area added in LEGOLAND Windsor and LEGOLAND Florida. Our close cooperation with LEGO also resulted in the addition of a successful and jointly marketed LEGO Ninjago ride in LEGOLAND Deutschland. The continuing high popularity of the LEGO brand offers us strong opportunities for cost effective expansion and a relationship with LEGO that we plan to build on even more strongly in the coming years.

Our strategic transformation of the LEGOLAND parks into multi-day destination resorts continues at a rapid pace. During 2012 we opened the LEGOLAND Windsor Hotel, which has been a great success with our park visitors. It was a complete sell out in the school holiday periods and was accompanied by a



New LEGO Ninjago ride at LEGOLAND Deutschland

significant increase in multi-day tickets as well as guests at the resort giving us very high customer satisfaction scores. This demonstrates how our accommodation led strategy is the right approach for our business.

We have already announced further accommodation developments to come in 2013, with a 250 bedroom hotel for LEGOLAND California, a LEGO Castle with 34 premium bedrooms to be added to the popular holiday village in our German park, as well as our plans to run a campground and cottages adjacent to LEGOLAND Billund. The LEGOLAND Malaysia Hotel will then follow by the end of 2013.

Alongside the commercial performance and resort expansion it is also particularly pleasing to report another year where all parks drove up their already high customer satisfaction scores.

After the successful opening of two new LEGOLAND parks in the last 18 months, we are now working intensively on adding more LEGOLAND resorts to our portfolio, focusing on Asia. We intend to announce the next location very soon!

## BUSINESS REVIEW – LEGOLAND PARKS

## CASE STUDY

# LEGOLAND

## MALAYSIA

### WHAT DID WE DO?

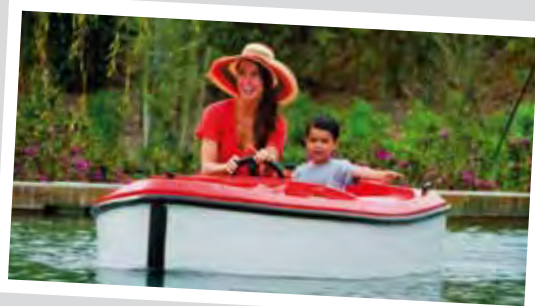
In 2008 we entered into a partnership with the regional government to develop LEGOLAND Malaysia. The region wanted a LEGOLAND park as the flagship attraction for its Iskandar leisure and retail development, next to the border with Singapore, whilst we wanted a low risk way of entering the Asian market. The deal was done and the park was built and opened on schedule in September 2012.

### HOW DID WE DO IT?

Merlin provided the park design and project managed the construction which was funded by the central and regional Malaysian governments. We deployed our experienced LEGOLAND Development team, alongside their Merlin Magic Making colleagues and the local partners. Together, they successfully delivered a fantastic LEGOLAND park on the agreed date and within the agreed budget. The teamwork and support from colleagues across all five existing LEGOLAND parks helped us to train over 600 staff for opening. With Merlin operating the park, LEGOLAND Malaysia is now delivering memorable LEGOLAND visitor experiences.

### WHAT WAS THE RESULT?

With the addition of the LEGOLAND Malaysia Water Park and LEGOLAND Hotel in 2013 the LEGOLAND resort is intended to become one of the anchors that will help the region of Iskandar and Singapore become a tourism destination for South East Asia in a similar way that Orlando is for America. The reception to LEGOLAND Malaysia has been outstanding with visitation and revenues more than double expectations. Annual pass sales have already exceeded those sold by any other LEGOLAND park; a great start that we expect will continue into 2013 - and beyond.





# RESORT

THEME PARKS





## BUSINESS REVIEW – RESORT THEME PARKS

	2012	2011 <sup>(1)</sup>	Growth <sup>(2)</sup>	Like for like <sup>(2),(3)</sup>
Visitors (m)	10.5	11.8	(11.1%)	(11.1%)
Revenue (£m)	290	328	(11.8%)	(8.1%)
EBITDA (£m)	73	95	(23.4%)	(18.4%)

<sup>(1)</sup> Figures presented for 2011 are underlying trading compiled on a 52 week basis for ease of comparison with the 52 weeks of 2012

<sup>(2)</sup> Like for like figures include businesses owned and opened before January 2011, at constant currency using 2012 foreign exchange rates

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2012 HAS BEEN A CHALLENGING YEAR FOR RESORT THEME PARKS AS A RESULT OF A NUMBER OF EXTERNAL FACTORS WHICH HAVE AFFECTED THE MARKETS IN WHICH WE OPERATE. FINANCIAL PERFORMANCE HAS BEEN HIT BY THE WORST WEATHER CONDITIONS FOR MANY YEARS DURING KEY TRADING PERIODS IN THE UK AND GERMANY, WHILST THE OLYMPICS EFFECT IN THE UK AND THE DEEPER ECONOMIC CHALLENGES IN ITALY MADE FOR A DIFFICULT AND UNCERTAIN TRADING ENVIRONMENT.

Our strong contingency planning enabled us to mitigate some of the lower revenues through cost savings without compromising on the customer experience, as evidenced by maintained, and in some cases improved, customer satisfaction scores across all our resorts.

Despite the external difficulties we continued with our strategy of delivering highly compelling new attractions on a planned capex cycle. The peak capex year investment in 2012 was at Thorpe Park with 'The Swarm', the UK's first winged coaster based on the Raptor ride which successfully launched in Gardaland in 2011.

We also continued with our strategy of working with highly recognisable third party Intellectual Property (IP) partners. Chessington World of Adventures introduced 'Madagascar Live: Prepare to Party', a live character-based show, to coincide with the launch of the new Madagascar film. Alton Towers and Gardaland both launched an 'Ice Age 4D Experience' to capitalise on the international success of the film franchise. Alton Towers and Heide Park then also launched spin off attractions based on strong internal IPs: 'Nemesis Sub Terra', a ride and actor led psychological scare attraction based on Alton Towers' iconic 'Nemesis' coaster and 'Krake Alive', an actor led scare maze based on the successful Heide Park 'Krake' dive coaster launched in 2011.

Further advances were made during 2012 in our key strategy of increasing pre-booked business and driving visitation to our branded websites and mobile 'apps'. Total revenue booked through e-commerce platforms increased significantly and all attractions saw increases in the percentage of pre-booked visitors. This strategy was enhanced by the introduction of a dynamic 'Advanced Purchase Pricing' model on all resort websites, providing an increased discount to customers booking in advance (see case study overleaf). This is a strategy we will continue to evolve in the coming years to help provide a further hedge against poor weather and volatile market conditions.

Our resort positioning strategy also continued apace, where multi-visit tickets combined with an overnight stay encourage visitors to spend longer at our resorts. Within our hotel portfolio, Gardaland successfully targeted customers outside Italy and we saw increases in leisure occupancy at the Chessington Resort. The short break strategy will continue, with further great news that development plans for more accommodation have been granted planning approval at Thorpe Park, Chessington World of Adventures and Alton Towers.



Thorpe Park's 'The Swarm' Wing Coaster

## BUSINESS REVIEW – RESORT THEME PARKS

# ONLINE PRICING

## WHAT DID WE DO?

In order to drive our e-commerce and pre-booking strategy all our theme parks introduced an 'Advanced Purchase Pricing' model for online ticket sales.

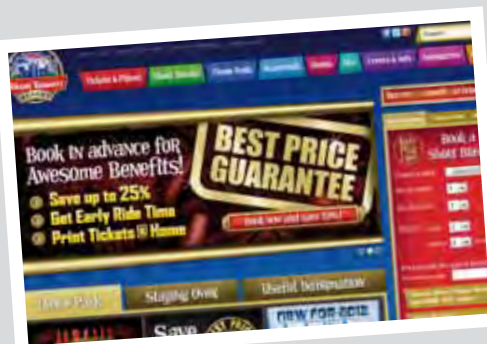
## HOW DID WE DO IT?

Each website booking engine was redesigned to enable dynamic - or demand based - pricing and provide increased discounts for those booking further in advance of admission, as an incentive to book early. Discounts can be altered at any time to reflect changes in levels of demand during the season whilst always maintaining some discount for early booking. To support this activity marketing communications were focused on the 'book early for best discounts' message as a call to action and to educate visitors to book tickets in advance.

## WHAT WAS THE RESULT?

During 2012, revenue through our branded websites grew significantly. Across the UK parks the percentage of bookings made on the same day or one day before visitation halved by comparison to 2011 as customers moved to booking earlier. At the same time the number booking more than seven days ahead more than doubled. This shift is important as it helps to deliver guaranteed revenue streams and provides a hedge against poor weather and volatile market conditions which can reduce visitor volumes during key trading periods. At the same it also delivers even better value to the increasing numbers of our customers who book early and benefit from the discounts on offer.

### CASE STUDY





Ice Age themed rooms at Alton Towers Resort Hotel



Safari themed rooms at Chessington World of Adventures Resort Hotel

# MERLIN MAGIC MAKING

MERLIN MAGIC MAKING IS THE UNIQUE RESOURCE THAT SITS AT THE VERY HEART OF MERLIN ENTERTAINMENTS. ITS PRIMARY AIM IS TO RAISE THE BAR IN TERMS OF INNOVATION AND CREATIVITY, ALLOWING MERLIN TO STAY AHEAD OF THE COMPETITION. NO OTHER GROUP ON THE PLANET DELIVERS PROJECTS OF SUCH QUALITY, WITH SUCH VALUE, WITHIN THE TIMESCALES ACHIEVED... OH, AND IN OUR SPARE TIME WE HAVE GREAT FUN DOING IT!

## What we do

Merlin Magic Making prides itself on not taking 'no' for an answer. Our in-house team of creatives strive to ensure that we are at the forefront of innovative thinking when it comes to designing something special. We have the talent to translate those creative ideas into reality through our ability to produce unrivalled and amazing content for any of Merlin's attractions; build at a speed and value unknown to our competitors; and find new business opportunities all over the planet.

However that talent for new thinking does not stop at the doors of Merlin Magic Making as we take on the responsibility for encouraging innovative thinking across the whole of the Merlin family.

PRODUCING THE MAGIC



DELIVERING THE MAGIC



FINDING THE MAGIC

CREATING THE MAGIC

## FOCUS ON MERLIN MAGIC MAKING

### Creating the Magic

#### 'CREATIVITY IS AT THE CORE OF EVERY PART OF MERLIN MAGIC MAKING'

Our dedicated creative team designs and champions our fantastic developments with inspiring new ideas, from roller coasters with that 'special twist', to developing brand new attractions for a new generation of visitors. Dedicated to designing compelling propositions to excite our customers' imagination, the team is always looking for the next new thing that can bring a new dimension to our guests' experience.

Our experience is not just with our in-house team. We also work closely with colleges to secure the talent pipeline for the years ahead; with external creative thinkers to challenge our own thinking; and with Intellectual Property owners to bring alive their fantastic brands.

### Producing the Magic

#### 'EVERY SINGLE HAIR IS INSERTED SEPARATELY INTO THE WAX HEAD'

All of our fantastic creations are produced by our very own creative builders, modellers, sculptors, themers and dedicated animal teams. With over 200 years of experience in producing the finest wax figures in the world, we work together with the famous and sometimes infamous, to recreate amazing life likenesses, through sculpting, moulding, hair and colouring and costume. Did you know each wax figure takes up to nine months to complete and has every single hair inserted into it, one at a time? Now that takes dedication!



Producing magic at Madame Tussauds

#### 'EVERY YEAR WE USE OVER 20 MILLION BRICKS TO CREATE MODEL MASTERPIECES!'

With five LEGO model building facilities around the globe we can make any model of any subject with the world famous LEGO brick. Starting with the initial intricate design, we construct and animate each model and finally install them into either a LEGOLAND park or a LEGOLAND Discovery Centre. Every single year our talented LEGO model builders use over 20 million bricks to create model masterpieces!

#### 'THE MOST EXPERIENCED TEAM OF AQUARIUM MARINE BIOLOGISTS IN THE WORLD'

Our displays development team boasts the most experienced, professional team of aquarium marine biologists anywhere in the world. Responsible for the welfare and wellbeing of the creatures in our care, they have established a reputation for excellence that we take great pride in. They undertake extensive research and development around the globe, to both help us become better at the husbandry we give and to spread our success of captive bred creatures. 2012 saw especially significant successes, led by our ability to now successfully breed Weedy Sea Dragons.



Weedy Sea Dragon

### Finding the Magic

#### 'TRAILBLAZING MERLIN'S EXPANSION INTO NEW AND EXISTING TERRITORIES'

A small dedicated team are positioned strategically around the world, searching for new business opportunities both for our own brand rollout and strategic acquisitions.

