

# MERLIN

ENTERTAINMENTS



ANNUAL REPORT AND ACCOUNTS 2014

# WELCOME TO MERLIN ENTERTAINMENTS

## Financial highlights and key performance indicators

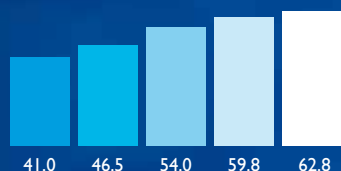
MERLIN ENTERTAINMENTS IS EUROPE'S LEADING AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR. OUR AIM IS TO DELIVER MEMORABLE EXPERIENCES TO MILLIONS OF VISITORS ACROSS OUR GROWING PORTFOLIO OF MIDWAY ATTRACTIONS AND THEME PARKS. WE ARE DRIVEN BY SIX GROWTH DRIVERS AND OUR UNIQUE CREATIVE AND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

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



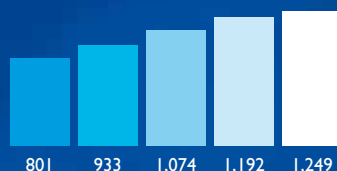
#### Visitors

62.8m +4.9%



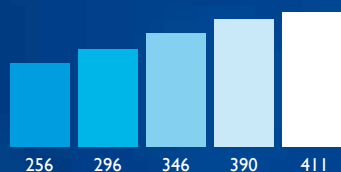
#### Revenue

£1,249m +4.8%



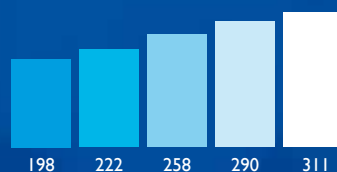
#### Underlying EBITDA

£411m +5.3%



#### Underlying operating profit

£311m +7.1%



#### Like for like revenue growth

+7.1%

#### Return on capital employed

10.6% (2013:10.2%)

#### Basic EPS

16.0p (2013:15.1p <sup>(4)</sup>)

#### Adjusted EPS

17.7p (2013:16.9p <sup>(4)</sup>)

### Non-financial KPIs <sup>(1), (5), (6), (7)</sup>

	2013	2014
Customer satisfaction <sup>(5)</sup>	✓	✓
Staff engagement <sup>(6)</sup>	✓	✓
Health and safety <sup>(7)</sup>	✓	✓

At the end of  
December 2014,  
Merlin operated:

**105**  
attractions

**23**  
countries

ACROSS  
**FOUR**  
continents

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

- <sup>(1)</sup> The KPIs shown above are Merlin's key financial and non-financial performance indicators.
- <sup>(2)</sup> Figures presented for 2011 are based on underlying trading figures compiled on a 52 week basis for ease of comparison. Statutory numbers for 2011 were prepared on a 53 week basis.
- <sup>(3)</sup> Group profit before tax for 2014 was £226 million (2013: £172 million).
- <sup>(4)</sup> The 2013 EPS figures were affected by capital changes arising as part of the IPO in November 2013.
- <sup>(5)</sup> Source - customer satisfaction surveys: measure is based on 90%+ rating as 'satisfied' or 'very satisfied'.
- <sup>(6)</sup> Source - annual employee surveys: measure is based on 80%+ rating for 'staff engagement' (see page 39 for further details).
- <sup>(7)</sup> Source - internal health and safety reports: measure is based on a reduction in 'business related incidents' per 100,000 visits.

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### Footnotes to this Annual Report and Accounts:

- Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', 'the Group', 'We' and 'Us' refer to the Company (Merlin Entertainments plc) and, as applicable, its subsidiaries and/or interests in joint ventures.
- Unless otherwise stated, references to 'year' or '2014' mean the 52 week period ended 27 December 2014 and references to '2013' or 'previous year' mean the 52 week period ended 28 December 2013.
- References to visitors mean all individual visits to Merlin owned or operated attractions.
- The terms 'financial statements', 'consolidated financial statements' and 'accounts' are used interchangeably.
- Like for like growth refers to the growth between 2013 and 2014 on a constant currency basis using 2014 exchange rates and includes all businesses owned and opened before the start of 2013.
- EBITDA is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.
- In order to show the underlying business performance of the Group; enhance comparability from period to period and with other companies; and to provide information consistent with how it is measured internally, underlying information presented excludes exceptional items that are classified separately within the financial statements (see note 2.2 to the financial statements on page 114 for further details).
- Return on capital employed is based on underlying operating profit after taking account of a normalised long term tax rate.
- Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

# OUR STRATEGY

*and business model*

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



*Merlin's  
unique creative  
and production  
resource*

**MERLIN  
MAGIC  
MAKING**



*Sitting at the heart  
of everything  
we do*

*Find out more on  
pages 34 to 37*

*Merlin has two core products:*

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✦ **Midway attractions**, which are typically smaller, indoor attractions located in city centres or resorts.

✦ **Theme Parks**, which are larger multi-day destination venues, increasingly with on-site themed accommodation.

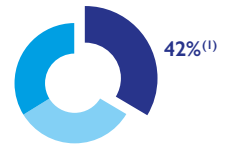
The Theme Parks are managed in two Operating Groups:  
**LEGOLAND Parks** and **Resort Theme Parks**.



MIDWAY ATTRACTIONS

Indoor attractions located in city centres or resorts

MIDWAY



- 92 ATTRACTIONS
- 21 COUNTRIES
- 4 CONTINENTS
- 1-2 HOUR EXPERIENCE
- 5 GLOBAL CHAINABLE BRANDS AND 'SHREK'S ADVENTURE!' UNDER DEVELOPMENT



Outdoor attractions with rides and shows, complemented with themed accommodation

LEGOLAND PARKS

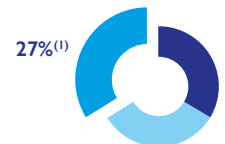


- 6 ATTRACTIONS
- 5 COUNTRIES
- 3 CONTINENTS
- 1-3 DAY EXPERIENCE
- LEGO THEMED ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES
- 3 NEW PARKS IN DUBAI, JAPAN AND SOUTH KOREA UNDER DEVELOPMENT

THEME PARKS



RESORT THEME PARKS



- 6 ATTRACTIONS (2)
- UK, GERMANY, ITALY
- 1-3 DAY EXPERIENCE
- ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES AROUND A CENTRAL THEME

Footnotes:  
 (1) Based on 2014 revenue.  
 (2) Excludes Gardaland Waterpark.

# OUR STRATEGY

and business model

## MERLIN'S BRANDS

### MIDWAY



Merlin Entertainments  
The Eye Brand

Each of our **three** Eye observation attractions offers the ultimate bird's eye view, unparalleled and different every time, giving an **Inspiring Perspective** of the location's landscape and iconic landmarks.



The **nine** Dungeons are a unique mix of dark, historical horror and irreverent humour delivered through set piece shows performed by live actors, rides and spine chillingly themed sets. **Scary Fun** is the goal, delivered daily to families, teenagers and young adults.



**Eleven** LEGOLAND Discovery Centres are the ultimate LEGO indoor playground, with over two million bricks under one roof. With **Playful Learning** at the heart of the experience, they create a fun filled and interactive environment where children and parents are inspired to be creative.



With **45** sites, SEA LIFE is the world's biggest aquarium brand, built around the notion of **Amazing Discoveries**, and home to a variety of creatures from shrimps and starfish to seahorses, rays, sharks and seals. SEA LIFE campaigns actively on a variety of conservation issues prioritised around breeding, rescue and protection of the marine environment.



Madame Tussauds' heritage and the breathtaking artistry of the figures at our **18** sites differentiate it from other wax attractions. **Famous Fun** is the heart of the experience, where visitors are encouraged to interact with all the historical and celebrity figures from Napoleon to One Direction and everything in between.



# THEME PARKS



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



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



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



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



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



Alton Towers Resort is the UK's number one theme park. Set in 500 acres of beautiful Staffordshire countryside and boasting two themed hotels and an indoor water park, it invites families, teenagers and young adults alike into a world of **Fantastical Escapism**.



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



# OUR STRATEGY

## and business model

### ★ NORTH AMERICA ATTRACTIONS



Arizona  
California  
Charlotte  
Dallas  
Kansas City  
Minnesota



Hollywood  
Las Vegas  
New York  
San Francisco  
Washington D.C.



California  
Florida



Atlanta  
Boston  
Chicago  
Dallas  
Kansas City  
Toronto  
Westchester



San Francisco

### ● UK ATTRACTIONS



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



Gweek  
Oban



Blackpool  
Edinburgh  
London  
Warwick  
York



Blackpool  
London



Alton



Chessington



Merlin Entertainments  
The Eye Brand

London  
Blackpool



Warwick



Windsor



Manchester



Chertsey

Revenue by indoor & outdoor attractions <sup>(1)</sup>



Visitors by domestic / tourist <sup>(2)</sup>



Revenue by Geography <sup>(1)</sup>



<sup>(1)</sup> Based on 2014 revenue. <sup>(2)</sup> Based on a sample of visitors answering the question 'What is your home country?'



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

## CONTINENTAL EUROPE ATTRACTIONS



Benalmadena  
Berlin  
Blankenberge  
Bray  
Gardaland  
Hannover  
Helsinki  
Jesolo  
Königswinter  
Konstanz

München  
Oberhausen  
Paris  
Porto  
Scheveningen  
Speyer  
Timmendorfer  
Strand  
Turkuazoo  
Aquarium



Amsterdam  
Berlin  
Vienna



Amsterdam  
Berlin  
Hamburg



Lake Garda



Milan



Berlin  
Oberhausen



Billund  
Günzburg



Soltau

## ASIA PACIFIC ATTRACTIONS



Auckland  
Bangkok  
Busan  
Melbourne  
Mooloolaba  
Shanghai  
Sydney



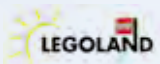
Bangkok  
Beijing  
Hong Kong  
Singapore  
Shanghai  
Sydney  
Tokyo  
Wuhan



Manly



Sydney



Malaysia



Illawarra  
Otway



Tokyo



Mount Hotham



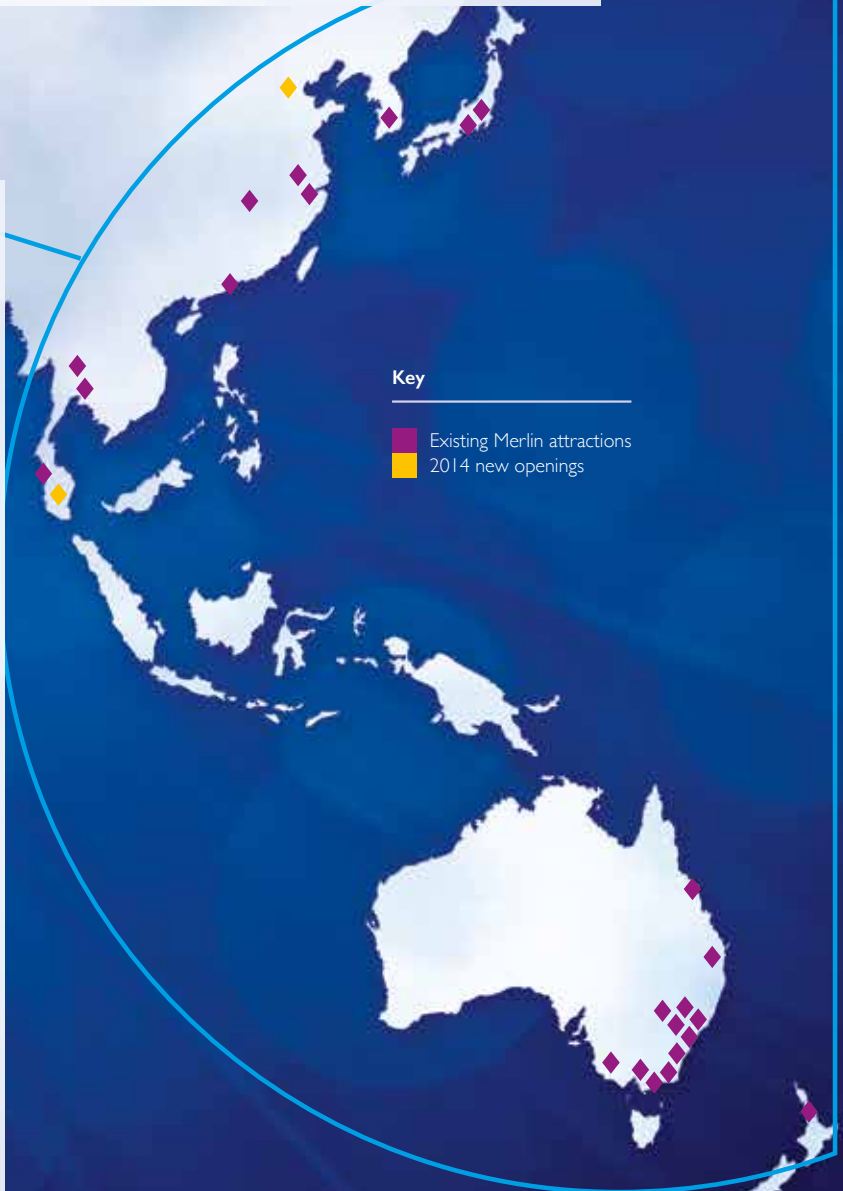
Hamilton Island  
Sydney



Falls Creek

### Key

- ◆ Existing Merlin attractions
- ◆ 2014 new openings



# OUR STRATEGY

*and business model*

## MERLIN'S GROWTH DRIVERS

*Merlin has six highly complementary growth drivers*

### PLANNED CAPITAL INVESTMENT CYCLES

Adding new rides and features to our attractions to drive customer satisfaction, increase capacity and provide a compelling new proposition to guests.



### STRATEGIC SYNERGIES

Leveraging the scale of the Group in key markets to exploit enhanced operational, marketing and buying power.

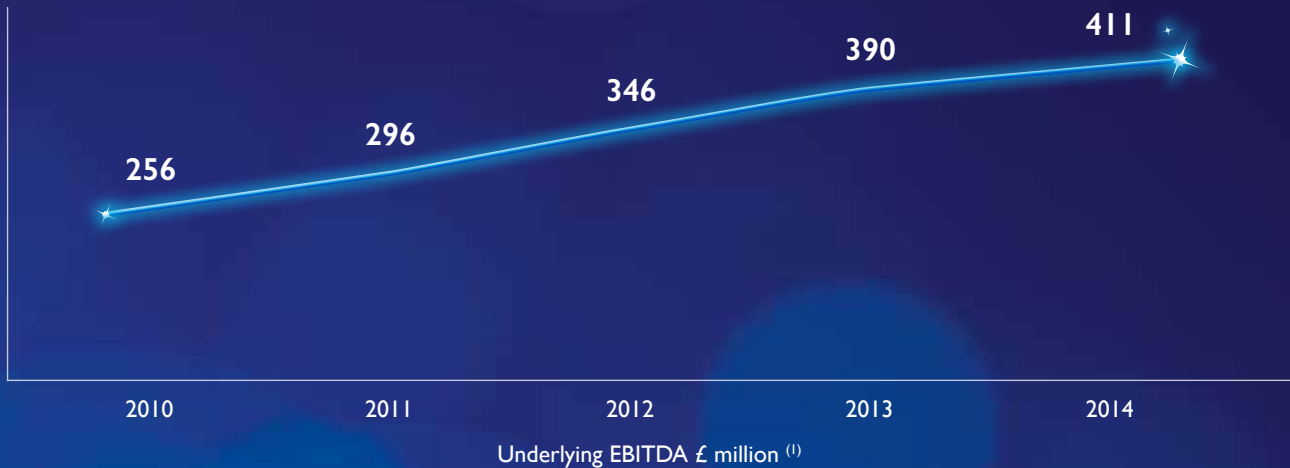


### RESORT POSITIONING

Developing our theme parks into short break destinations: extending the catchment area, creating new revenue streams and improving guest satisfaction.



EXISTING ESTATE GROWTH

OUR STRATEGY *and business model*

<sup>(1)</sup> Figures presented for 2011 are based on underlying trading figures compiled on a 52 week basis for ease of comparison. Statutory numbers for 2011 were prepared on a 53 week basis.

## NEW BUSINESS DEVELOPMENT

## MIDWAY ROLL OUT

Opening new Midway attractions under one of our chainable global brands. Merlin has opened 19 <sup>(1)</sup> new sites in the last three years.

<sup>(1)</sup> Includes Turkuazoo Aquarium which was a standalone acquisition that has since been rebranded to SEA LIFE.



## NEW LEGOLAND PARK DEVELOPMENTS

Opening new full scale LEGOLAND Parks. Merlin has announced plans for parks in Dubai (2016), Japan and South Korea (both 2017) and is exploring further potential sites in Asia and North America.



## STRATEGIC ACQUISITIONS

Pursuing acquisition opportunities that complement our strategic objectives.



# OUR STRATEGY

*and business model*

JAN / FEB / MAR

APR / MAY / JUN

## PLANNED CAPITAL INVESTMENT CYCLES



## STRATEGIC SYNERGIES

Relaunch UK  
Merlin Annual Pass



## RESORT POSITIONING



King's Castle hotel opens  
at LEGOLAND Deutschland

Hotel Extension at  
LEGOLAND Billund

THORPE SHARK hotel  
at Thorpe Park

## MIDWAY ROLL OUT



Announce DreamWorks Animation  
alliance for 'Shrek's Adventure!'



## NEW LEGOLAND PARK DEVELOPMENTS

Announce LEGOLAND  
Japan for 2017

## CORPORATE



Announce preliminary  
2013 results

Annual General  
Meeting



# 2014 YEAR IN REVIEW

JUL / AUG / SEP

OCT / NOV / DEC



**Gardaland**  
RESORT



New ticketing and Reserve and Ride trials at Thorpe Park



**the San Francisco Dungeon**

June openings



**Madame Tussauds**  
SAN FRANCISCO

**Madame Tussauds**  
SINGAPORE



Announce LEGOLAND Korea for 2017

Announce first interim dividend of 2p per share



# CHAIRMAN'S *Statement*

IN MERLIN'S FIRST FULL YEAR AS A PUBLICLY QUOTED COMPANY, WE HAVE ACHIEVED THE FINANCIAL OBJECTIVES SET AT THE TIME OF THE FLOTATION. THESE ACHIEVEMENTS DERIVE FROM THE STRENGTH OF OUR BRANDS DEPLOYED ON AN INCREASINGLY GLOBAL BASIS. OUR FUTURE GROWTH WILL COME FROM A CONTINUING COMMITMENT TO THE SAME STRATEGY. ✨



**Sir John Sunderland**  
Non-executive Chairman

CHAIRMAN'S *Statement***Trading performance and strategy**

2014 was another successful year for Merlin Entertainments, with growth driven by a combination of our existing estate of attractions, six new Midway openings and new accommodation at five of our theme park resorts.