They trailblaze Merlin's expansion into new and existing territories, finding suitable locations and negotiating hard for advantageous rental deals, to fuel our rollout strategy, securing a pipeline that will see us opening up to seven new midway attractions every year.

### Delivering the Magic

#### '29 MAJOR PROJECTS IN SEVEN COUNTRIES INVESTING IN EXCESS OF £140 MILLION'

Our ability to deliver all of our development needs completely in-house is truly unique. This means that we have the experience and ability to deliver all of our projects on time, on budget, to the required specification – and all at outstanding value. 2012 saw us working on 29 major projects in seven countries where we are investing capital in excess of £140 million. Our ability to react quickly, drive value and deliver excellence to our guests allows us to achieve things that others only dream of!

### And finally...

Merlin Magic Making is absolutely unique. We are diverse, creative, dedicated and, most importantly, successful in helping Merlin grow into one of the world's best providers of location based entertainment.

## FOCUS ON MERLIN MAGIC MAKING

# KANSAS CITY CLUSTER

## WHAT DID WE DO?

We used the combined power of Merlin Magic Making to create a new US cluster city with two of our biggest midway brands, SEA LIFE and LEGOLAND Discovery Centre. From the initial negotiations it took the team just 18 months to sign the leases, design both attractions, produce the content & select the creatures and to build the attractions - all before we welcomed our first guests.

## HOW DID WE DO IT?

The project management team coordinated in-house resources along with external contractors to build both attractions simultaneously, on time, on budget and to a very high specification.

### CONCEPT CREATION

MERLIN MAGIC MAKING  
**CREATING THE MAGIC**

The team designed two bespoke and complementary attractions to maximise the location benefits, then took on the role of creative champions to ensure the fantastic designs were delivered on the ground.

### PROJECT MANAGEMENT

MERLIN MAGIC MAKING  
**DELIVERING THE MAGIC**

### PRODUCTION OF CONTENT

MERLIN MAGIC MAKING  
**PRODUCING THE MAGIC**

We located one site to accommodate two businesses, before negotiating a favourable rent deal in double quick time that allowed us to get on with the construction.

MERLIN MAGIC MAKING  
**FINDING THE MAGIC**

SITE FINDING/PARTNER BUILDING

The LEGO master builders turned drawing designs into fantastic realistic models, while the displays development team chose the perfect creatures for a magical SEA LIFE experience and delivered them to site fit and healthy.

## WHAT WAS THE RESULT?

In a very short time period we launched a fantastic new cluster. We delivered a new SEA LIFE Centre that boasts over 5,000 magical creatures and an amazing underwater tunnel, as well as a state of the art LEGOLAND Discovery Centre that allows children to lose themselves in playful learning. Together the businesses have been a great success both commercially and from a customer satisfaction perspective.

# MERLIN PEOPLE



MERLIN PEOPLE DO BUSINESS 'THE MERLIN WAY', THROUGH THE CULTURE AND VALUES THAT LINK ALL OUR ATTRACTIONS WITH ONE ULTIMATE GOAL OF DELIVERING MEMORABLE EXPERIENCES TO OUR VISITORS. 2012 HAS BEEN A SUCCESSFUL YEAR ACROSS ALL THREE PILLARS OF OUR PEOPLE STRATEGY, BEING: EMPLOYEE ENGAGEMENT; TALENT AND DEVELOPMENT; AND COMPENSATION AND BENEFITS. THE OVERALL SUCCESS OF OUR PEOPLE STRATEGY IS SHOWN IN THE OUTSTANDING ENGAGEMENT SCORE FROM OUR ANNUAL STAFF SURVEY.

## Employee Engagement

**The Wizard Wants to Know** is our online annual staff survey issued to our more than 20,000 global employees. This year 97% of our employees completed the survey and 96% of those told us that they enjoy working here. The overall staff engagement score is the best indicator of how we are making Merlin a great place to work, and is compiled from the responses to a number of key questions in the survey. This score increased once again and was way above our 80% target. We are proud of all these scores, as well as improved employee awareness of our conservation and wildlife preservation activities.

In 2012 Merlin won the World Trade Group HR Distinction Award for Employee Engagement, reflecting the success of our many initiatives in this area.

**STAR** is our online global recognition scheme. It enables employees to celebrate success by nominating colleagues with a 'STAR' or a 'Thank You' to recognise the little things they do. With over 70,000 STARS sent to employees worldwide this year, and 115,000 since the launch in April 2011, this great initiative has been really embraced by our global employee population.

**Spark an Idea** is a new global online tool launched in 2012 to allow every employee the chance to share their ideas, however big or small. Employees can see all the ideas on the website, search, 'like' ideas or simply look for inspiration. 'Spark an Idea' also allows us to give feedback, thanking staff for their contribution and letting them know how it will be taken forward.

Each attraction has a Creativity and Innovation Forum that reviews ideas and decides which ones to implement locally. We then escalate the truly outstanding ideas, share them with other attractions and pass them to the Merlin Creativity Board, who can support and fund exceptional ideas from conception through to completion.

## Recruitment

Our aim is to attract the best talent. Our recruitment strategy sets out our approach to technology, the candidate experience and diversity. We have introduced a new online recruitment process to give a more structured and positive candidate experience and a consistent selection process such that all recruitment is done 'The Merlin Way'. In addition, we have continued to grow our presence on social media and promote Merlin as an employer of choice.

In 2012 we recruited more than 2,000 new staff members, increasing our workforce by 11% through organic growth, and welcomed another 1,200 employees into the Merlin family with the acquisition of Living and Leisure Australia.

## Talent and Development

Almost a third of our manager and leader vacancies in 2012 were new positions created by growth. Succession planning has therefore been a key activity, as has the extension of our training and graduate programmes into new regions.



The 'Spark an Idea' online portal



## MERLIN PEOPLE

A key priority is growing our **Leadership Pipeline**, so we can provide the right people with the right experience at the right time. 2012 initiatives to further strengthen this pipeline included:

- ★ A global succession planning programme for all senior managers.
- ★ A revitalised induction programme for new senior managers.
- ★ A review of our global mobility policy so we can better support country to country moves.
- ★ High potential training and development programmes for individuals identified as future leaders.

One of the ways we attract fresh new talent is through our **XLR8** fast track graduate programme. Now in its seventh year, its success continues to grow, with high academic achievers from top universities around the world being recruited in the UK, USA, Germany, Italy and China, as well as in our new countries of operation in South Korea, Australia and Japan. We are committed to the long term career development of our XLR8 graduates, supporting their tailored career path from entry into Merlin, up through the business and on to senior leadership positions. Over the last three years we have climbed the Guardian Top 300 graduate employers list, coming second for our industry in 2012.



The 2012 XLR8 recruitment campaign poster

We constantly strive to make a positive difference to life at Merlin and made progress this year promoting **Gender Diversity** with a number of initiatives to support our female employees in achieving their ambitions and career progression. Recent research shows that companies with a more gender diverse workforce perform better. Our objective is to achieve a more inclusive working environment, particularly with respect to gender balance, whilst promoting females on merit. Across the year as a whole, women represented 16% of our top executives, 35% of our senior managers, and 47% of our total workforce; with females represented at all levels of the business.

### Compensation and Benefits

We are committed to providing competitive compensation and benefit programmes which together reflect the diverse needs of our global employees and support the culture and business needs. In 2012 we continued our focus on **Harmonisation** of local benefit programmes on a territory by territory basis, completing the journey in the UK and the USA and making significant progress in Germany.

The **CEO Award Plan** is aimed at extending equity participation to as many employees as possible as recognition for long service and/or outstanding contribution. In 2012 the Merlin CEO Award Plan was awarded 'Most Effective Motivation or Incentive Strategy' by Employee Benefits Magazine and has been nominated for several other HR industry awards. Approximately 1,400 employees have already received awards and by the end of the 2012 nomination process a CEO Award will have been made to approximately 2,000 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 approach it takes to all animals in its care. 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 at every site. This year has seen us take two significant steps forward in our approach to animal and marine conservation and welfare:

- ★ The establishment of the **SEA LIFE Marine Conservation Trust**, a registered charity that will provide a voice and focal point for global campaigns and fundraising.
- ★ **Breed, Rescue, Protect**, a global initiative, which actively engages Merlin's guests and employees in our conservation and welfare work and helps them understand its importance and the role they can play to meet its objectives.

## **SEA LIFE Marine Conservation Trust**

The key objectives for Merlin in establishing this charity are:

- ★ To demonstrate our commitment to the protection of marine animals and their environments.
- ★ To support our vision of becoming the leading globally recognised voice for marine life.



## **Breed**

Our unique aquarium displays development team have pioneered the successful breeding of many marine species, with 21 different species and over 2,000 individual animals bred. Key highlights have included seahorses and the hatching of Big Fin Reef Squid, whilst we continue to lead European efforts to breed the protected Undulate Ray.

Our local teams around the globe have also reported their own successes, most notably:

- ★ In Australia and New Zealand where we bred 15 Gentoo and King Penguins and initiated breeding programmes for the Sand Tiger Shark.
- ★ In the USA where we successfully bred Blue Spotted Stingrays in Dallas and commenced seahorse breeding in Minnesota.
- ★ Across Europe where our breeding successes included the birth of a Gentoo Penguin at Konstanz, a Black Tip Reef Shark in Scheveningen and a Zebra Shark in Loch Lomond, where Asian Short Clawed Otter pups were also born.

At our zoo in Chessington World of Adventures, we have bred three of the critically endangered Gentle Lemurs, with the site now holding 10% of the population across the European Union. We have had two babies born of the vulnerable Western Lowland Gorilla, in addition to working across the EU with their breeding programmes in other locations.

## **Rescue**

This year saw a true alliance between our European and USA SEA LIFE teams with the release of 'Flip', a rare Kemp's Ridley turtle, back into the Gulf of Mexico having been rescued in 2011 by our team at SEA LIFE Scheveningen off the Dutch coast.

## CORPORATE SOCIAL RESPONSIBILITY

In Australia and New Zealand we rescued 17 turtles most of which will have been released back into the ocean by spring 2013. In the USA we signed an agreement with The Georgia Sea Turtle Hospital to assist in the rescue and rehabilitation of injured marine turtles.

We have rescued more than 100 injured or orphaned seal pups through our European seal sanctuaries and successfully returned them back to the wild after a period of rehabilitation and care.

### Protect

We continue to campaign alongside Whale and Dolphin Conservation in the pursuit of global protection for all cetaceans and, most importantly, for the banning of mass culls and capture from the wild. Our UK SEA LIFE teams have been working alongside the Marine Conservation Society to secure over 100 Marine Protection Zones around the UK coastline.

Our innovative use of GPS to tag and subsequently track sharks and turtles in Australia has helped identify migratory and breeding habitats and this will lead to greater protection in the coming years. In November 2012 the Australian Government chose SEA LIFE Sydney Aquarium as the location to announce the formal protection of 85 million hectares of ocean across the Australian coastline, acknowledging the campaign efforts of our team to bring this change.

The SEA LIFE team at LEGOLAND California established a Leopard Shark tagging project to carry out behavioural and distribution studies on the species.

This year saw the second anniversary of the Chessington Conservation Fund, with £100,000 raised to help fund conservation activities such as working with the World Land Trust to buy and protect 128 acres of rainforest (the size of Chessington World of Adventures) in Ecuador; as well as working with Ape Action Africa.

### Employee conservation initiatives

Merlin firmly believes that our approach to animal and marine conservation work is an essential ingredient of employee engagement within the company. In 2012 we endorsed over 50 different conservation led initiatives across the globe. Crucially these activities are initiated and led by our employees, supported by local management.



'Flip' the Kemp's Ridley turtle being released



Gorilla Baby 'Mwana' born this year at Chessington

## CORPORATE SOCIAL RESPONSIBILITY

### Merlin's Magic Wand children's charity

2012 marks the fifth year of operation for Merlin's Magic Wand. Our charity 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 small charity team, providing office accommodation and facilities at no cost and, most importantly, providing free tickets to our theme parks and attractions.

This year we have arranged 28,000 memorable visits to our attractions for disadvantaged children and their families by providing them with tickets and travel grants. For the children and families that we support, special time together in a fun environment is invaluable. 2012 has been a record year for fundraising from attractions. Events ranging from bake sales to endurance bike rides brought in over £240,000. Since 2008, from attraction fundraising alone, we have generated over £680,000 worldwide.

CVC, one of our major shareholders, have also shown considerable support for Merlin's Magic Wand via events, partnership activity and making a long-term financial commitment to the charity.

Successful events in 2012 included a Magical Charity Ball and our annual Cricket Day (in the sunshine this year!). These events helped to raise even more money, enabling us to fund four new 'Taking the Magic to the Children' projects which deliver bespoke Merlin featured play and activity installations for children who, through ill-health or disability, are unable to visit our attractions. This year's projects were:

- ★ A LEGOLAND themed cottage at Sunshine Foundation's holiday village for seriously ill children in the USA.
- ★ A 'Merlin London Cluster' themed sensory room at the Evelina Children's Hospital in London.



Themed sensory room at the Evelina Children's Hospital, London

- ★ A Merlin themed minibus for the children of Brian's House Children's Hospice in Blackpool.
- ★ An Alton Towers Resort themed play area for the Children's Ward of the University Hospital of North Staffordshire.

These projects are brought to life by our skilled Merlin teams and incorporate our unique brands, bringing Merlin Magic to children all over the world. With everyone's help Merlin's Magic Wand will continue making children smile in 2013.

### 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. During 2012 there has been a huge amount of such charity and community activity worldwide. Following earthquakes in Italy in May, Gardaland has been working with other local groups to collect and provide toys for the children affected. These were then distributed in December to nursery schools which had to be rebuilt after the earthquakes.

Madame Tussauds in Hollywood has been heavily involved with the children at 'Childhelp' which was established in 1959 and is dedicated to preventing and treating child abuse, helping approximately 200,000 children last year alone.

## CORPORATE SOCIAL RESPONSIBILITY

Chessington World of Adventures in the UK ran a number of 'taking the zoo to the children' initiatives. Their zoo team visited the Children's Trust in March to enable the children to experience our zoo animals first hand. The Trust provides care, education, therapy and rehabilitation to children with multiple disabilities, complex health needs and acquired brain injury. Many of its residents are not well enough to visit Chessington whilst undergoing treatment so they took the zoo to them; in this case tarantulas, centipedes and meerkats. They also visited the Shooting Star CHASE Hospice in Guildford with some giant snails, snakes and guinea pigs. In all cases, the children are given the opportunity to handle the animals which can aid their sensory stimulation and can help in the development of those with sensory impairment.

These are just a few highlights of what our teams have done in the local communities. There are many and varied events going on all year, all over the world, which is something we are very proud of.

### Social Responsibility

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

- ★ **Develop our products in line with broad environmental needs.** This is reflected in our choice of location and efforts to respect local social and environmental issues; our responsible care and choice of the animals and marine life we exhibit; our worldwide campaigning and rescue activities; and our choice and management of suppliers.



A day at LEGOLAND Windsor with Merlin's Magic Wand

- ★ **Work in partnership with the communities in which we operate.** We seek to develop attractions which reflect the culture, locale and environment in which they are situated, not to impose a 'one size fits all' solution on them.
- ★ **Apply 'The Merlin Way' in our dealings with our workforce,** with equal opportunities in all areas - recruitment, promotion, development and benefits. We work as one team supporting and trusting one another; encouraging and recognising individual initiative and responsibility as well as respecting individual contributions. Our aim is to ensure all our colleagues enjoy their work, develop their full potential, celebrate success and learn from experience.
- ★ Extend that respect and team approach to all our business dealings with our **business partners and advisors.**

### Environmental Policy

Merlin Entertainments recognises that its operations impact upon the environment and that effective management of these impacts is essential for business success. We are committed to monitoring and reviewing our activities and identifying opportunities for sustainable environmental improvement, in line with our business goals, in order to minimise the potentially harmful effects of such activity, wherever and whenever practicable. In particular we will:

- ★ Comply with all relevant legislation and where appropriate and practicable, exceed these requirements and apply best practice.
- ★ Promote a culture of environmental responsibility and awareness through leadership, communication and training for customers, employees, contractors and suppliers.
- ★ Further develop our excellent standards of animal husbandry and welfare, applying best practice across the Company's animal collections.
- ★ Consult with relevant external groups and organisations to meet the Company's commitments.
- ★ Consider and plan for practical and cost-effective control measures in order to minimise environmental impacts associated with the Company's operations including energy conservation, pollution prevention, waste reduction, recycling and disposal.

# GROUP FINANCIAL REVIEW



DURING THE 52 WEEKS TO 29 DECEMBER 2012 MERLIN AGAIN DELIVERED STRONG UNDERLYING GROWTH, DRIVEN BY THE MIDWAY ATTRACTIONS AND LEGOLAND PARKS OPERATING GROUPS. THIS WAS DESPITE THE ADVERSE EXTERNAL FACTORS OF CHALLENGING ECONOMIC CONDITIONS, ESPECIALLY IN SOUTHERN EUROPE, PARTICULARLY POOR WEATHER DURING THE MAIN THEME PARK OPERATING PERIOD, AS WELL AS THE OLYMPICS THAT BRIEFLY IMPACTED OUR LONDON BUSINESSES.



**Andrew Carr**  
Chief Financial Officer

## Trading summary

	2012 £m (52 weeks)	2011 £m (52 weeks)	Growth +/- £m (52 weeks)	2011 £m (53 weeks)
Revenue	<b>1,074</b>	933	141	946
<b>Underlying EBITDA<sup>(1)</sup></b>	<b>346</b>	296	50	306
<b>Underlying operating profit<sup>(2)</sup></b>	<b>258</b>	222	36	232
Total operating profit <sup>(2)</sup>	<b>199</b>	220	(21)	230
Net finance costs	<b>(101)</b>			(134)
Underlying profit before tax	<b>140</b>			109
Total profit before tax	<b>98</b>			96

(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.

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

## GROUP FINANCIAL REVIEW

## In 2012 Merlin again delivered strong underlying growth

**Group revenue growth of £141 million and 15.2%** this year came primarily from new businesses, predominantly from LEGOLAND Florida and the newly acquired Living and Leisure Australia (LLA) businesses in Asia and Australia. It was particularly pleasing that in such a challenging year, revenues from our like for like businesses (sites owned and opened before January 2011) held virtually flat on a constant currency basis. This was partly achieved through growth in revenue per capita, benefiting from the introduction of online pricing initiatives and targeted promotional activity. Whilst the Resort Theme Parks Operating Group was particularly affected by adverse external factors in 2012, we saw revenue growth across the remaining business segments. Further details are provided in note 2.1 to the consolidated financial statements.

**Group underlying EBITDA growth of £50 million and 16.9%** was mainly driven by new sites. However, on a constant currency basis our like for like businesses also showed underlying EBITDA growth of 1.9%, evidencing the growth in the Midway Attractions and LEGOLAND Parks Operating Groups as well as the strong cost controls we implemented to mitigate the shortfall in revenues experienced particularly by our European businesses.

**Group underlying operating profit growth of £36 million and 16.5%** is driven by the growth in underlying EBITDA. Depreciation has increased following the LLA acquisition and overall continues to reflect tightly controlled capex.

**Total operating profit** is stated after impairment losses and exceptional items. Total impairment losses of £53 million were recorded in the year, being £40 million in respect of goodwill for the Resort Theme Parks Operating Group and £13 million in aggregate in respect of property, plant and equipment at three of the Group's midway attractions. These were all driven by lower projected cash flows within business plans arising from adverse economic conditions within southern Europe. Other exceptional and non-trading items of £6 million were incurred in total (2011: £2 million). Of this, £5 million was in relation to the acquisition and subsequent integration of the LLA businesses, together with £1 million in respect of redundancy and related costs at the Gardaland Resort, Italy. Further details are provided in note 2.2.

**Net finance costs** of £101 million (2011: £134 million) include net exceptional and non-trading income of £17 million as outlined in note 2.2. On an underlying basis, net finance costs have reduced by £5 million, reflecting facility amendments made in 2011, offset by the increased financing costs arising from the LLA acquisition.

### Cash flow

	2012 £m (52 weeks)	2011 £m (53 weeks)
Underlying EBITDA	346	306
Decrease in cash tied up in working capital	24	3
Other operating cash flows	1	2
Exceptional and non-trading items	(6)	(2)
<b>Net operating cash flow before tax</b>	<b>365</b>	<b>309</b>
Tax paid	(17)	(17)
<b>Net cash inflow from operating activities</b>	<b>348</b>	<b>292</b>
Capital expenditure	(163)	(174)
Acquisition of Living and Leisure Australia (2011: Sydney Attractions Group)	(156)	(102)
Proceeds from bank loans, net of financing costs	167	99
Interest paid, net of interest received	(108)	(115)
Other	(7)	(4)
<b>Net cash inflow / (outflow) for the year</b>	<b>81</b>	<b>(4)</b>

## GROUP FINANCIAL REVIEW

**Merlin continues to be highly cash-generative.** During 2012 the Group generated a net operating cash flow before tax of £365 million. This included positive cash flows arising from working capital changes, mainly from the LEGOLAND Windsor Hotel construction contract that completed in the year and other movements in deferred income.

**Tax paid** of £17 million in both 2012 and 2011 relates to direct corporation tax only.

**Capital expenditure of £163 million** was incurred in order to invest in both the like for like businesses (£81 million) and new site openings (£82 million). In line with our strategy, Merlin's capex programme creates new attractions for the existing businesses following the capex cycles laid down for each Operating Group, and delivers the new business pipeline for the midway roll-out programme. The year on year reduction was driven predominantly by the inclusion in 2011 of LEGOLAND Florida, offset by greater levels of capex across the expanding estate. 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 Living and Leisure Australia** totalled £156 million including the purchase of assets net of cash acquired and repayment of borrowings. This was funded from £167 million net proceeds of bank loans that included further amounts drawn to fund our capital expenditure plans in the acquired businesses. Further details are provided in note 3.1.

**Net interest paid** in 2012 reflects the shorter 52 week period and the timing of payments at year end, together with a full year impact of lower interest rates agreed in May 2011. This is offset by interest costs on the extra debt drawn down to fund the LLA acquisition.

### Net debt

	2012 £m	2011 £m
Cash	142	60
Bank loans and borrowings	(1,337)	(1,183)
<b>Net bank debt</b>	<b>(1,195)</b>	<b>(1,123)</b>
Finance lease obligations	(84)	(86)
<b>Net debt</b>	<b>(1,279)</b>	<b>(1,209)</b>
Leverage on net bank debt to underlying EBITDA	3.5	3.7
Maturity of bank borrowing facilities	July 2017	July 2017

### Loan facilities

Merlin's bank loans and borrowings are available until July 2017 under a Facilities Agreement which was put in place in July 2010 and amended in May 2011 to secure lower interest rates. 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 ratios of EBITDA to both net interest payable and net debt. In addition, there is a requirement that 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

*I am confident that we can pursue our aggressive growth strategy and continue our international expansion programme*

**Merlin has a revolving facility of £138 million (2011: £138 million).**

This facility is in addition to the term debt and is available to finance working capital requirements and for general corporate purposes. As at 29 December 2012, £nil had been drawn down from the revolving facility (2011: £nil).

**Leverage on net bank debt at the year end equates to 3.5x** underlying EBITDA (2011: 3.7x), recognising the growth in EBITDA during the year.

### **Net assets**

**The net assets of the Group increased in 2012 from £555 million to £617 million.** This reflects £76 million profit for the year and £4 million of new equity issued to an existing shareholder (note 5.7), net of £18 million exchange differences arising on the retranslation of assets denominated in foreign currencies.

Overall I am pleased with our financial performance in 2012. Furthermore I am confident that we can pursue our aggressive growth strategy and continue our international expansion programme on the basis of this strong trading and a robust balance sheet, secure in the knowledge that we have bank loan facilities available until 2017.

### **Andrew Carr**

Chief Financial Officer  
Merlin Entertainments  
20 March 2013

# RISKS AND UNCERTAINTIES



MERLIN ADOPTS A PROACTIVE APPROACH TO THE MANAGEMENT OF POTENTIAL RISKS AND UNCERTAINTIES WHICH COULD HAVE A MATERIAL IMPACT ON THE GROUP'S PERFORMANCE AND THE 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 MANAGEMENT REPORTS ARE CIRCULATED MONTHLY TO THE EXECUTIVE BOARD AND QUARTERLY TO THE MANAGEMENT COMMITTEE. THE HEALTH, SAFETY AND SECURITY COMMITTEE, CHAIRED BY OUR NON-EXECUTIVE CHAIRMAN, ALSO MEETS QUARTERLY.

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

## **Operational risk factors**

### **★ Health and safety**

Merlin puts the health, safety and welfare of its customers and employees at the forefront of its operations. The Group takes a proactive approach to its safety management and operates to industry leading standards, with a focus on continuous improvement to mitigate this risk. All incidents are recorded and reviewed to determine any trends or issues that might need to be addressed or where learning points can be applied within the business.

### **★ Key personnel**

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

### **★ 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 operating procedures and training, safety and security systems, animal husbandry and supplier auditing and intelligence.