LEGOLAND Parks in particular had a very strong performance in the year of 'The LEGO Movie' and good weather benefited our European businesses throughout the year. These factors more than offset specific challenges in the Midway Attractions Operating Group as a result of political unrest in Thailand and extreme weather early in the year in North America.

We continued to deliver on our longer term objectives with the announcements in February of a strategic alliance with DreamWorks Animation to develop 'Shrek's Adventure!' that has great potential to become a sixth Midway brand; and in June and November of the planned construction of LEGOLAND Parks in Japan and South Korea respectively, with both planned to open from 2017.

**Dividends**

Consistent with our proposed dividend policy we paid our inaugural interim dividend of 2.0 pence per share in September. I am pleased to announce that the Board will be recommending to the Annual General Meeting (AGM) in May that we pay our first final dividend of 4.2 pence per share in June. This will equate to a first full year dividend of 6.2 pence per share.

**Governance and the board**

We welcomed Fru Hazlitt to the Board as an independent Non-executive Director in April 2014. She adds to the breadth of skills of the Board and joins a high calibre and experienced team. One of the final elements of the transition from private to public is the composition of the Board. We are currently in an interim period with our pre-IPO private equity shareholder representatives remaining on the Board. Given the strength and independent approach of our existing Board members, we chose not to be compliant in the first year of operation as a listed company. We have always intended and will be fully compliant by the time of the anniversary of our first AGM in May 2015.

**Shareholder engagement**

In addition to the comprehensive programme of engagement at Executive level with shareholders, Charles Gurassa, the Senior Independent Non-executive Director and head of the Remuneration Committee, our Company Secretary and I also met with many of our leading shareholders during the year to ensure a full and mutually constructive dialogue.

**Health, safety and security**

Merlin's number one priority is delivering safe and memorable experiences to visitors and the Company puts the health, safety and welfare of both its customers and employees at the forefront of its operational focus. The Group's approach to safety management is based upon continuous improvement to mitigate this risk.

There is a strong culture of risk management across Merlin. Our approach has evolved during 2014 and the Risks and uncertainties section of this report on pages 42 to 47 sets this out under three headings of health, safety and security risks; wider commercial and strategic risks; and financial process risks.

I continue to chair Merlin's Health, Safety and Security Committee which is a full committee of the Board and is the most senior health, safety and security governance body within the Group. More details on this Committee's activities can be found in the Corporate Governance section of this report on page 67.

**Corporate social responsibility (CSR)**

The Group's CSR activities are specifically focused on the four areas of: sustainability and the environment; animal welfare; the Merlin's Magic Wand charity; and disability.

Considerations around **sustainability and the environment** are increasingly important to the way we run our businesses. In this regard I am pleased that we are now able to report as planned on our greenhouse gas emissions, in this our first full year as a listed company. Merlin has always been proud of the approach we take to **animal welfare** and the protection of the marine environment. In particular our charity, the SEA LIFE Trust, has launched the 'Wipe out Whaling' campaign to end the transportation of whale meat through European ports, and will, among other activities, fund campaigns focused on the protection of marine habitats. Our own children's charity, **Merlin's Magic Wand**, helps sick, disabled and disadvantaged children visit our attractions or enjoy Merlin magic at themed areas installed at children's homes and hospitals. In 2014 every single Merlin attraction that had been open for more than four months of the year welcomed children via the auspices of Merlin's Magic Wand. Finally, we seek to alleviate the challenges faced by guests and employees affected by **disability** and have the long term aspiration of becoming industry leaders in this area.

Our CSR report on pages 54 to 59 provides further detail on these areas as well as on our community engagement and other associated matters.

**Our people**

I would like to thank our management team and all our employees around the world for their contribution to another successful year for the Company. Our success is thanks to their leadership and dedication.

**Outlook**

As we look forward to 2015 and beyond, we remain confident that our proven growth strategy and committed management team will continue to deliver in the years ahead.

**Sir John Sunderland**  
**Non-executive Chairman**

25 February 2015

# CHIEF EXECUTIVE'S *Report*

OUR FIRST FULL FINANCIAL YEAR AS A PUBLIC COMPANY SAW US DELIVER ANOTHER STRONG PERFORMANCE IN OUR OPERATING BUSINESSES AND FURTHER SUBSTANTIAL PROGRESS ON NEW DEVELOPMENTS. WHAT IS MORE, WE GAVE OVER 60 MILLION VISITORS MEMORABLE EXPERIENCES. MERLIN REMAINS WELL PLACED TO CAPITALISE ON GLOBAL GROWTH IN LEISURE SPENDING AND DEMAND FOR BRANDED, LOCATION BASED ENTERTAINMENT. ✨



**Nick Varney**  
Chief Executive Officer



## CHIEF EXECUTIVE'S Report

	2014	2013	Growth	Constant Currency Growth
Visitors (m)	62.8	59.8	+4.9%	
Revenue (£m)	1,249	1,192	+4.8%	+9.6%
Underlying EBITDA (£m)	411	390	+5.3%	+11.0%
Underlying operating profit (£m)	311	290	+7.1%	+13.3%
Like for like revenue growth				+7.1%
Like for like EBITDA growth				+7.8%



*Particularly pleasing is that we have maintained our customer satisfaction levels well above our 90% target*



**62.8**  
MILLION  
visitors in 2014

#### Existing estate

Against what was a very strong 2013, we are pleased with the performance of our existing estate of attractions, with all three Operating Groups recording like for like (LFL) revenue and profit growth.

The 'stand out' performance was from LEGOLAND Parks where strong underlying momentum, and the addition of the LEGO CHIMA water park in LEGOLAND California (LLC), were further boosted by the phenomenal success of 'The LEGO Movie'. Recognising the potential of this movie launch, our teams were able to put in place strong marketing plans including the launch of the film itself at LLC and McDonalds Happy Meal promotions across North America and Europe.

Within Resort Theme Parks, good weather across the trading season, together with a major new ride, 'Flight of the Demons' at Heide Park in Germany and 'CBeebies Land' at Alton Towers in the UK, meant the good performance of 2013 was built upon. It was also pleasing to see Gardaland in Italy continuing to recover after the sharp decline seen in 2012 as a result of the challenging economic conditions in southern Europe.

Midway, whilst still recording LFL revenue growth of 3.0%, had a somewhat subdued year in 2014 as a result of a number of external factors and the later phasing or delay to some of its major capital expenditure projects. Political unrest in Thailand had a significant impact on our two businesses in Bangkok (Madame Tussauds and SEA LIFE Bangkok Ocean World), while early in the year extreme cold weather brought

disruption to our East Coast and Midwest North American attractions. Elsewhere our businesses in China continued to deliver good growth and the UK businesses also performed well.

#### New business development

In the year we continued the international expansion of Midway attractions with six new openings across four separate brands in both our North America and Asia Pacific regions. Of particular note is the San Francisco Dungeon, marking the first of this brand to be opened outside of Europe.



Flight of the Demons at Heide Park Resort, Germany

## CHIEF EXECUTIVE'S Report

Elsewhere we added further new accommodation to our theme parks, driving both the resort positioning we are seeking as well as delivering attractive financial returns. The year saw us open a further Castle hotel as part of the Holiday Village at LEGOLAND Deutschland; a new themed wing to the LEGOLAND Billund hotel; the extension of accommodation at Warwick Castle; the THORPE SHARK hotel at Thorpe Park; and finally the highly-themed new Azteca hotel at Chessington World of Adventures.



THORPE SHARK hotel at Thorpe Park

### Group performance summary

The combined result of the existing estate performance and the addition of new attractions and accommodation was a rise in Group revenue of 4.8% from £1,192 million to £1,249 million, despite adverse foreign exchange headwinds. This in turn led to a growth in underlying EBITDA and operating profit of 5.3% and 7.1% respectively. On a constant currency basis this would equate to growth in underlying EBITDA and operating profit of 11.0% and 13.3% respectively.

Visitor numbers also broke through the 60 million mark, rising to 62.8 million. Particularly pleasing in this respect is that we have maintained our customer satisfaction levels well above our 90% target and importantly have recorded a further reduction in the number of business related incidents per 100,000 guests (our key health and safety KPI). As ever, we remain determined to deliver safe and memorable experiences to our customers and are relentlessly focused on further reducing the small numbers of occasions where we get it wrong.