### **★ 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. Through Merlin Magic Making, the Group's centre of excellence for innovation, creativity and product development, the Group is continually seeking out new and innovative products and means of delivering memorable experiences to its customers.

### **★ 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.

## RISKS AND UNCERTAINTIES

### ★ Legal and regulatory

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

### 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 their 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 relative competitive position and 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. It 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 Annual Pass revenues and encourage pre-booked business through online dynamic pricing and targeted promotions. Each of these protect the business from the impact of adverse weather that can influence impulse visits.

### 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 scrutinised by the Management Committee and authorised by the Board. The four key financial risks affecting the Group are:

#### ★ Interest rate risk

Merlin finances its operations through a combination of equity and bank borrowings. Merlin's bank borrowings are obtained 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 borrowings.

#### ★ 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 ULTIMATE 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:

**John Sutherland** served throughout 2012 and remains a member of the Board as at the date of this report. John is an independent director who also sits on the Boards 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 over 20 years' experience working in the financial services industry.

**Claus Andersen** served throughout 2012 and remains a member of the Board as at the date of this report. Claus joined the KIRKBI Group in 2007 where he is legal counsel and a member of the Board of a number of KIRKBI Group subsidiaries. Prior to joining the KIRKBI Group, he worked in Copenhagen at the law firm DLA Piper.

**Lars Boné** served throughout 2012 and remains a member of the Board as at the date of this report. Lars 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 2012 and remains a member of the Board as at the date of this report. Emanuela joined CVC Capital Partners in 2005 and is a Managing Director, Corporate Administration in Luxembourg. Prior to joining CVC she worked in the Corporate Department of Société Européenne de Banque (Luxembourg). Emanuela holds a Degree in Business Administration from Università Bocconi, Italy.

**Nentcho Nentchev** was appointed on 11th March 2013 and remains a member of the Board as at the date of this report. Nentcho is a Vice President in the Investor Relations & Business Development Group of Blackstone. Since joining Blackstone Nentcho has been involved in investor relations strategy and supporting business development and fund-raising for Blackstone's private investment funds. Before joining Blackstone Nentcho worked at Simpson Thacher & Bartlett LLP where he was an associate. Nentcho received a degree from the University of Redlands and a law degree from the University of Michigan Law School.

**Stef Oostvogels** was appointed on 31st January 2012 and remains a member of the Board as at the date of this report. Stef has over 20 years' professional experience, covering mergers and acquisitions, private equity, banking and finance, corporate law, international taxation and general business law. Stef has been a member of the Luxembourg Bar since 1990 and a member of the Brussels Bar since 1987. He was a founding partner of the Luxembourg business law firm, Oostvogels Pfister Feyten and served as managing partner within the firm for ten years during the period 1999-2009.

**Robert L. Friedman** served throughout 2012 and resigned from the Board with effect from 11th March 2013.

**Bénédicte Moens-Colleaux** resigned from the Board with effect from 31st January 2012.

## MERLIN'S MANAGEMENT TEAM

### 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 served throughout 2012 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. He 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 served throughout 2012 and remains a member of the Management Committee as at the date of this report. Nick 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, he led the management buyout of Vardon Attractions to form Merlin Entertainments.

Before joining Vardon Attractions, Nick held senior positions within The Tussauds Group, including Marketing Director of Alton Towers and Head of Group Marketing.

#### Andrew Carr Chief Financial Officer

Andrew served throughout 2012 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 trained at KPMG and subsequently became head of a regional KPMG Corporate Finance Department.

#### Soren Thorup Sorensen Member and representative of KIRKBI

Soren served throughout 2012 and remains a member of the Management Committee as at the date of this report. Soren is the CEO of KIRKBI A/S and a Board member of a number of KIRKBI A/S subsidiaries, LEGO A/S, Topdanmark A/S, Falck A/S, and TDC A/S. Prior to joining the LEGO/KIRKBI 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

Thomas was appointed on 14th February 2012 and remains a member of the Management Committee as at the date of this report. Thomas is currently a Vice President at KIRKBI A/S and was previously a Director at EQT Partners from 2001-2010. He is a member of the Board of Nordic Waterproofing AB, Founders A/S and a number of KIRKBI A/S subsidiaries. Thomas holds an MSc in Finance and Accounting.

#### Joseph Baratta Member and representative of Blackstone

Joe served throughout 2012 and remains a member of the Management Committee as at the date of this report. Joe is a Senior Managing Director and Global Head of Private Equity at the Blackstone Group based in New York. He is former Head of European Private Equity and a member of Blackstone's Executive and Management Committees. 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, he is responsible for Blackstone's investments in Seaworld Parks and Entertainment, Center Parcs, Tragus Group, Southern Cross and ICS Group. He serves as a Director of Seaworld Parks and Entertainment, Center Parcs plc and Tragus Group plc. Prior to joining Blackstone, Joe worked at Tincum Incorporated, McCowen De Leeuw & Company and at Morgan Stanley in its M&A Department.

## MERLIN'S MANAGEMENT TEAM

### **Dr Gerry Murphy**

#### ***Member and representative of Blackstone***

Gerry served throughout 2012 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, Michaels Stores and Jack Wolfskin. Before joining Blackstone in 2008, Gerry 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 a member of the Council of the British Venture Capital and Private Equity Association.

### **Rob Lucas**

#### ***Member and representative of CVC***

Rob served throughout 2012 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. He holds a degree in Electrical Engineering from Imperial College, London.

### **Pev Hooper**

#### ***Member and representative of CVC***

Pev served throughout 2012 and remains a member of the Management Committee as at the date of this report. He is a Partner 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 holds an MA degree from Oxford University.

### **Jørgen Vig Knudstorp**

#### ***Former Member and representative of KIRKBI***

Jørgen resigned with effect from 14th February 2012.

## 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 THE GROUP. 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 ultimate decision-making body.

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 the Company and 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 and operational management of each Group company.

## **Board constitution and procedures**

The Board is responsible for overseeing Merlin, focusing, as the board of 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 the Merlin Group, 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 the Company and other Group companies in relation to:

- ★ the development of strategy and major policies.
- ★ the review of management performance.
- ★ the approval of the five year business plan and annual budget, Managers' Report and Financial Statements and major acquisitions and disposals.
- ★ the system of internal control.
- ★ corporate governance.

The Chairman is responsible for the effective running of the 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, as well as external advice on legal and corporate governance matters.



## 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.

### Principal Committees

There are 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, these committees provide recommendations to Merlin 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 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 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 judgements.
- ★ 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 matters 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.

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, the Chief Executive Officer and representatives of each of the major shareholders.

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 this policy is to ensure that 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 52 weeks ended 29 December 2012 (2011: 53 weeks ended 31 December 2011).

## 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 56 of the consolidated financial statements.

The Company's principal activity is that of a holding 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 27 and the Group financial review on pages 38 to 41.

Further information on the risks and uncertainties of the business are given in the Group's business review on pages 42 to 43.

## Proposed dividend

The managers do not recommend the payment of a dividend.

## 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 and up until the date of signing these consolidated financial statements were as follows:

John Sutherland	
Claus Andersen	
Lars Boné	
Emanuela Brero	
Nentcho Nentchev	(appointed 11 March 2013)
Stef Oostvogels	(appointed 31 January 2012)
Robert L. Friedman	(resigned 11 March 2013)
Bénédicte Moens-Colleaux	(resigned 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.

## Substantial interests

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

	Ordinary shares
	%
KIRKBI A/S (KIRKBI)	31.85
Funds managed by Blackstone	
Group International (Blackstone)	29.70
Funds managed by CVC Capital Partners (CVC)	24.46
Management	13.99
	<b>100.00</b>

## MANAGERS' REPORT

### 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

1st floor, Polaris–Vertigo Building  
2-4 rue Eugene Ruppert  
L-2453 Luxembourg  
20 March 2013

# INDEPENDENT AUDITOR'S REPORT

To the Partners of  
Merlin Entertainments S.à r.l.  
1st floor  
Polaris-Vertigo Building  
2-4 rue Eugene Ruppert  
L-2453 Luxembourg

## REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Merlin Entertainments S.à r.l., which comprise the consolidated statement of financial position as at 29 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the 52 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 about 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 29 December 2012, and of its consolidated financial performance and its consolidated cash flows for the 52 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 2013

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# CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 29 December 2012

(2011: 53 weeks ended 31 December 2011)

	Note	2012 Underlying trading £m	2012 Exceptional & non-trading items <sup>(2)</sup> £m	Total £m	2011 Underlying trading £m	2011 Exceptional & non-trading items <sup>(2)</sup> £m	Total £m
<b>Revenue</b>	2.1	1,074	-	1,074	946	-	946
Cost of sales	2.1	(163)	-	(163)	(128)	-	(128)
<b>Gross profit</b>		911	-	911	818	-	818
Staff expenses	2.1	(261)	(1)	(262)	(229)	-	(229)
Other operating expenses		(304)	(5)	(309)	(283)	(2)	(285)
<b>EBITDA <sup>(1)</sup></b>	2.1	346	(6)	340	306	(2)	304
Depreciation, amortisation and impairment	4.1, 4.2	(88)	(53)	(141)	(74)	-	(74)
<b>Operating profit</b>		258	(59)	199	232	(2)	230
Finance income	5.5	6	19	25	5	3	8
Finance costs	5.5	(124)	(2)	(126)	(128)	(14)	(142)
<b>Profit before tax</b>		140	(42)	98	109	(13)	96
Taxation	2.3	(20)	(2)	(22)	(28)	-	(28)
<b>Profit for the year</b>		<b>120</b>	<b>(44)</b>	<b>76</b>	<b>81</b>	<b>(13)</b>	<b>68</b>
<b>Profit attributable to:</b>							
Owners of the Company		120	(44)	76	80	(13)	67
Non-controlling interest		-	-	-	1	-	1
<b>Profit for the year</b>		<b>120</b>	<b>(44)</b>	<b>76</b>	<b>81</b>	<b>(13)</b>	<b>68</b>

<sup>(1)</sup> 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.

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



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 29 December 2012

(2011: 53 weeks ended 31 December 2011)

	Note	2012 £m	2011 £m
<b>Profit for the year</b>		76	68
<b>Other comprehensive income</b>			
Exchange differences on retranslation of subsidiaries		(24)	(15)
Exchange differences relating to the net investment in foreign operations	5.5	6	6
Effective portion of changes in fair value of cash flow hedges		(1)	(7)
Defined benefit plan actuarial gains and losses	6.2	-	(2)
Income tax on other comprehensive income	2.3	1	1
<b>Other comprehensive income for the year net of income tax</b>		(18)	(17)
<b>Total comprehensive income for the year</b>		<b>58</b>	<b>51</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		59	50
Non-controlling interest		(1)	1
<b>Total comprehensive income for the year</b>		<b>58</b>	<b>51</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 29 December 2012

(2011: 31 December 2011)

	Note	2012 €m	2011 €m
<b>Non-current assets</b>			
Property, plant and equipment	4.1	1,290	1,112
Intangible assets	4.2	970	970
Investments	6.1	-	1
Other receivables	4.4	3	4
Deferred tax assets	2.3	34	16
		2,297	2,103
<b>Current assets</b>			
Inventories	4.4	23	29
Trade and other receivables	4.4	47	42
Other financial assets	5.4	-	2
Cash and cash equivalents	5.1	142	60
		212	133
<b>Total assets</b>		2,509	2,236
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	5.2	4	5
Finance leases	5.1	-	2
Other financial liabilities	5.4	63	81
Trade and other payables	4.4	179	142
Tax payable		19	15
Provisions	4.5	13	9
		278	254
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	5.2	1,333	1,178
Finance leases	5.1	84	84
Other payables	4.4	22	19
Provisions	4.5	36	25
Employee benefits	6.2	5	5
Deferred tax liabilities	2.3	134	116
		1,614	1,427
<b>Total liabilities</b>		1,892	1,681
<b>Net assets</b>			
		617	555
Issued capital and reserves attributable to owners of the Company		613	550
Non-controlling interest		4	5
<b>Total equity</b>	5.7	617	555

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 29 December 2012

(2011: 53 weeks ended 31 December 2011)

	Note	Share capital £m	Share premium £m	Capital reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 26 December 2010		1	1,230	(493)	(42)	-	(196)	500	5	505
Profit for the year		-	-	-	-	-	67	67	1	68
Other comprehensive income for the year net of income tax		-	-	-	(10)	(6)	(1)	(17)	-	(17)
Total comprehensive income for the year		-	-	-	(10)	(6)	66	50	1	51
Dividends to non-controlling interest		-	-	-	-	-	-	-	(1)	(1)
<b>At 31 December 2011</b>		<b>1</b>	<b>1,230</b>	<b>(493)</b>	<b>(52)</b>	<b>(6)</b>	<b>(130)</b>	<b>550</b>	<b>5</b>	<b>555</b>
Profit for the year		-	-	-	-	-	76	76	-	76
Other comprehensive income for the year net of income tax		-	-	-	(16)	(1)	-	(17)	(1)	(18)
Total comprehensive income for the year		-	-	-	(16)	(1)	76	59	(1)	58
Shares issued	5.7	-	4	-	-	-	-	4	-	4
<b>At 29 December 2012</b>	5.7	<b>1</b>	<b>1,234</b>	<b>(493)</b>	<b>(68)</b>	<b>(7)</b>	<b>(54)</b>	<b>613</b>	<b>4</b>	<b>617</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 29 December 2012

(2011: 53 weeks ended 31 December 2011)

	Note	2012 €m	2011 €m
<b>Cash flows from operating activities</b>			
Profit for the year		76	68
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	4.1, 4.2	141	74
Finance income	5.5	(25)	(8)
Finance costs	5.5	126	142
Taxation	2.3	22	28
		340	304
Working capital changes		24	3
Increase in provisions and other non-current liabilities		1	2
		365	309
Tax paid		(17)	(17)
<b>Net cash inflow from operating activities</b>		<b>348</b>	<b>292</b>
<b>Cash flows from investing activities</b>			
Interest received		2	2
Acquisition of subsidiaries	3.1	(72)	(58)
Acquisition of property, plant and equipment		(163)	(174)
Government grants received		-	1
<b>Net cash outflow from investing activities</b>		<b>(233)</b>	<b>(229)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank loans		175	113
Financing costs		(8)	(14)
Capital repayments of finance leases		(3)	(2)
Interest paid		(110)	(117)
Acquisition of foreign exchange contracts		-	(1)
Settlement of foreign exchange contracts		5	-
Repayment of borrowings		(93)	(45)
Dividends paid to non-controlling interest		-	(1)
<b>Net cash outflow from financing activities</b>		<b>(34)</b>	<b>(67)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>81</b>	<b>(4)</b>
Cash and cash equivalents, net of bank overdrafts, at beginning of year		60	67
Effect of movements in foreign exchange		1	(3)
<b>Cash and cash equivalents, net of bank overdrafts, at end of year</b>	5.1	<b>142</b>	<b>60</b>

## SECTION I BASIS OF PREPARATION

52 weeks ended 29 December 2012

### Basis of preparation

Merlin Entertainments S.à r.l. (the Company) is a company incorporated in Luxembourg and its registered office is 1st floor, Polaris–Vertigo Building, 2-4 rue Eugene Ruppert, L-2453 Luxembourg.

These consolidated financial statements were approved by the Board of Managers on 20 March 2013.

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).

The accounting policies set out in the sections below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries and joint ventures.

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 29 December 2012 (2011: 53 weeks ended 31 December 2011). 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 £66 million (2011: £121 million), net assets of £617 million (2011: £555 million), a profit for the year of £76 million (2011: £68 million) and operating cash inflows of £348 million (2011: £292 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. After reviewing the Group's cash flow forecasts and trading budgets and making appropriate enquiries, the managers 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 managers therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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)

52 weeks ended 29 December 2012

### Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

The results and financial position of those Group companies that do not have a Sterling functional currency are translated into Sterling as follows:

- Assets and liabilities are translated at the closing rate at the end of the reporting period;
- Income and expenses are translated at average exchange rates during the year;
- All resulting exchange differences are recognised in equity in the translation reserve.

### Classification of financial instruments issued by the Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

- (i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

### Judgements and estimates

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

- Recognition of deferred tax assets (note 2.3)
- Brand useful lives (note 4.2)
- Impairment testing (note 4.3)

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

- Accounting for the acquisition of Living and Leisure Australia and the fair value of the assets and liabilities acquired (note 3.1)

### New standards and interpretations

A full list of new accounting standards and interpretations that have been implemented in the year or will be implemented next year, and which have no significant impact, can be found in note 6.5.

## SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 29 December 2012

### 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	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Segment revenue</b>	458	360	308	253	290	330	1,056	943
Central and other revenue							18	3
<b>Revenue</b>							1,074	946

	Midway Attractions		LEGOLAND Parks		Resort Theme Parks		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Segment profit, being segment EBITDA</b>	179	146	113	87	73	97	365	330
Central costs							(19)	(24)
EBITDA before exceptional and non-trading items							346	306
Exceptional and non-trading items within EBITDA (note 2.2)							(6)	(2)
Total EBITDA							340	304
Depreciation, amortisation and impairment							(141)	(74)
Net finance costs							(101)	(134)
<b>Consolidated profit before tax</b>							98	96

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

### 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 2012 £m	Non-current assets 2012 £m	Revenues 2011 £m	Non-current assets 2011 £m
United Kingdom	425	757	404	733
Continental Europe	280	796	324	859
North America	217	362	154	345
Asia Pacific	152	348	64	149
	1,074	2,263	946	2,086
Deferred tax		34		16
Investments		-		1
		2,297		2,103

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 £163 million (2011: £128 million) represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Retail and food and beverage consumables are the principal expenses included under this category.



## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

### 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:

	2012	2011
Operations	13,117	10,831
Attraction management and central administration	1,719	1,533
	14,836	12,364

The aggregate payroll costs of these persons were as follows:

	2012 £m	2011 £m
Wages and salaries	226	196
Social security costs	28	27
Other pension costs	8	6
	262	229

##### Auditors' remuneration

	2012 £m	2011 £m
Audit of these financial statements	1.2	1.0
Audit of financial statements of subsidiaries	0.3	0.1
Other services pursuant to such legislation	0.1	0.2
Other services relating to taxation	0.3	0.4
Services relating to corporate finance transactions	0.1	-
All other services	0.2	0.1
	2.2	1.8

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

### 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. In the judgement of the managers this presentation shows the underlying business performance of the Group more accurately.

#### Exceptional and non-trading items

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

	2012 £m	2011 £m
<i>Within staff expenses:</i>		
Redundancy and related costs <sup>(1)</sup>	1	-
	1	-
<i>Within other operating expenses:</i>		
Acquisition costs <sup>(2)</sup>	5	2
	5	2
<i>Within depreciation, amortisation and impairment:</i>		
Impairment of intangible assets <sup>(3)</sup>	40	-
Impairment of property, plant and equipment <sup>(3)</sup>	13	-
	53	-
<i>Within finance income and costs:</i>		
Unrealised gain on re-measurement of financial derivatives at fair value <sup>(4)</sup>	(14)	(3)
Unrealised loss on re-measurement of financial derivatives at fair value <sup>(4)</sup>	2	14
Settlement of foreign exchange contracts <sup>(5)</sup>	(5)	-
	(17)	11
<b>Exceptional and non-trading items before income tax</b>	<b>42</b>	<b>13</b>
Exceptional and non-trading items income tax charge	2	-
<b>Exceptional and non-trading items for the year</b>	<b>44</b>	<b>13</b>

- (1) Redundancy and related costs were incurred following an internal review of the Gardaland Resort business in Italy. These are separately presented as they are not part of the Group's underlying operating expenses.
- (2) Directly attributable acquisition and subsequent integration costs were incurred in respect of the Living and Leisure Australia acquisition described in note 3.1. These are separately presented as they are not part of the Group's underlying operating expenses.
- (3) Total impairment losses of £53 million were incurred in the year; being £40 million in respect of goodwill for the Resort Theme Parks Operating Group (note 4.2) and £13 million in aggregate in respect of property, plant and equipment at three of the Group's midway attractions (note 4.1). These were all driven by lower projected cash flows within business plans arising from adverse economic conditions within southern Europe.
- (4) 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).
- (5) The Group entered into a number of foreign exchange contracts in connection with the acquisition of Living and Leisure Australia. They were not hedge accounted and accordingly gains were recognised when they were settled. These are separately presented as they are not part of the Group's underlying finance income.

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

### 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 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

	2012 £m	2011 £m
<i>Current tax expense</i>		
Current year	18	19
Adjustment for prior periods	-	5
<b>Total current income tax</b>	<b>18</b>	<b>24</b>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	3	5
Changes in tax rate	(1)	(3)
Adjustment for prior periods	2	2
<b>Total deferred tax</b>	<b>4</b>	<b>4</b>
<b>Total tax expense in income statement</b>	<b>22</b>	<b>28</b>

#### Reconciliation of effective tax rate

	2012 %	2012 £m	2011 %	2011 £m
Profit before tax		98		96
Income tax using the domestic corporation tax rate	28.8%	28	28.8%	28
Non-deductible expenses	23.0%	22	12.3%	12
Income not subject to tax	(17.7%)	(17)	(25.8%)	(25)
Effect of tax rates in foreign jurisdictions	7.0%	7	7.4%	7
Effect of changes in tax rate	(0.9%)	(1)	(3.0%)	(3)
Unrecognised temporary differences	(19.2%)	(19)	2.5%	2
Adjustment for prior periods	1.4%	2	7.4%	7
<b>Total tax expense in income statement</b>	<b>22.4%</b>	<b>22</b>	<b>29.6%</b>	<b>28</b>

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

### 2.3 Taxation (continued)

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

	2012 £m	2011 £m
Foreign exchange translation differences relating to the net investment in foreign operations	(1)	1
Effective portion of changes in fair value of cash flow hedges	-	(1)
Actuarial gains and losses	-	(1)
<b>Total tax income in statement of other comprehensive income</b>	<b>(1)</b>	<b>(1)</b>

#### Deferred tax assets and liabilities

##### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment	-	-	(83)	(88)	(83)	(88)
Other short term temporary differences	19	13	-	-	19	13
Intangible assets	-	-	(49)	(50)	(49)	(50)
Tax value of loss carry-forwards	13	25	-	-	13	25
<b>Tax assets/(liabilities)</b>	<b>32</b>	<b>38</b>	<b>(132)</b>	<b>(138)</b>	<b>(100)</b>	<b>(100)</b>
Set-off tax	2	(22)	(2)	22	-	-
<b>Net tax assets/(liabilities)</b>	<b>34</b>	<b>16</b>	<b>(134)</b>	<b>(116)</b>	<b>(100)</b>	<b>(100)</b>

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 offsetting these amounts in the statement of financial position where the Group has the right and intention to offset these amounts.

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 29 December 2012

## 2.3 Taxation (continued)

Movement in deferred tax during the current year

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

Movement in deferred tax during the previous year

	26 December 2010 £m	Acquired in business combinations (note 3.1) £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	31 December 2011 £m
Property, plant and equipment	(61)	(1)	(26)	-	-	(88)
Other short term temporary differences	7	1	3	2	-	13
Intangible assets	(51)	(1)	2	-	-	(50)
Tax value of loss carry-forwards	8	-	17	-	-	25
<b>Net tax assets/(liabilities)</b>	<b>(97)</b>	<b>(1)</b>	<b>(4)</b>	<b>2</b>	<b>-</b>	<b>(100)</b>

Unrecognised deferred tax assets

	2012 £m	2011 £m
Property, plant and equipment	29	40
Other short term temporary differences	30	38
Intangible assets	6	8
Tax value of loss carry-forwards	94	91
<b>Net tax assets</b>	<b>159</b>	<b>177</b>

The unrecognised deferred tax assets relating to loss carry-forwards include £3 million (2011: £2 million) which expire within 5 years and £1 million (2011: £2 million) which expire within 10 years. The remaining losses and other timing differences do not expire under current tax legislation.

## SECTION 3 BUSINESS COMBINATIONS

52 weeks ended 29 December 2012

### 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.

#### 2012

##### Living and Leisure Australia

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

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

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

##### SEA LIFE London Aquarium Shop

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

## SECTION 3 BUSINESS COMBINATIONS (continued)

52 weeks ended 29 December 2012

## 3.1 Business combinations (continued)

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

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

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

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

## SECTION 3 BUSINESS COMBINATIONS (continued)

52 weeks ended 29 December 2012

### 3.1 Business combinations (continued)

#### 2011

The Group acquired the Sydney Attractions Group of companies for £61 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 and 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.

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>	
Property, plant and equipment	55
Brands	3
Other intangible assets	1
Inventories	1
Trade and other receivables	1
Cash and cash equivalents	3
Bank loans and amounts owed to former shareholders	(44)
Trade and other payables	(6)
Provisions and employee benefits	(4)
Current tax liabilities	(2)
Deferred tax assets and liabilities	(1)
Net identifiable assets and liabilities	7
Goodwill	54
<b>Consideration</b>	<b>61</b>
<i>Analysis of consideration:</i>	
Cash	61
	61
<i>Analysis of net cash outflow:</i>	
Cash acquired	(3)
Cash paid at acquisition	61
<b>Net cash outflow</b>	<b>58</b>

In the period to 31 December 2011 this acquisition contributed £42 million to the consolidated revenue and £10 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.