### Market overview

Our market continues to grow, driven by increasing leisure time and rising incomes particularly in fast growing countries such as China. Globally, leisure spending is forecast to increase by over 4% per annum over the next decade according to the World Travel & Tourism Council (*source: WTTC Travel & Tourism Economic Impact 2014*). We see the key relevant dynamics for Merlin within this growth trend as being:

- An increasing demand for strong brands and/or Intellectual Properties brought to life as part of quality, location based entertainment experiences.
- A continuing trend towards short breaks in preference to the traditional longer holiday.
- Strong tourism growth in 'gateway' cities, as emerging middle classes travel more internationally.
- The continued rise of the internet (and within this, mobile platforms) as the primary information and booking interface for customers.

The strength and diversification of the global Merlin portfolio leaves us well placed to benefit from these trends. This in turn will assist us as we continue to focus on building a geographically diversified company which will ultimately derive a third of its revenues from each of the Americas, Europe and Asia Pacific.

### Strategic developments

Merlin has six complementary strategic growth drivers as laid out on pages 10 to 11 of this report. The Operational Reviews of each of our three Operating Groups and the Merlin Magic Making section of this Strategic Report outline our achievements during 2014. Furthermore, we have exciting developments planned against each for 2015 and beyond.

### Planned capital investment cycles

*Adding new rides and features to our existing estate of attractions to drive customer satisfaction, increase capacity and provide a compelling new proposition to guests.* The pre-determined investment cycles in place for each of the Operating Groups are carefully managed so as to smooth capital expenditure across the portfolio of attractions; to ensure the investments are funded out of operating free cash flow; and to provide attractions with the visibility and autonomy to plan effectively. At a Group level the investment over the cycle is broadly in line with depreciation and follows a pre-set ratio to revenue (typically 8-10%).

“

We see a continuing trend towards short breaks

”

## CHIEF EXECUTIVE'S Report



The Orlando Eye, Florida

In 2015 a major new ride, 'Oblivion', will be launched at Gardaland in Italy, while in the LEGOLAND Parks Operating Group three parks will introduce new LEGO Friends themed areas. All LEGOLAND Parks and Discovery Centres will benefit from a new short LEGO Movie 4D experience, with a completely new storyline that can only be seen at our venues.

Equally exciting are the product innovations planned in Midway, in particular major new 'Star Wars' features that will be opened at Madame Tussauds London and Berlin. As always all attractions in the Group will have something new to drive visitation across the year.

#### Strategic synergies

*Leveraging the scale of the Group in key markets to exploit enhanced operational, marketing and buying power.* 2015 will see us expand our dedicated US call centre and continue with third party promotions. In addition, we will extend our CRM databases in the UK and Germany allowing for more targeted and efficient promotions, maximising Group synergies. Our UK database currently stands at three million records, whilst the German database launched in 2014 has seen good initial results.

#### Resort positioning

*Developing our theme parks into short break destinations: extending the catchment area, creating new revenue streams and improving guest satisfaction.* The key driver of this transformation is the presence of on-site themed accommodation. To date, all investments whether themed hotels or Holiday Villages have been highly successful, delivering against our investment criteria, driving multi-day stays, and significantly increasing the level of pre-booked business, hence providing an element of protection against the impact of adverse weather.

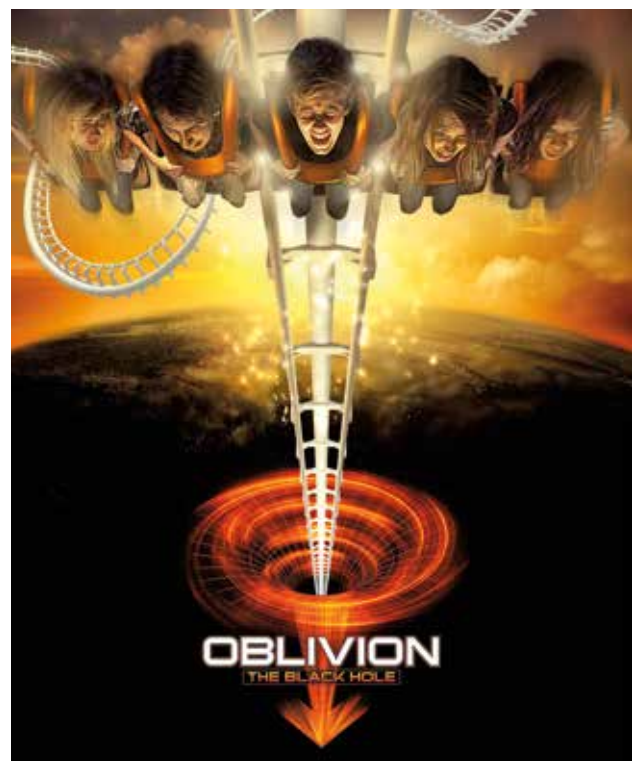
Following the success of the LEGOLAND Windsor and California hotels, 2015 will see the opening of a 152 bedroom hotel at LEGOLAND Florida. Within Resort Theme Parks an exciting 125 chalet development, 'The Enchanted Village', will be added to the Alton Towers Resort. Looking further ahead, plans are already progressing for a new hotel at the Gardaland Resort in Italy to be opened in 2016.

#### Midway roll out

*Opening new Midway attractions under one of our chainable global brands.* We are able to open new Madame Tussauds, SEA LIFE Centres, Dungeons and LEGOLAND Discovery Centres, typically for £5-8 million each, always with a target of 20% ROIC. Increasingly, our focus is on opening multiple attractions in the same locations to form clusters from which we can derive operational, marketing and cross-selling advantages.

2015 is a significant year for our Midway roll out programme with seven new attractions due to open including the launch in London of a potential sixth brand, 'Shrek's Adventure!', in association with DreamWorks Animation. The other major development will be the Orlando cluster featuring the 400 foot Orlando Eye observation wheel (funded by our partner, Circle Entertainment) together with a Madame Tussauds and SEA LIFE Centre.

Completing the line-up are a SEA LIFE Centre in Michigan, USA (opened in January 2015) and LEGOLAND Discovery Centres in Osaka, Japan and Istanbul, Turkey. We are already well advanced with planning for a further seven attractions in 2016.



Oblivion at Gardaland Resort, Italy

## CHIEF EXECUTIVE'S Report

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*Merlin's central mission is to deliver memorable experiences to our millions of visitors*

”

**New LEGOLAND Park developments**

*Opening new full scale LEGOLAND Parks.* Our aim is to open at least one new park every three years under one of three ownership models: operated and owned; operated and leased; and management contracts. Having opened LEGOLAND Florida (2011) and LEGOLAND Malaysia (2012), we are now engaged on three further projects: LEGOLAND Dubai (management contract) which will open in 2016; and LEGOLAND Japan and LEGOLAND Korea (both operated and leased) for 2017.

Looking further ahead we are in early discussions for new park developments in the USA and China. The Group's strong free cash generation leaves us in a favourable position to consider these projects.

**Strategic acquisitions**

*Pursuing acquisition opportunities that complement our strategic objectives.* In 2011 and 2012 the acquisitions of Sydney Attractions Group and Living and Leisure Australia accelerated our expansion into Asia Pacific and have facilitated further new openings in this region.

Our primary focus for the future is on North America and Asia, where we target assets that can be rebranded to Merlin's brands (or provide new brand opportunities) and that complement our expansion strategy.

Merlin's future growth is not dependent on acquisitions but we are in the favourable position of having the free cash flow and borrowing facilities available to make them should suitable opportunities arise.

**Merlin Magic Making**

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

Major progress was made in 2014 with regard to establishing and/or consolidating key partnerships with major Intellectual Property (IP) owners. MMM's engagement with Disney, DreamWorks Animation and BBC Worldwide, amongst others, has facilitated an exciting new stream of developments ranging from a potential new brand, Shrek's Adventure!, to significant new features in our existing attractions. When added to our long term close relationship with the LEGO Company, the world's biggest toy brand, and our own in-house IP development, Merlin is well placed to continue delivering compelling reasons for people to visit our attractions well into the future.

**Memorable experiences and our teams**

Merlin's central mission is to deliver memorable experiences to our millions of visitors, something we all do because of our love of fun.

Merlin's amazing team is at the heart of everything we do and consequently we dedicate a lot of energy and resource to recruitment, retention, training and development. We are privileged to have such an engaged workforce of almost 26,000 at peak season. Our annual 'Wizard Wants to Know' staff survey was sent out to nearly 21,000 employees on a phased basis during the summer months. A phenomenal 97% of them completed the survey and of those 95% said 'they enjoy working here'. Most importantly, since becoming a public company, almost 30% of worldwide staff have elected to take part in the Company's share save schemes. We are very pleased with this high level of participation.

**Looking ahead**

Merlin Entertainments has adapted well to being a public company and our focus now is to deliver on the expectations of the many shareholders who have supported us. In this regard we believe we are well placed with a unique business model in a growing global market to deliver further exciting growth in the years ahead. What is more, we plan to have fun doing it!

**Nick Varney  
Chief Executive Officer**

25 February 2015

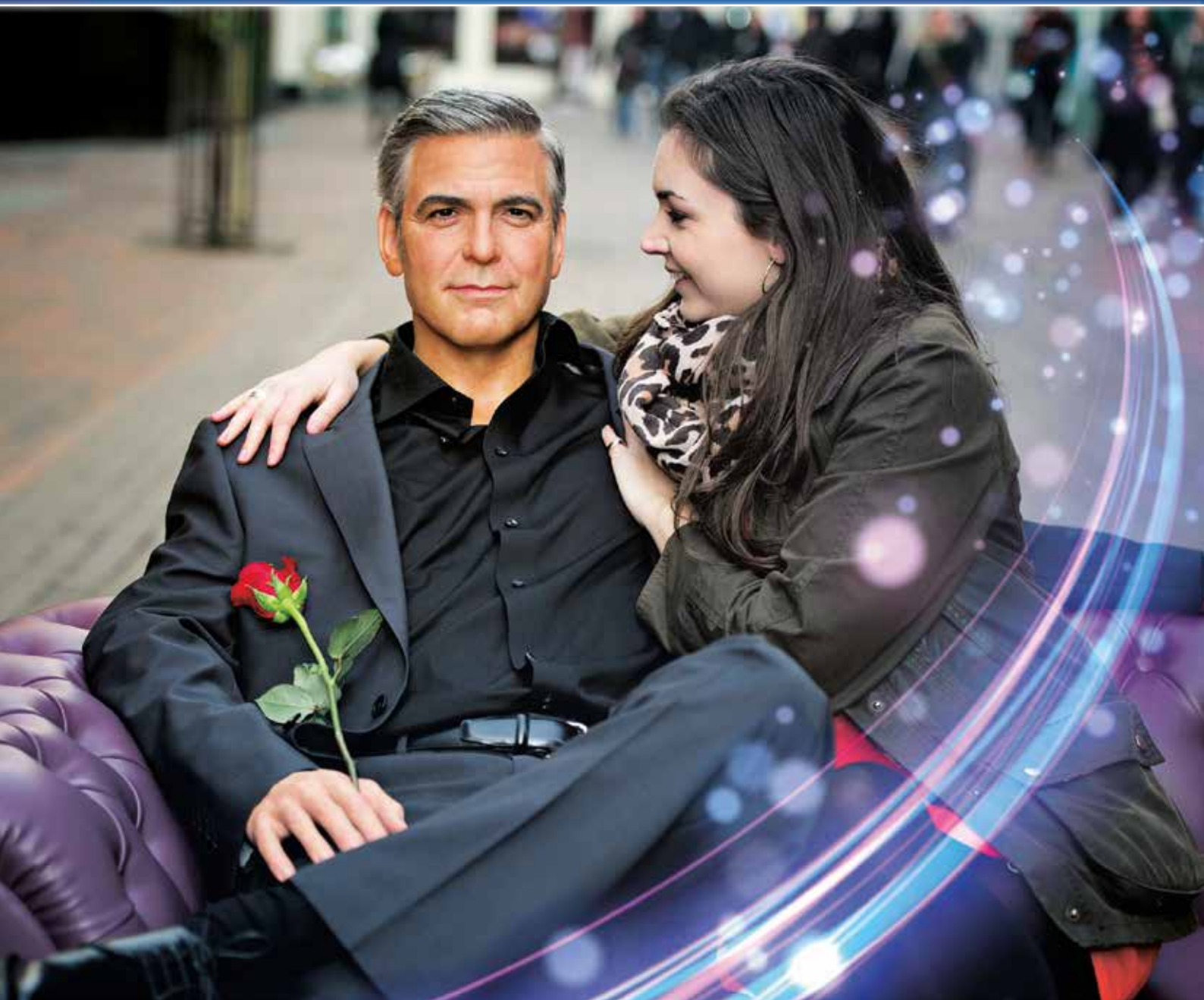
Michael and William Bay Hansen, visitors to LEGOLAND Billund >  
(Winner of the Merlin Magical Moments Photo Competition 2014)



# MIDWAY

## *Attractions*

2014 WAS ANOTHER YEAR OF GROWTH FOR THE MIDWAY ATTRACTIONS OPERATING GROUP, ALBEIT WITH SOME SPECIFIC CHALLENGES ALONG THE WAY. POLITICAL UPHEAVAL IN BANGKOK, EXTREME WEATHER EARLY IN THE YEAR IN NORTH AMERICA AND SOME DELAYS IN CAPITAL INVESTMENTS LED TO REVENUE AND EBITDA GROWTH BELOW OUR LONG TERM TRAJECTORY. THE STRONG MIDWAY ROLL OUT PLAN HAS CONTINUED WITH THE ADDITION OF SIX NEW ATTRACTIONS AND THE REBRANDING OF TWO ACQUIRED AQUARIUMS TO BECOME SEA LIFE CENTRES. ✨



## OPERATIONAL REVIEW - MIDWAY Attractions

	2014	2013	Growth	Constant Currency Growth
Visitors (m)	38.1	37.1	+2.8%	
Revenue (£m)	529	524	+1.1%	+6.2%
Underlying EBITDA (£m)	214	212	+1.0%	+5.5%
Underlying operating profit (£m)	167	164	+1.9%	+6.2%
Like for like revenue growth				+3.0%

# £529 MILLION

revenue in 2014

“

*The Madame Tussauds 'One Direction' touring set attracted teenage customers everywhere it appeared*

”

### Trading performance

Trading performance for the Midway Attractions Operating Group overall in 2014 continued to show growth in visitor numbers, revenues and profits, although the reported numbers were adversely impacted by movements in foreign exchange rates, as shown in the table above. Growth in visitors of 2.8% resulted in growth in revenues and underlying operating profits of 6.2% when translated on a constant currency basis.

### Existing estate

Like for like growth in revenues from our existing estate of 3.0% was lower than our long term trajectory due to three main factors. Firstly, political upheaval in Bangkok led to the displacement of the Prime Minister and the introduction of Military Rule. Consequently, in the spring there was widespread rioting which attracted significant global media coverage and visitors stayed away from Bangkok. This led to a substantial reduction in visitor numbers to our Madame Tussauds and SEA LIFE businesses there.

Secondly, the 'Polar Vortex' of snow storms which hit North America in January and February led to potential visitors staying at home and in addition some schools cancelled school holidays around Easter and the spring break to compensate for the school time lost to the storms.

Finally, our capital investment plan had a number of significant projects which were planned to occur relatively late in the year and in addition a number of major projects were delayed due to a number of specific reasons particular to each case. A combination of these factors meant that revenue growth in the second half of the year was stronger than the first half and the benefit of these 2014 investments will only be fully realised in 2015.

Elsewhere, our LEGOLAND Discovery Centres (LDCs) were boosted by the phenomenal success of 'The LEGO Movie'; the Australian ski fields delivered a strong performance as a result of better snow conditions; whilst the London attractions settled down to a more normal pattern of growth following an exceptional year in 2013 which was boosted by all the Olympic coverage during 2012.

### Capital investment

Despite the later phasing of our capital investments, our existing estate growth was underpinned by our strategy of planned capital investment cycles across each brand, with each Midway attraction having a 'high-year' once every five years.

During 2014 we delivered a number of successful new high-year capital projects including a new 'splash pad' water play area outside our LDC in Dallas; a new Marvel 4D Cinema at Madame Tussauds (MT) Hollywood, following the success of similar films at MTs in New York and London; a new Gentoo penguin area at SEA LIFE Birmingham, which has scope to add King Penguins at a later stage in the attraction's development; and a new ghost show at the Amsterdam Dungeon.

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

During 2014, Madame Tussauds had a number of touring figure sets of One Direction; Bollywood; Steve Jobs; Abba; three Michael Jackson figures at different ages; the British Royal family; and The Beatles. One Direction drove a significant number of teenage customers at every single attraction where this feature appeared. Consequently we now have two One Direction touring sets!

## OPERATIONAL REVIEW - MIDWAY *Attractions*

SEA LIFE has four mobile features: 'Turtle Sanctuary', 'Octopus Hideout', 'Sea Stars' and 'Claws'. All of these features are designed to give our visitors the opportunity to see amazing creatures, including starfish from across the world and giant Japanese Spider Crabs.

Our LDCs have three themed versions of major scenes from the Star Wars movies recreated in LEGO bricks with interactive features which bring the displays to life for our visitors.

### Midway roll out

During 2014 our expansion of Midway attractions continued around the world with the launch of a further six new attractions. In North America we launched an LDC in Boston which has taken the brand to a new level in terms of the quality and breadth of what is on offer; a SEA LIFE Centre in Charlotte, North Carolina, which received a very high level of local media coverage; and a Dungeon and MT in San Francisco. This is the first time we have taken the Dungeon brand outside of Europe and we are encouraged by the positive customer response.

In Asia we introduced a Madame Tussauds in Beijing just off Tiananmen Square. The strong early performance of this attraction gives us confidence that the brand has a growing reputation and awareness in the huge Asian market, where the hunger for anything related to fame and celebrity seems stronger than ever. At the end of the year we opened a Madame Tussauds in Singapore which we have combined with an existing attraction (Images of Singapore).

Midway sites	December 2013	Change 2014	December 2014
UK	23	-	23
Continental Europe	26	-	26
North America	15	4	19
Asia Pacific	22	2	24
<b>Total</b>	<b>86</b>	<b>6</b>	<b>92</b>

### Strategic acquisitions

During 2014 we have rebranded two recently acquired aquariums as SEA LIFE Centres. SEA LIFE Busan Aquarium was launched in July with a prominent conservation focus and in December we launched SEA LIFE Bangkok Ocean World. Both aquariums were part of our acquisition of Living and Leisure Australia in 2012 and in both cases we invested several million pounds in creating very high quality experiences which are befitting of the SEA LIFE brand.