## SECTION 4 OPERATING ASSETS AND LIABILITIES

52 weeks ended 29 December 2012

### 4.1 Property, plant and equipment

#### Accounting policies

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

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

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Land is not depreciated. Assets under construction are not depreciated until they come into use, when they are transferred to buildings or plant and equipment as appropriate.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold / long leasehold buildings	50 years
Leasehold buildings	20 – 50 years
Plant and equipment	5 – 30 years

On inception of a lease the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set-up as disclosed in note 4.5.

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

## 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 26 December 2010	612	519	55	1,186
Acquisitions through business combinations (note 3.1)	30	23	2	55
Additions	30	59	89	178
Movements in asset retirement provisions	2	2	-	4
Disposals	-	(3)	-	(3)
Transfers	30	61	(91)	-
Effect of movements in foreign exchange	(5)	(3)	2	(6)
<b>Balance at 31 December 2011</b>	<b>699</b>	<b>658</b>	<b>57</b>	<b>1,414</b>
Acquisitions through business combinations (note 3.1)	91	39	2	132
Additions	11	32	127	170
Movements in asset retirement provisions	3	1	-	4
Disposals	(1)	(8)	-	(9)
Transfers	30	65	(95)	-
Effect of movements in foreign exchange	(21)	(13)	(1)	(35)
<b>Balance at 29 December 2012</b>	<b>812</b>	<b>774</b>	<b>90</b>	<b>1,676</b>
<i>Depreciation</i>				
Balance at 26 December 2010	92	143	-	235
Depreciation for the year - owned assets	18	50	-	68
Depreciation for the year - leased assets	2	3	-	5
Disposals	-	(3)	-	(3)
Effect of movements in foreign exchange	(1)	(2)	-	(3)
<b>Balance at 31 December 2011</b>	<b>111</b>	<b>191</b>	<b>-</b>	<b>302</b>
Depreciation for the year - owned assets	23	60	-	83
Depreciation for the year - leased assets	2	2	-	4
Impairment	8	5	-	13
Disposals	(1)	(8)	-	(9)
Effect of movements in foreign exchange	(4)	(3)	-	(7)
<b>Balance at 29 December 2012</b>	<b>139</b>	<b>247</b>	<b>-</b>	<b>386</b>
<i>Carrying amounts</i>				
At 26 December 2010	520	376	55	951
At 31 December 2011	588	467	57	1,112
<b>At 29 December 2012</b>	<b>673</b>	<b>527</b>	<b>90</b>	<b>1,290</b>

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

### 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. Impairment charges have been made in the year of £8 million in land and buildings and £5 million in plant and equipment, in respect of three of the Group's midway attractions, arising from a review of market and economic conditions at those locations. No impairment charges were made in 2011. 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 29 December 2012 the net carrying amount of leased buildings was £20 million (2011: £42 million) and the net carrying amount of leased plant and machinery was £39 million (2011: £42 million).

#### Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to £40 million (2011: £62 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 groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands have been valued based on discounted future cash flows using the relief from royalty method, including amounts into perpetuity. 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)

52 weeks ended 29 December 2012

## 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 26 December 2010	861	191	18	1,070
Acquisitions through business combinations (note 3.1)	54	3	1	58
Effect of movements in foreign exchange	(3)	(2)	1	(4)
<b>Balance at 31 December 2011</b>	<b>912</b>	<b>192</b>	<b>20</b>	<b>1,124</b>
Acquisitions through business combinations (note 3.1)	52	-	5	57
Additions	-	-	1	1
Effect of movements in foreign exchange	(15)	(2)	(1)	(18)
<b>Balance at 29 December 2012</b>	<b>949</b>	<b>190</b>	<b>25</b>	<b>1,164</b>
<i>Amortisation and impairment</i>				
Balance at 26 December 2010	133	13	7	153
Amortisation for the year	-	-	1	1
<b>Balance at 31 December 2011</b>	<b>133</b>	<b>13</b>	<b>8</b>	<b>154</b>
Amortisation for the year	-	-	1	1
Impairment	40	-	-	40
Effect of movements in foreign exchange	-	(1)	-	(1)
<b>Balance at 29 December 2012</b>	<b>173</b>	<b>12</b>	<b>9</b>	<b>194</b>
<i>Carrying amounts</i>				
At 26 December 2010	728	178	11	917
At 31 December 2011	779	179	12	970
<b>At 29 December 2012</b>	<b>776</b>	<b>178</b>	<b>16</b>	<b>970</b>

Intangible assets were tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. Impairment charges of £40 million have been made in respect of goodwill within the Resort Theme Parks operating segment (2011: £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:

	2012 £m	2011 £m
Midway Attractions	543	500
LEGOLAND Parks	39	39
Resort Theme Parks	194	240
	<b>776</b>	<b>779</b>

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

### 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.

	2012 £m	2011 £m
<i>Midway Attractions</i>		
Madame Tussauds	26	26
SEA LIFE	16	16
London Eye	10	10
Other	8	8
	60	60
<i>Resort Theme Parks</i>		
Gardaland Resort	47	48
Alton Towers Resort	32	32
Thorpe Park	15	15
Heide Park	12	12
Other	12	12
	118	119
	178	179

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 annually 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 reviewed at an Operating Group level, being the relevant grouping of cash-generating units (CGUs) at which the benefit of such goodwill arises. A CGU is the smallest identifiable group of assets that generates largely independent cash inflows, being the Group's individual attractions.
Brands	Brands are reviewed individually.
PPE	PPE is reviewed at an attraction level.

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

### 4.3 Impairment testing (continued)

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the assets belong.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of goodwill, and then to reduce the carrying amount of other intangible assets and other assets on a pro rata basis.

#### Calculation of recoverable amount

Management judge the recoverable amount of an asset as the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. The Group's internally approved five year business plans are used as the basis for these calculations, with cash flows beyond the five year business plan horizon then extrapolated using a long term growth rate.

Common assumptions have been adopted for the purpose of testing goodwill across the business and for testing brand values as their risk profiles are similar. The key assumptions and estimates used when calculating the net present value of future cash flows from the Group's businesses are as follows:

Estimate	
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% (2011: 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. Net present values are calculated using an appropriate pre-tax discount rate of between 9% and 12% (2011: 10% and 13%), derived from the Group's post-tax weighted average cost of capital of between 7% and 9% (2011: 7% and 10%).

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 testing of the Midway Attractions and LEGOLAND Parks Operating Groups.

Total impairment losses of £53 million were recorded in the year, being £40 million in respect of a partial impairment of goodwill for the Resort Theme Parks Operating Group and £13 million in aggregate in respect of property, plant and equipment at three of the Group's midway attractions. These were all primarily driven by lower projected cash flows within business plans arising from adverse economic conditions within southern Europe.

The key assumptions used in assessing the recoverable amount of Resort Theme Parks' goodwill are the EBITDA forecasts and discount rate applied. If the estimated EBITDA levels used in the value in use calculations had been 1% lower than the estimate used at 29 December 2012 the Group would have recognised a further impairment against goodwill of £10 million. A pre-tax discount rate of 11% has been used to discount the forecast cash flows in these calculations. If the discount rate used in the value in use calculations had been 0.1% lower than the estimate used at 29 December 2012 the Group would have recognised a further impairment against goodwill of £8 million.

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

### 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

	2012 £m	2011 £m
Maintenance inventory	6	5
Work in progress	-	12
Goods for resale	17	12
	23	29

#### Trade and other receivables

	Current assets		Non-current assets	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade receivables	12	11	-	-
Other receivables	12	4	-	-
Prepayments and accrued income	23	27	3	4
	47	42	3	4

##### Ageing of trade receivables

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

	2012 £m	2011 £m
Neither past due nor impaired	7	6
Up to 30 days overdue	4	3
Between 30 and 60 days overdue	1	2
	12	11

#### Trade and other payables

	Current liabilities		Non-current liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade payables	33	35	-	-
Accruals and deferred income	133	100	3	4
Other payables	13	7	19	15
	179	142	22	19

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 29 December 2012

## 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 1 January 2012	22	12	34
Acquisitions through business combinations (note 3.1)	3	7	10
Provisions made during the year	4	5	9
Utilised during the year	(1)	(2)	(3)
Unwinding of discount	1	-	1
Effect of movements in foreign exchange	-	(2)	(2)
<b>Balance at 29 December 2012</b>	<b>29</b>	<b>20</b>	<b>49</b>

**2012**

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

**2011**

Current	-	9	9
Non-current	22	3	25
	22	12	34

**Asset retirement provisions**

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term.

They are established on inception and discounted back to present value with the discount then being unwound through the income statement as part of finance costs. They are reviewed at least annually.

**Other**

Other provisions largely relate to the estimated cost arising from open insurance claims, tax matters and legal issues.



## SECTION 5 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 29 December 2012

### 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.

	2012 £m	2011 £m
Cash and cash equivalents	142	60
Interest-bearing loans and borrowings (note 5.2)	1,337	1,183
<b>Net bank debt</b>	<b>1,195</b>	<b>1,123</b>
Current finance leases (note 5.3)	-	2
Non-current finance leases (note 5.3)	84	84
<b>Net debt</b>	<b>1,279</b>	<b>1,209</b>

Restricted funds of £6 million (2011: £6 million) are included in cash and cash equivalents.

### 5.2 Borrowings

#### Accounting policy

##### Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value, being consideration received less any directly attributable transaction costs. Thereafter, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. To calculate this effective interest rate the Group estimates the 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	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Secured bank loans	1	3	1,333	1,178	1,334	1,181
Interest payable	3	2	-	-	3	2
	4	5	1,333	1,178	1,337	1,183

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

### 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	2012		2011	
				Principal value £m	Carrying amount £m	Principal value £m	Carrying amount £m
Secured bank loan	GBP	4.84%	2017	455	447	396	387
Secured bank loan	EUR	4.22%	2017	463	454	422	410
Secured bank loan	USD	4.50%	2017	277	273	271	265
Secured bank loan	AUD	7.79%	2017	164	159	121	116
Secured bank loan	RMB	6.50%	2013	1	1	3	3
				1,360	1,334	1,213	1,181
Interest payable					3		2
					1,337		1,183

In May 2011 the Group amended the facility such that the loans bear interest at lower rates and now fall due in July 2017. Reflecting management's judgement that this was a non-substantive change to an existing facility, the Group 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.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

### 5.3 Lease obligations (continued)

Each of these lease agreements runs for a period of 35 years from inception and allows for annual rent increases based on the inflationary index in the United Kingdom and fixed increases in Continental Europe. The Group has the option, but is not contractually required, to extend each of the lease agreements individually for two further terms of 35 years, subject to an adjustment to market rates at that time.

During the year the Group undertook a sale and leaseback transaction of the LEGOLAND Windsor Hotel. The lease entered into is being accounted for as an operating lease. The gain on the sale is deferred over the 35 year lease term.

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 2012 £76 million (2011: £71 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 2012 £m	Interest 2012 £m	Present value of minimum lease payments 2012 £m	Future minimum lease payments 2011 £m	Interest 2011 £m	Present value of minimum lease payments 2011 £m
Less than one year	6	6	-	8	6	2
Between one and five years	24	24	-	23	23	-
More than five years	254	170	84	260	176	84
	284	200	84	291	205	86

	Currency	Nominal interest rate	Year of maturity	2012 £m	2011 £m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	3.01%	2012	-	2
Finance lease liabilities	EUR	9.11%	2042	30	30
				84	86

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:

	2012 £m	2011 £m
Less than one year	68	59
Between one and five years	269	233
More than five years	1,359	1,289
	1,696	1,581

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

### 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 assess based on the value attributed in recent transactions 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

	2012 £m	2011 £m
Derivative financial instruments - foreign exchange contracts	-	2

#### Other financial liabilities

	2012 £m	2011 £m
<i>Derivative financial instruments</i>		
Hedge accounted interest rate swaps	8	8
Non-hedge accounted interest rate swaps	55	69
Non-hedge accounted committed share issues (note 5.7)	-	4
	63	81

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

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

## 5.5 Finance income and costs

**Accounting policies****Income and costs**

Finance income comprises interest income, applicable foreign exchange gains and gains on hedging instruments that are recognised in the income statement. Finance costs comprise interest expense, finance charges on finance leases, applicable foreign exchange losses and losses on hedging instruments that are recognised in the income statement. Interest income and interest expense are recognised as they accrue, using the effective interest method.

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.