### Customer satisfaction

The combination of our investments this year, along with our relentless focus on customer service, have added significantly to the overall experience of our guests, as demonstrated by the excellent customer satisfaction scores we continue to enjoy.

### Looking ahead

2015 will see a significant further expansion of the Midway estate with a combination of individual and cluster location attractions. 'Clustering' is where we have more than one attraction in the same location, providing operating cost, marketing and cross-selling advantages.

Following an extensive rebranding, we have already relaunched, as a SEA LIFE Centre, the Turkuazoo Aquarium in Istanbul that had been a standalone acquisition in 2013. We will then add an LDC in the same mall location later this year to form the Istanbul cluster.

In the spring the Orlando cluster in Florida will open at I-Drive 360 on International Drive. This will feature the 400 foot Orlando Eye observation wheel that we will operate as a management contract, together with a SEA LIFE Centre and an MT. As well as creating a new cluster of Midway attractions in its own right, we also anticipate significant marketing opportunities with LEGOLAND Florida.

In the summer we will bring 'Shrek's Adventure!' to the South Bank in London, where it will join the Coca-Cola London Eye, London Dungeon and SEA LIFE Centre already located there. Based on the Shrek series of films, the largest animated franchise in history, this entirely new attraction has been developed in association with DreamWorks Animation. We have confidence that this has the potential to become our sixth Midway brand.

Together with SLC Michigan, USA (already opened), and LDC Osaka, Japan, this will total seven completely new Midway sites in 2015. We are already well advanced with planning for a further seven attractions in 2016.

“

*In the summer of 2015  
we bring Shrek's Adventure! to  
the South Bank in London*

”







## SEA LIFE BUSAN

### *What did we do?*

We relaunched Busan Aquarium as SEA LIFE Busan Aquarium in July 2014. Busan Aquarium was acquired as part of the Living and Leisure Australia acquisition in 2012 and we have been gradually rebranding one or two aquariums each year to SEA LIFE whilst significantly increasing the quality and breadth of the customer experience.

### *How did we do it?*

We redeveloped the whole of the aquarium adding new shipwreck, 'bay of rays', seahorse and ocean tank features, whilst transforming the attraction to make it more child friendly, in line with our SEA LIFE approach. This included tanks designed with child-sized viewing areas for children to discover, a quiz trail and tailored creature descriptions.

Central to the relaunch was the integration of the SEA LIFE conservation message of 'Breed, Rescue and Protect', where we highlight the number of creatures SEA LIFE breeds globally; the number and types of creatures that we rescue from distressed marine environments; and how we play our part in protecting the broader marine environment with hands-on work by our own teams. The SEA LIFE Busan Aquarium uniquely features the rescue, rehabilitation and release of wonderful Finless Porpoises as part of this programme of active marine conservation work. The programme has been created in conjunction with the South Korean Government to help save the ever increasing numbers of injured porpoises.

### *What was the result?*

The relaunch has achieved revenue increases in line with our expectations and supported a significant increase in lead ticket price. Despite the price increase, customer satisfaction and 'value for money' scores have improved, demonstrating effective capital expenditure. The rescue and release of the Finless Porpoises is an illustration of our conservation and welfare work and positions the brand in a very positive manner with our customers.

CASE STUDY

# LEGOLAND

## *Parks*

2014 WAS AN EXCEPTIONAL YEAR FOR THE LEGOLAND PARKS OPERATING GROUP. ALL SIX EXISTING LEGOLAND PARKS DELIVERED YEAR ON YEAR REVENUE GROWTH, BENEFITING FROM STRONG CAPITAL INVESTMENTS AND THE PHENOMENAL SUCCESS OF 'THE LEGO MOVIE'. WITH LEGOLAND DUBAI AND LEGOLAND JAPAN ALREADY UNDER CONSTRUCTION AND LEGOLAND KOREA ALSO ANNOUNCED, WE ARE FIRMLY ON TRACK WITH OUR LEGOLAND PARK DEVELOPMENT PROGRAMME. ✨

**£386**  
**MILLION**  
*revenue in 2014*



## OPERATIONAL REVIEW - LEGOLAND Parks

	2014	2013	Growth	Constant Currency Growth
Visitors (m)	12.7	11.5	+9.8%	
Revenue (£m)	386	352	+9.5%	+15.7%
Underlying EBITDA (£m)	142	127	+11.9%	+19.2%
Underlying operating profit (£m)	120	106	+13.2%	+21.1%
Like for like revenue growth				+13.2%

**Trading performance**

The LEGOLAND Parks Operating Group had an exceptional year in 2014, due to a continued successful capital investment programme and the impact of 'The LEGO Movie'. A 9.8% growth in visitors converted into revenue growth of 15.7% and underlying operating profit growth of 21.1%, both on a constant currency basis, with reported numbers adversely affected by movements in foreign exchange rates. The flow through of incremental revenues to profit is tempered by the mix of revenues, variable trading and labour costs, as well as unexpected remedial costs at the LEGOLAND Windsor hotel.

**Existing estate and capital investment**

In 2014, the highlight of the LEGOLAND parks capital investment cycle was the 'high-year' LEGO CHIMA water park at LEGOLAND California. This investment almost doubled the size of the existing water park and has been extremely popular with visitors. These factors, together with the launch of 'The LEGO Movie' at this attraction and generally good weather, helped secure the best summer ever at this resort.

In LEGOLAND Billund, Denmark, we had a 'medium-year' investment, comprising the 'Ghost -The Haunted House' attraction and drop ride experience. This has performed well in attracting additional visitors to the resort.

All the LEGOLAND Parks, especially the two North American sites, benefited significantly in 2014 from 'The LEGO Movie'. Launched at LEGOLAND California in February, the film was a major blockbuster hit especially in the USA and the UK. This drove consumer demand for the LEGO product and

visitation to all our LEGOLAND sites. Guests were able to visit the actual film set at LEGOLAND California, and across all the parks we reaped the rewards of strong marketing and promotional campaigns.

We also benefited from more favourable weather in 2014 in the European parks, especially at Easter where the 2013 comparative period had been extremely challenging.

**Resort positioning**

The repositioning of the parks as short break destinations continues to be very popular with guests, driving higher satisfaction scores, higher spends and an increase in pre-booked business. In 2014, we opened the 68 bedroom King's Castle hotel at LEGOLAND Deutschland Holiday Village which had an average occupancy rate of over 95% during the peak summer months. This augments the smaller Knight's Castle hotel that opened the previous year.

Elsewhere we re-themed the Holiday Village at LEGOLAND Billund, which we took over at the start of 2013, and expanded the LEGOLAND Billund hotel with 24 highly themed new bedrooms.



The new LEGO CHIMA water park in LEGOLAND California

## OPERATIONAL REVIEW - LEGOLAND Parks

“

*The LEGO product remains hugely popular and our co-operation with the LEGO Company is excellent*

”

**Developing new LEGOLAND Parks**

We made significant progress in 2014 in our strategy to add at least one new LEGOLAND Park every three years, always with an unerring focus on the returns that can be generated from the three different financing and development models that we follow.

**Operated and leased sites**

In June 2014 we announced our plans for LEGOLAND Japan in Nagoya, scheduled for opening in 2017. Nagoya sits in the centre of Japan which is the second largest theme park market in the world. The development of the park will be supported by the City of Nagoya through the development of the local travel infrastructure including a 5,000 space car park. The site will have the potential both for future park expansion and on-site, themed accommodation. It will be developed under our 'operated and leased' model, where Merlin has an operating company that contributes a portion of total park investment and leases the balance of the assets from a third party; in this case from a company owned by KIRKBI (a shareholder in Merlin and a major shareholder in the LEGO Company).

In November 2014 we announced LEGOLAND Korea. This is also scheduled for a 2017 opening and is financed under a similar model to LEGOLAND Japan, in this case funded by a property company owned by a consortium of local public and private investors. This park will be situated on a picturesque island setting in Chuncheon, located approximately one hour from Seoul, South Korea, and within a two hour drive time for nearly 24 million residents. National and regional governments and Chuncheon City will between them fund transportation and wider infrastructure support.

**Management contracts**

LEGOLAND Malaysia was developed under a 'management contract' model and this has been operating successfully since its opening in September 2012. We expect, with our local partners, to open LEGOLAND Dubai as the first LEGOLAND Park in the Middle East in 2016. Furthermore, we continue to pursue opportunities and may in time see one or more parks under this model in China.

**Operated and owned**

This is how the first five LEGOLAND Parks were developed, and we expect to identify more locations where this model can be applied. Specifically, we are exploring some encouraging opportunities for a third park in North America.

**Customer satisfaction**

Alongside the commercial performance and resort expansion, it is particularly pleasing to report that we have increased our already high customer satisfaction score across the LEGOLAND Parks Operating Group as a whole.

**Looking forward**

Alongside our longer term LEGOLAND Parks development programme, we continue to invest in capital projects both for new rides and accommodation offerings.

2015 will see a 'high-year' capital investment in a brand new LEGO Friends area at LEGOLAND Windsor along with similar smaller investments in California and Florida. Cinemas in all our LEGOLAND Parks and LEGOLAND Discovery Centres will benefit from an exclusive short 4D movie experience based on 'The LEGO Movie' and containing exciting new content.

In terms of accommodation, construction is on schedule for the opening of our second LEGOLAND hotel in the USA at the park entrance to LEGOLAND Florida in late spring 2015. This will combine with marketing opportunities from the opening of our other Midway attractions in Orlando this year. Plans are also in progress for further additions to our existing hotels and Holiday Villages for the years to come.

The LEGO product remains hugely popular and our co-operation with the LEGO Company and KIRKBI remains excellent, resulting in many initiatives which benefited our business in 2014 and will continue to do so in the future. This collaborative approach covers both tactical and strategic matters, with our teams meeting at least once a year to plan for future developments to our mutual benefit. Tactical collaboration occurs in all markets around events and promotional activities. On the strategic level we are well integrated into the long term product programmes of the LEGO Company and are seeing the results of this collaboration in such things as our planned new LEGO Friends areas in three LEGOLAND Parks for 2015.

Emmet and Wyldstyle from 'The LEGO Movie'



## LEGOLAND CASTLE HOTEL, GERMANY

### *What did we do?*

In April we continued our programme of transforming our theme parks into destination resorts when we opened our second LEGOLAND Castle hotel at the LEGOLAND Deutschland Holiday Village in Bavaria in southern Germany. The 68 bedroom King's Castle hotel is a follow-up to the Knight's Castle we opened in 2013. The hotel represented an investment of approximately £9 million and has been financed entirely from Merlin's cash flow.

### *How did we do it?*

Merlin's expert hotel team, combined with local architects and the local LEGOLAND Deutschland management team, were responsible for developing the product on the basis of the very successful smaller Knight's Castle launched in 2013. The development and operational set up worked very well, leveraging the expertise that has been built up across the Group.

### *What was the result?*

The project was delivered on time and on budget. Financial performance has been stronger than expected, outperforming the business case for developing the hotel without cannibalising our existing offers in the Holiday Village. Guest satisfaction scores have been very high and, in line with our experience in other resorts, even higher than for day visitors. Over 60% of visitors to the Holiday Village come from outside Germany; a trend that is increasing. This all continues to underpin the strategy of repositioning the parks as short break destinations.



CASE STUDY

# RESORT

## *Theme Parks*

THE RESORT THEME PARKS OPERATING GROUP DELIVERED A SECOND SUCCESSIVE YEAR OF STRONG REVENUE AND EBITDA GROWTH SHOWING CONTINUED PROGRESS SINCE THE MARKET CHALLENGES FACED IN 2012. THIS WAS ACHIEVED THROUGH EFFECTIVE IMPLEMENTATION OF THE STRATEGIC GROWTH DRIVERS OF PLANNED CAPITAL INVESTMENTS; TRANSFORMING THE THEME PARKS INTO SHORT BREAK DESTINATIONS; AND CAPITALISING ON GROUPWIDE STRATEGIC SYNERGIES. ✨

**£331**  
**MILLION**  
*revenue in 2014*



OPERATIONAL REVIEW - RESORT *Theme Parks*

	2014	2013	Growth	Constant Currency Growth
Visitors (m)	12.0	11.2	+7.2%	
Revenue (£m)	331	314	+5.6%	+8.4%
Underlying EBITDA (£m)	87	81	+7.2%	+11.6%
Underlying operating profit (£m)	60	54	+11.0%	+16.4%
Like for like revenue growth				+7.2%

**Trading performance and capital investment**

Trading performance for the Resort Theme Parks (RTP) Operating Group overall in 2014 built on the good performance of 2013 to show continued growth in visitor numbers, revenue and profit. Growth in visitors of 7.2% resulted in growth in revenue of 8.4% and underlying operating profit of 16.4%, both converted on a constant currency basis.

The strategic focus for RTP continues to be to create a portfolio of differentiated short break destinations based at unique theme park locations. Once again 2014 saw the launch of new compelling experiences at each of the RTP resorts, in accordance with our established capital investment cycles. The successful launch of each of these was key to ensuring revenue growth at every one of the six RTP resorts.

The 'high-year' capital investment in RTP was the launch of a major new roller coaster 'Flight of the Demons' at Heide Park Resort in Germany, targeting the thrill-seeker market. In addition, Alton Towers introduced 'CBeebies Land' in association with BBC Worldwide. Based on the TV channel of the same name, this successfully attracted a wider demographic to the resort of families with children under the age of six. Thorpe Park also introduced a strong and internationally known Intellectual Property (IP) based attraction with 'Angry Birds Land', including a new and exclusive 4D movie experience developed in association with Rovio, the owner of the Angry Birds IP. The successful introduction of a lower priced Thorpe Park season pass, together with a new web/mobile booking platform and pricing structure, also helped to deliver growth in a challenging economic environment for the resort's core 16-24 age group. Chessington World of Adventures launched 'Scorpion Express', the reinvigoration of an existing ride complete with new theming, fire effects and near misses, to cost-effectively deliver a new ride experience for the resort. Gardaland introduced 'Prezzemolo Land', a new wet and dry play area based on the park's famous character mascot and targeted at younger children. In Italy the economic and political landscape continued to be difficult but despite this Gardaland has seen modest revenue and EBITDA growth. This was driven by the key management initiatives of increasing penetration of international tourists visiting Lake Garda; launching a successful 'value for money' season pass initiative for both the resident and tourist market; and further targeted cost saving initiatives to improve operational efficiency.

Finally, Warwick Castle extended its 'Horrible Histories Foul Fayre' across the full operating season.

**Resort positioning**

A key future growth driver for RTP is increased investment in unique accommodation offerings to drive increased additional short break visitation, multi-day stays and pre-booked visits. In 2014 we successfully introduced the new 90 bedroom 'THORPE SHARK' hotel at Thorpe Park and extended and improved the accommodation offering at Warwick Castle including the addition of two luxury 'Tower Suites' within the Castle itself. Later in the year we launched the 69 bedroom 'Azteca' hotel at Chessington World of Adventures alongside the relaunch of the existing hotel as the 'Safari' themed hotel.

**Strategic synergies**

RTP both contributes to and benefits from the wider Merlin Group in terms of strategic synergies, with the continued success of customer promotions and the development of the Merlin Annual Pass. The problem of queues impacting customer satisfaction remains a key challenge for the theme park industry generally and a number of initiatives to alleviate the impact of queues were trialled in 2014. These included the introduction of mobile apps and electronic screens showing queue times and providing tips to avoid queues. We also trialled an online ticketing platform and a mobile based 'Reserve and Ride' virtual queuing system at Thorpe Park. Further initiatives and trials will continue in 2015 in this area.

**Customer satisfaction**

With the uplift in visitor numbers to our attractions in 2014 it was vital that we maintained focus on our key KPI of customer satisfaction. It is a testament to the great teams across the RTP resorts that all sites increased their scores year on year:

**Looking forward**

Gardaland will have the 'high-year' capital investment in 2015 which will be 'Oblivion', a major roller coaster drop ride. Our longer term aim is to transform Gardaland into a major European short break destination for both Italians and international visitors alike so this will be an important step on that journey, as will the launch of a new highly themed 'Adventure' hotel planned for 2016. Work is also underway at Alton Towers on the 2015 launch of the 'Enchanted Village' including both lodges and luxury tree-houses.

## CBEBBIES LAND AT ALTON TOWERS RESORT

### *What did we do?*

We introduced a new highly recognisable land to an existing area of the theme park. This was aimed primarily at families with young children, a previously under-represented demographic at Alton Towers, for whom a short break is considered an attractive proposition.

### *How did we do it?*

Having identified the potential of the target demographic, our attraction and creative teams identified CBeebies as a strong and compelling Intellectual Property (IP) asset that could deliver increased park visitation and short break visits to the resort. The team from Merlin Magic Making negotiated a licence deal with BBC Worldwide (who own the rights to CBeebies). The creative teams then worked closely with the BBC to develop a compelling experience that would transform an existing under-utilised area of the park with attractions and rides featuring famous CBeebies characters and shows such as 'Postman Pat', 'Charlie and Lola', 'In the Night Garden', 'Tree Fu Tom' and 'Justin's House'.

### *What was the result?*

In 2014 Alton Towers saw a 10% increase in visitors driven by CBeebies Land, as well as an 8% increase in leisure room nights booked at the hotels. Research confirmed that 17% of visitors to CBeebies Land were new visitors to Alton Towers.



CASE STUDY





Cbeebies  
Land

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

# MERLIN MAGIC MAKING



## MERLIN MAGIC MAKING

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

## FINDING THE MAGIC



### 'SITES ALREADY SECURED IN CHINA FOR 2016'

After a successful delivery of the 2014 pipeline things are looking very positive for 2015, with all sites secured and design and build programmes underway.

2016 is also shaping up to be in line with our strategic plans, with two sites already secured in China, as well as a number of other site opportunities in progress.

We have strengthened the team in North America with our first ever Site Search Director based full time in the USA, meaning we now have in-house Merlin influence in all our major development geographies.