**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 intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

**Finance income and costs****Finance income**

	2012 £m	2011 £m
<i>In respect of assets not held at fair value</i>		
Interest income	6	1
<i>In respect of liabilities held at fair value</i>		
Unrealised gain on re-measurement of financial derivatives at fair value		
- Interest rate swaps and foreign exchange contracts	14	3
<i>Other</i>		
Net foreign exchange gain	5	4
	25	8

**Finance costs**

	2012 £m	2011 £m
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	122	126
Other interest expense	2	2
<i>In respect of liabilities held at fair value</i>		
Unrealised loss on re-measurement of financial derivatives at fair value		
- Interest rate swaps and foreign exchange contracts	2	10
- Committed share issues	-	4
	126	142

Capitalised borrowing costs amounted to £3 million in 2012 (2011: £5 million), with a capitalisation rate of 7.5% (2011: 8.1%).

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

### 5.5 Finance income and costs (continued)

#### Recognised in consolidated statement of other comprehensive income

	2012 £m	2011 £m
Foreign currency translation differences relating to the net investment in foreign operations	(6)	(6)

Foreign currency translation differences relating to the net investment in foreign operations are stated before a credit of £1 million (2011: charge of £1 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 changes in interest rates. At 29 December 2012 the Group had floating rate debt in Sterling, Euros, US Dollars, Australian Dollars and Chinese Renminbi.

The Group hedges its exposure to its floating rate loans with interest rate swaps. At the reporting date, at year end exchange rates, 76% (2011: 98%) of the secured bank loans were 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	
	2012 £m	2011 £m
<i>Fixed rate instruments</i>		
Financial liabilities - finance leases	(84)	(86)
Financial liabilities - interest rate swaps	(63)	(77)
	(147)	(163)
<i>Variable rate instruments</i>		
Financial assets - cash and cash equivalents	142	60
Financial liabilities - bank loans and overdrafts	(1,334)	(1,181)
	(1,192)	(1,121)

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

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

#### Fair value sensitivity analysis

This analysis shows the Group's sensitivity to changes in interest rates. It is calculated by measuring the impact on profit and loss or equity of a change in the present value of derivatives. This assumes a shift in the yield curve of +/- 50 basis points (bp) (2011: 50bp).

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

	2012		2011	
	Profit or loss £m	Equity £m	Profit or loss £m	Equity £m
50bp increase in interest rates	11	2	13	3
50bp reduction in interest rates	(11)	(2)	(13)	(3)

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

## 5.6 Financial risk factors and fair value analysis (continued)

## Cash flow sensitivity analysis

This analysis shows the sensitivity of the Group's cash flows to changes in interest rates.

It is performed by comparing the annual interest expense/income which would apply to year end balances at year end interest rates, to the annual expense/income which would arise using year end interest rates increased by 50bp.

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

	Profit or (loss)	
	2012 £m	2011 £m
Bank loans and overdrafts	(7)	(6)
Interest rate swaps	5	6
Cash and cash equivalents	1	-
<b>Cash flow sensitivity (net)</b>	<b>(1)</b>	<b>-</b>

A decrease of 50bp would result in a profit of £1 million (2011: £nil).

## 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 million (2011: £138 million) in addition to its existing borrowings to meet any shortfalls.

At 29 December 2012, the Group had cash and cash equivalents of £142 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 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
<b>2012</b>						
<i>Non-derivative financial liabilities</i>						
Secured bank loans	1,334	(1,671)	(67)	(67)	(1,537)	-
Finance lease liabilities	84	(205)	(6)	(6)	(18)	(175)
Trade payables	33	(33)	(33)	-	-	-
<i>Derivative financial liabilities</i>						
Hedge accounted interest rate swaps	8	(9)	(4)	(5)	-	-
Non-hedge accounted interest rate swaps	55	(63)	(27)	(27)	(9)	-
	<b>1,514</b>	<b>(1,981)</b>	<b>(137)</b>	<b>(105)</b>	<b>(1,564)</b>	<b>(175)</b>

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

## 5.6 Financial risk factors and fair value analysis (continued)

	Carrying amount £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
<b>2011</b>						
<i>Non-derivative financial liabilities</i>						
Secured bank loans	1,181	(1,577)	(66)	(63)	(201)	(1,247)
Finance lease liabilities	86	(211)	(8)	(6)	(17)	(180)
Trade payables	35	(35)	(35)	-	-	-
<i>Derivative financial liabilities</i>						
Hedge accounted interest rate swaps	8	(11)	(2)	(4)	(5)	-
Non-hedge accounted interest rate swaps	69	(73)	(26)	(23)	(24)	-
	1,379	(1,907)	(137)	(96)	(247)	(1,427)

**Foreign currency risk**

The Group is exposed to foreign currency risk arising from movements in foreign exchange rates. This 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 uses a portfolio of foreign exchange trades to manage specific foreign exchange exposures on cross border transactions where they arise.

The Group operates internationally with its operating assets, revenues and costs denominated primarily in the functional currencies of the relevant local territories. The principal currencies are Sterling, Euros, US Dollars and Australian Dollars. The Group's bank debt is predominantly in those same currencies, in ratios intended to provide a match between funding requirements and the cash generation capabilities of the Group's operations in each of its locations.

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

	Sterling £m	Euro £m	US Dollar £m	Australian Dollar £m	Other £m	Total £m
<b>2012</b>						
Cash and cash equivalents	116	9	6	4	7	142
Trade receivables	5	2	2	2	1	12
Secured bank loans	(447)	(454)	(273)	(159)	(1)	(1,334)
Finance lease liabilities	(54)	(30)	-	-	-	(84)
Derivatives	(23)	(28)	(12)	-	-	(63)
Trade payables	(10)	(12)	(7)	(2)	(2)	(33)
	(413)	(513)	(284)	(155)	5	(1,360)
<b>2011</b>						
Cash and cash equivalents	36	10	8	3	3	60
Trade receivables	5	2	2	1	1	11
Secured bank loans	(387)	(410)	(265)	(116)	(3)	(1,181)
Finance lease liabilities	(54)	(32)	-	-	-	(86)
Derivatives	(29)	(31)	(14)	(1)	-	(75)
Trade payables	(14)	(10)	(6)	(1)	(4)	(35)
	(443)	(471)	(275)	(114)	(3)	(1,306)



## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

### 5.6 Financial risk factors and fair value analysis (continued)

The Group treats certain structural intercompany loans as net investment hedging instruments. At 29 December 2012 the Group had £552 million (2011: £563 million) in Euro denominated loans, £57 million (2011: £57 million) in Sterling denominated loans and £40 million (2011: £42 million) in US Dollar denominated loans. Translation movements on these loans are therefore shown in other comprehensive income, see note 5.5.

#### Foreign currency sensitivity analysis

The table below shows the sensitivity to a 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. The sensitivity analysis for forward foreign exchange contracts uses a discounted cash flow technique applying a 10% strengthening/weakening of Sterling against Euros, US Dollars, Danish Kroner and Australian Dollars. The analysis assumes that all other variables remain constant.

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

#### 10% strengthening of Sterling

	Profit or (loss) impact		Total £m
	Secured bank loans £m	Derivatives (unhedged) £m	
<b>2012</b>			
Euro	2	3	5
US Dollars	10	(1)	9
Danish Kroner	-	(1)	(1)
Australian Dollars	(2)	-	(2)
	10	1	11
<b>2011</b>			
Euro	-	3	3
US Dollars	9	(1)	8
Danish Kroner	-	(1)	(1)
Australian Dollars	-	(3)	(3)
	9	(2)	7

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

## 5.6 Financial risk factors and fair value analysis (continued)

10% weakening of Sterling

	Profit or (loss) impact		Total £m
	Secured bank loans £m	Derivatives (unhedged) £m	
<b>2012</b>			
Euro	(2)	(3)	(5)
US Dollars	(10)	1	(9)
Danish Kroner	-	1	1
Australian Dollars	2	-	2
	(10)	(1)	(11)
<b>2011</b>			
Euro	-	(3)	(3)
US Dollars	(9)	1	(8)
Danish Kroner	-	1	1
Australian Dollars	-	5	5
	(9)	4	(5)

A 10% strengthening/weakening of Sterling would have no impact on the hedging reserve.

**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 note 5.4.

*Non-derivative financial assets*

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

*Non-derivative financial liabilities*

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, 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% (2011: 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)

52 weeks ended 29 December 2012

### 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:

	2012		2011	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Derivative assets and liabilities:</i>				
Hedge accounted interest rate swaps	(8)	(8)	(8)	(8)
Non-hedge accounted interest rate swaps	(55)	(55)	(69)	(69)
Non-hedge accounted foreign exchange contracts	-	-	2	2
Non-hedge accounted committed share issues	-	-	(4)	(4)
<i>Non-derivative assets and liabilities:</i>				
Trade and other receivables	24	24	15	15
Cash and cash equivalents	142	142	60	60
Secured bank loans	(1,334)	(1,275)	(1,181)	(1,117)
Finance lease liabilities	(84)	(84)	(86)	(86)
Trade and other payables	(33)	(33)	(35)	(35)
	(1,348)	(1,289)	(1,306)	(1,242)

#### 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 29 December 2012 the Group had £63 million (2011: £79 million) of derivative financial liabilities classified as Level 2. There have been no transfers between levels in 2012 (2011: 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.

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.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 29 December 2012

## 5.7 Equity and capital management (continued)

## Share capital and reserves

Share capital

	Ordinary shares	
	2012	2011
On issue at beginning of year - fully paid	156,271,845	156,249,710
Issued in the year	495,205	22,135
<b>On issue at end of year - fully paid</b>	<b>156,767,050</b>	<b>156,271,845</b>

	2012 €m	2011 €m
<i>Authorised</i>		
A ordinary shares of €0.01 each		
B ordinary shares of €0.01 each	-	-
<i>Allotted, called up and fully paid</i>		
A ordinary shares of €0.01 each		
B ordinary shares of €0.01 each	-	-

## Issue of new shares

To assist with the acquisition and development into LEGOLAND Florida of the Cypress Gardens theme park in 2010, the Group entered into an agreement with an existing shareholder to invest US\$30 million. The agreement allowed for additional shares to be issued at par to the shareholder should a listing or sale of the Group not take place before 31 August 2012. In 2011 it was considered probable that such an event would not occur; and accordingly this committed share issue was recognised at a value of £4 million (as disclosed in note 5.4). During the year 495,205 A ordinary shares were therefore issued resulting in a premium of £4 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)

52 weeks ended 29 December 2012

### 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 (2011: 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 (2011: £169,205) and result in 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 payment transactions – equity-settled arrangements

#### Accounting policy

The fair value of equity-settled share-based payments is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and charged as the employees become unconditionally entitled to the rights.

#### Equity-settled schemes

Equity-settled schemes have been created that enable certain senior employees to acquire B class 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 and/or outstanding contribution. These shares are expected to vest on a qualifying transaction, including a stock exchange listing.

No charge arose during the year (2011: £nil). The number of shares issued is as follows:

	Number 2012	Number 2011
At beginning of year	17,996,500	-
Issued during the year	1,626,875	18,388,300
Forfeited during the year	(340,225)	(391,800)
<b>At end of year</b>	<b>19,283,150</b>	<b>17,996,500</b>

## SECTION 6 OTHER NOTES

52 weeks ended 29 December 2012

### 6.1 Investments

#### Accounting policy

##### Joint ventures

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

#### Investment in joint ventures

	2012 £m	2011 £m
At beginning of year	1	1
Effect of movement in foreign exchange	(1)	-
<b>At end of year</b>	<b>-</b>	<b>1</b>

### 6.2 Employee benefits

#### Accounting policies

##### Defined contribution pension schemes

In the case of defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

##### Defined benefit pension schemes

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Group's net obligation is calculated for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and offset by the fair value of any scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses are recognised in the period they occur directly in equity through other comprehensive income.

#### Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £8 million (2011: £6 million).

#### Defined benefit pension 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 based on a percentage of final salary for each year of service that the employee provided. The entitlement of the retired employees under the Gardaland scheme is dependent on the state laws in place at the date employment commenced and is subject to a certain minimum period of service. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.2 Employee benefits (continued)

The assets and liabilities of the schemes are:

	Tussauds Group £m	Gardaland £m	Total £m
<b>2012</b>			
Equities	7	-	7
Corporate bonds and cash	3	-	3
Property	5	-	5
Fair value of scheme assets	15	-	15
Present value of defined benefit obligations	(18)	(2)	(20)
<b>Net pension liability</b>	<b>(3)</b>	<b>(2)</b>	<b>(5)</b>
<b>2011</b>			
Equities	6	-	6
Corporate bonds and cash	5	-	5
Property	2	-	2
Fair value of scheme assets	13	-	13
Present value of defined benefit obligations	(16)	(2)	(18)
<b>Net pension liability</b>	<b>(3)</b>	<b>(2)</b>	<b>(5)</b>

Movement in the present value of scheme assets

	Tussauds Group £m	Gardaland £m	Total £m
At 26 December 2010	13	-	13
Expected return on scheme assets	1	-	1
Actuarial losses	(1)	-	(1)
<b>At 31 December 2011</b>	<b>13</b>	<b>-</b>	<b>13</b>
Expected return on scheme assets	1	-	1
Actuarial gains	1	-	1
<b>At 29 December 2012</b>	<b>15</b>	<b>-</b>	<b>15</b>

The actual return on scheme assets for the Tussauds Group pension scheme was a profit of £2 million (2011: £nil).

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.2 Employee benefits (continued)

Movement in the present value of the defined benefit obligations

	Tussauds Group £m	Gardaland £m	Total £m
At 26 December 2010	(14)	(2)	(16)
Interest cost	(1)	-	(1)
Actuarial losses	(1)	-	(1)
<b>At 31 December 2011</b>	<b>(16)</b>	<b>(2)</b>	<b>(18)</b>
Interest cost	(1)	-	(1)
Actuarial losses	(1)	-	(1)
<b>At 29 December 2012</b>	<b>(18)</b>	<b>(2)</b>	<b>(20)</b>

Analysis of amounts charged against profits

	Tussauds Group £m	Gardaland £m	Total £m
<b>2012</b>			
<i>Finance cost</i>			
Interest on defined benefit pension scheme obligations	1	-	1
Expected return on defined benefit pension scheme assets	(1)	-	(1)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2011</b>			
<i>Finance cost</i>			
Interest on defined benefit pension scheme obligations	1	-	1
Expected return on defined benefit pension scheme assets	(1)	-	(1)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

Actuarial gains and losses recognised directly in other comprehensive income

	Tussauds Group £m	Gardaland £m	Total £m
Cumulative amount at 26 December 2010	-	-	-
Net actuarial losses recognised in the year	(2)	-	(2)
<b>Cumulative amount at 31 December 2011</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>
Net actuarial losses recognised in the year	-	-	-
<b>Cumulative amount at 29 December 2012</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>



## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.2 Employee benefits (continued)

## Actuarial assumptions

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

	Tussauds Group 2012	Tussauds Group 2011	Gardaland 2012	Gardaland 2011
Discount rate	4.5%	4.7%	2.8%	5.7%
Expected rate of return on scheme assets	5.0%	5.4%	-	-
Future salary increases	3.4%	3.2%	-	-
Rate of price inflation	3.1%	2.9%	2.0%	2.0%

To develop the expected long-term rate of return on assets assumption of 5.0%, 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 £nil (2011: £nil).

## History of actuarial gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of the defined benefit obligation	(20)	(18)	(16)	(16)	(13)
Fair value of scheme assets	15	13	13	11	9
Deficit in the schemes	(5)	(5)	(3)	(5)	(4)
Actuarial adjustments arising on scheme liabilities	(1)	(1)	1	(2)	2
Actuarial adjustments arising on scheme assets	1	(1)	1	1	(3)

## Consolidated statement of financial position reconciliation

	2012 £m	2011 £m
Liability at beginning of year	(5)	(3)
Amounts recognised in other comprehensive income in the financial year	-	(2)
<b>Liability at end of year</b>	<b>(5)</b>	<b>(5)</b>

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2013.

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

### 6.3 Related party transactions

#### Identity of related parties

The Group has related party relationships with its shareholders, key management personnel, joint ventures and the companies that own the LEGOLAND Malaysia Park.

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group is committed to subscribing for share capital in IDR Resorts Sdn. Bhd. which together with its subsidiaries owns the park. On this basis, IDR Resorts Sdn. Bhd. and its subsidiaries are deemed to be related parties (together "parties related to LEGOLAND Malaysia"). At 29 December 2012 the Group had not subscribed for share capital in IDR Resorts Sdn. Bhd.

All dealings with related parties are conducted on an arm's length basis.

#### Transactions with shareholders

During the year the Group entered into transactions with 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. Transactions entered into, including purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 29 December 2012, are as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases £m	Amounts owed to related party £m
<b>2012</b>				
KIRKBI A/S	-	-	7	1
Blackstone Capital Partners	-	-	1	-
CVC Capital Partners	-	-	1	-
LEGO	1	1	37	2
Parties related to LEGOLAND Malaysia	4	4	1	-
	5	5	47	3
<b>2011</b>				
KIRKBI A/S	-	-	5	1
Blackstone Capital Partners	-	-	1	-
CVC Capital Partners	-	-	1	-
LEGO	-	-	30	-
	-	-	37	1

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 29 December 2012 are; KIRKBI A/S £59 million (2011: £54 million), funds advised by parties related to Blackstone Capital Partners £38 million (2011: £45 million) and funds advised by parties related to CVC Capital Partners £44 million (2011: £32 million).

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

During 2011, and based on contractually agreed amounts, the Group recognised a derivative liability in respect of a committed share issue to a certain shareholder which completed during 2012 with the issue of shares (note 5.7).

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

### 6.3 Related party transactions (continued)

#### Transactions with key management personnel

Key management of the Group (the members of the Executive Board) and their immediate relatives control 7.1% (2011: 7.1%) of the voting shares of the Company.

The compensation of key management was as follows:

	2012 £m	2011 £m
Key management emoluments including social security costs	2.6	3.4
Contributions to money purchase pension schemes	0.3	0.2
	2.9	3.6

### 6.4 Contingent liabilities

The Group has contingent liabilities arising from local planning obligations and other obligations. The total liability under these obligations could amount up to £1 million (2011: £1 million).

### 6.5 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 7 (Amendment) "Transfers of financial assets";
- IAS 12 (Amendment) "Income taxes – deferred tax: recovery of underlying assets".

EU endorsed IFRS and interpretations with effective dates after 31 December 2012 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 2013 or after. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IAS 19 (Amendment) "Defined benefit plans";
- IAS 1 (Amendment) "Presentation of items of other comprehensive income";
- IFRS 10 "Consolidated financial statements";
- IFRS 11 "Joint arrangements";
- IFRS 12 "Disclosure of interests in other entities";
- IFRS 13 "Fair value measurement";
- IAS 27 "Separate financial statements";
- IAS 28 "Investments in associates and joint ventures";
- IFRS 7 (Amendment) "Financial instruments: disclosures – offsetting financial assets and financial liabilities";
- IAS 32 (Amendment) "Financial instruments: presentation – offsetting financial assets and financial liabilities".

### 6.6 Ultimate parent company information

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

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.7 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 2012	Ownership 2011
AAE Unit Trust	Australia	-	100.0%	-
AQDEV Pty Limited	Australia	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia	Ordinary	100.0%	-
Australian Alpine Enterprises Holdings Pty Ltd	Australia	Ordinary	100.0%	-
Australian Alpine Enterprises Pty Ltd	Australia	Ordinary	100.0%	-
Australian Alpine Reservation Centre Pty Ltd	Australia	Ordinary	100.0%	-
Christchurch Investment Company Limited	Australia	Ordinary	100.0%	-
Falls Creek Ski Lifts Pty Ltd	Australia	Ordinary	100.0%	-
Gebi Falls Creek Pty Ltd	Australia	Ordinary	57.0%	-
Hotham Heights Developments Ltd	Australia	Ordinary	65.0%	-
Hotham Ski Services Pty Ltd	Australia	Ordinary	100.0%	-
Illawarra Tree Tops Pty Ltd	Australia	Ordinary	100.0%	-
Limlimbu Ski Flats Ltd	Australia	Ordinary	64.0%	-
Living and Leisure Australia Limited	Australia	Ordinary	100.0%	-
Living and Leisure Australia Trust	Australia	-	100.0%	-
Living and Leisure Australia Management Limited	Australia	Ordinary	100.0%	-
Living and Leisure Finance Trust	Australia	-	100.0%	-
LLA Aquariums Pty Limited	Australia	Ordinary	100.0%	-
Melbourne Underwater World Pty Ltd	Australia	Ordinary	100.0%	-
Melbourne Underwater World Trust	Australia	-	100.0%	-
ME LoanCo (Australia) Pty Limited	Australia	Ordinary	100.0%	-
Merlin Entertainments (Australia) Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia	Ordinary	100.0%	-
MHSC Hotels Pty Ltd	Australia	Ordinary	100.0%	-
MHSC Properties Pty Ltd	Australia	Ordinary	100.0%	-
MHSC Transportation Services Pty Ltd	Australia	Ordinary	100.0%	-
Mount Hotham Management and Reservation Pty Ltd	Australia	Ordinary	100.0%	-
Mount Hotham Skiing Company Pty Ltd	Australia	Ordinary	100.0%	-
MUW Holdings Pty Ltd	Australia	Ordinary	100.0%	-
Northbank Development Trust	Australia	-	100.0%	-
Northbank Place (Vic) Pty Ltd	Australia	Ordinary	50.0%	-
Oceanis Australia Pty Ltd	Australia	Ordinary	100.0%	-
Oceanis Australia Unit Trust	Australia	-	100.0%	-
Oceanis Developments Pty Ltd	Australia	Ordinary	100.0%	-
Oceanis Foundation Pty Ltd	Australia	Ordinary	100.0%	-
Oceanis Holdings Limited	Australia	Ordinary	100.0%	-
Oceanis Korea Unit Trust	Australia	-	100.0%	-
Oceanis NB Pty Ltd	Australia	Ordinary	100.0%	-
Oceanis Northbank Trust	Australia	-	100.0%	-
Oceanis Unit Trust	Australia	-	100.0%	-
Parkthorn Properties Pty Ltd	Australia	Ordinary	100.0%	-
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia	Ordinary	100.0%	-
The Otway Fly Unit Trust	Australia	-	100.0%	-
The Sydney Aquarium Company Pty Limited	Australia	Ordinary	100.0%	100.0%

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.7 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2012	Ownership 2011
Underwater World Sunshine Coast Pty Ltd	Australia	Ordinary	100.0%	-
US Fly Trust	Australia	-	100.0%	-
White Crystal (Mount Hotham) Pty Ltd	Australia	Ordinary	82.6%	-
Madame Tussauds Austria GmbH	Austria	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria	Ordinary	100.0%	100.0%
Dirk Frimout Centrum N.V.	Belgium	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada	Ordinary	100.0%	-
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China	Ordinary	100.0%	-
LEGOLAND ApS	Denmark	Ordinary	100.0%	100.0%
LL Datterselskab af december 2012 ApS	Denmark	Ordinary	100.0%	-
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH (formerly 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%
SEA LIFE Centre Bray Limited	Ireland	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	<sup>(1)</sup> 44.7%	44.7%
Ronchi S.p.A.	Italy	Ordinary	88.5%	88.5%
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
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%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia	Ordinary	100.0%	-
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal	Ordinary	100.0%	100.0%

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.7 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2012	Ownership 2011
Aquaria Twenty-One Co. Ltd	South Korea	Ordinary	100.0%	-
Busan Aquaria Twenty One Co. Ltd	South Korea	Ordinary	100.0%	-
Merlin Entertainments (Korea) LLC	South Korea	Ordinary	100.0%	-
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand	Ordinary	100.0%	-
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%
Cotswold Village Green Limited	UK	Ordinary	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%
London Eye Management Services Limited (formerly <i>The London Eye Company Limited</i> )	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%
M.E.G.H. Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
Oceanic Village Limited	UK	Ordinary	100.0%	-
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Marine Conservation Trustees Limited (formerly <i>Merlin Entertainments Group Finance Limited</i> )	UK	Ordinary	100.0%	100.0%

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 29 December 2012

## 6.7 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2012	Ownership 2011
The London Planetarium Company Limited	UK	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK	Ordinary	100.0%	100.0%
Tussauds (NBD) Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds Finance Limited	UK	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	100.0%
Tussauds Holdings Limited	UK	Ordinary	100.0%	100.0%
Tussauds Hotels Limited	UK	Ordinary	100.0%	100.0%
Tussauds Intermediate Holdings Limited	UK	Ordinary	100.0%	100.0%
Tussauds Limited	UK	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited	UK	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited	UK	Ordinary	100.0%	100.0%
Wizard EquityCo Limited	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited	UK	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA	-	100.0%	-
LEGOLAND California LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA	-	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA	-	100.0%	-
SEA LIFE US LLC	USA	-	100.0%	100.0%
The Tussauds Group LLC	USA	-	100.0%	100.0%

Joint venture	Country of incorporation	Class of share held	Ownership 2012	Ownership 2011
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

Tussauds Harbour Gateway Inc was dissolved during the year.

Merlin Entertainments S.à r.l. has a US branch with the sole activity of holding certain loan instruments assigned to it by the Company.

<sup>(1)</sup> 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.  
incorporated in Luxembourg  
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[www.merlinentertainments.biz](http://www.merlinentertainments.biz)

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