WORLDWIDE





**CREATING THE MAGIC** 

**'WE CONTINUE TO DEVELOP SOME VERY STRONG INTELLECTUAL PROPERTY RELATIONSHIPS'**

It is never quiet when it comes to looking at the creative and innovative ways that we are able to drive the business forward. 2014 has been no exception, with a host of new and exciting projects coming to fruition.

Our Midway roll out programme continued during 2014, including our first Dungeon foray outside of Europe, with the launch of the San Francisco Dungeon, in the USA; three Madame Tussauds launches (our most ever!) including our first business in Beijing; as well as a LEGOLAND Discovery Centre and a SEA LIFE Centre.

Things were no less impressive in our existing businesses whether it was 'scaring the beeebies' out of you in our new haunted house concept in LEGOLAND Billund; confronting the wing coaster 'Flug Der Dämonen' at Heide Park; riding the rapids in our new 'LEGO CHIMA' water park in LEGOLAND California; or just taking a well earned rest in our new Azteca hotel at Chessington World of Adventures Resort.

We continue to develop some very strong Intellectual Property (IP) relationships with the BBC, Rovio and Marvel as evidenced by our most recent openings of the amazing 'CBeebies Land' at Alton Towers; 'Angry Birds Land' at Thorpe Park; and our 'Marvel Super Heroes 4D' film at Madame Tussauds.

2015 will see IP relationships developed even further. We will introduce a Star Wars exhibition in the Madame Tussauds attractions in London and Berlin (see Case Study on page 37). In Midway our drive to introduce new brands continues at pace, so most exciting of all will be the launch in London in the summer of the world's first Shrek Midway attraction 'Shrek's Adventure!', created in close collaboration with the DreamWorks Animation team.



**PRODUCING THE MAGIC** 

**'FANTASTIC LEGO MODELS...RECORD NUMBERS OF MADAME TUSSAUDS FIGURES...'**

When reporting last year we thought that our production teams had scaled unbelievable new heights BUT we are excited to say that we have been even more productive in 2014.

Our five LEGO model facilities across the USA, UK, Denmark, Germany and Malaysia have again been able to deliver fantastic LEGO models to new accommodation in LEGOLAND Deutschland and our new (and best ever!) LEGOLAND Discovery Centre in Boston, as well as over 20 assignments in our existing businesses.

Madame Tussauds figure production has again been at its highest ever, with over 230 wax figures produced for new openings in Singapore, Beijing, San Francisco and globally across the existing estate of attractions.



## MERLIN Magic Making

### 'WE AGAIN PLAYED A CENTRAL ROLE IN THE WIDER AQUARIUM COMMUNITY'

It has been a very busy year for Merlin's Animal Welfare and Development team, with a whole host of projects centred around the welfare and wellbeing of our creatures.

Early on in the year we successfully moved a group of captive bred penguins from our New Zealand SEA LIFE Centre to our National SEA LIFE Centre in Birmingham in the UK, a story which was followed on UK national television by BBC2, for their 'Penguins on a Plane' mini-series.

We again played our part in the wider aquarium community, with leading roles on a number of BIAZA (British & Irish Association of Zoos and Aquariums) Committees and active participation in a number of industry conferences, think tanks and meetings. Core to this wider community strategy has been our continued work on a number of projects with the SEA LIFE Trust.

Innovation has also been a key activity in 2014, with a number of trials taking place with technology aimed at enhancing the SEA LIFE visitor experience, be it transparent touch screens; the development of Remote Operated Vehicles giving unique underwater views; or new low energy lighting systems for our aquarium displays.



**“ We moved a group of captive bred penguins from our New Zealand SEA LIFE Centre to our SEA LIFE Centre in Birmingham in the UK, a story which was followed by BBC2 ”**



### DELIVERING THE MAGIC



### 'WELL PLACED TO MEET THE NEXT SET OF CHALLENGES'

Another record breaking year in project management has seen us working on 49 major projects in eleven countries during the year, with the projects in total representing a capital investment of over £230 million.

We delivered new accommodation offerings across five different sites to support our resort strategy; opened three new Madame Tussauds as part of our six Midway roll outs (including our first ever Madame Tussauds boat ride!); introduced The Dungeons to the USA (our first outside of Europe); developed fantastic projects with Intellectual Property partners, the BBC and Rovio at two of our parks; launched our third (!) winged coaster at another; brought LEGO Duplo and CHIMA Worlds and water parks into the LEGOLAND Parks; launched and relaunched SEA LIFE Centres and a LEGOLAND Discovery Centre; expanded a Madame Tussauds... and brought penguins to the heart of England!

Innovative thinking across the whole of Merlin Magic Making remains our guiding philosophy. This, as well as delivering compelling propositions to entice our customers to come and visit, along with our aim to drive great value from everything we produce, means that we are well placed to meet the next set of challenges... so bring on the fun!

*the San Francisco Dungeons*



## STAR WARS | Madame Tussauds <sup>★</sup>

### What are we doing?

We have teamed up directly with the Lucasfilm team and put together the first ever Star Wars Madame Tussauds exhibition, ready for launch in the 2015 season. Two separate exhibitions are being produced, one in the Madame Tussauds flagship attraction in London and one in our hugely successful Madame Tussauds in Berlin. Initially for a five year period, the success of the Star Wars intellectual property is set to go from strength to strength with the launch of a new series of films over the next few years.

### How are we doing it?

Our creative teams have been working hard to produce a series of realistic sets which depict the epic Star Wars story. They will be brought to life with original music from the films, special sound effects, lighting, props and even smells, enabling our guests to feel like they are right in the middle of the action. The heroes of the sets, of course, will be the world famous Madame Tussauds figures, representing some of the most iconic characters ever to be produced.

### What will the results be?

We will have produced a unique chronological story through both the prequels and the original trilogy, which will allow guests to immerse themselves in the amazing story of Star Wars. Visitors will be able to stage a 'Lightsaber' duel with Anakin Skywalker; feel like they are piloting the Millennium Falcon with Chewbacca; or recreate the iconic 'I am your father' moment with Darth Vader. The scene is set for this to be one of the best Madame Tussauds exhibitions ever undertaken!



CASE STUDY



## TEAM MERLIN

**Employee engagement**

We believe that our people lie at the heart of all we do and are committed to being the best company to work for in our industry. Whether permanent or temporary, full or part time, based in Germany or Singapore (or anywhere else in the world), we want to attract people from all walks of life and make sure they have a truly great experience working for us. Our employment policies, amongst many other things, are testament to this and include Equal Opportunities, Global Whistleblowing and Global Study Support.

**'The Wizard Wants to Know'**

Our annual online employee survey, 'The Wizard Wants to Know', went out in the summer to all our employees across the globe. This survey is our chance to find out how engaged our people are and to hear what it's like to work for this magical Company of ours. We are excited that 97% completed the survey and thrilled that 95% said that they enjoy working here. We think these are truly awesome scores!



Our overall staff engagement score is one of Merlin's key performance indicators and is derived from the responses to a number of key questions within the survey. We are delighted that our staff engagement score was exceptionally high once again. It was way above our 80% target, something that we are all very proud of. The largest driver of this, we believe, is 'The Merlin Way', our spell of values that wins the hearts and minds of our employees to deliver the most magical, memorable experiences to our guests.

**Diversity**

We believe that our people are the single biggest reason behind the Company's success, so we always strive to make life at Merlin better for all of them, with diversity being an important part of this. We have designed our strategy to give us the best people for all roles, regardless of gender, race, disability, sexual orientation or any other factor. Our aim is to ensure that everyone has equal access to all opportunities wherever possible. Further details of our disability agenda are outlined in our Corporate Social Responsibility section on page 58. In terms of gender diversity, we have launched the Women at Merlin (W@M) programme to help us give women the chances and support they need to achieve their ambitions and develop into senior roles.

Throughout 2014 W@M activities included a number of different events, workshops and webinars. Our diversity strategy was recognised when we won the 'Women 1st' Large Business Award this year. That was incredibly gratifying and a strong indication that we are doing the right things.

< The Merlin Way: our spell of values that wins the hearts and minds of our employees to deliver memorable experiences to our guests.

Women now work at every level within Merlin including the Board and the Executive Committee. 107 or around 35% of all our senior leaders are women as are 4,065 or approximately 50% of our permanent colleagues globally.

**Other engagement initiatives**

We encourage all of our attractions to use the Merlin intranet to publish newsfeeds of interesting information and developments at their sites, as well as providing further regular communications through the more traditional routes of newsletters, team briefs and noticeboards.

In addition, all our employees can be actively involved themselves through a number of popular initiatives. These include:

- **STAR** - our online global recognition scheme that saw more than 90,000 'Stars' sent out worldwide in 2014, in recognition of an outstanding contribution or as a simple 'Thank You' for a job well done.
- **Spark an idea** - an online portal for colleagues to share their ideas, big or small. We have received hundreds of ideas since we launched this scheme in 2012 and lots have already been put into practice in our attractions. We never cease to be amazed by all the fabulous ideas that our people come up with.
- **The Merlin Way film competition** - run every year to give our people everywhere the chance to make a two minute video clip demonstrating just how they make The Merlin Way come to life. They can be so good that we show these inspirational films when we are looking to attract new recruits to come and join us at Team Merlin.



Hosts at LEGOLAND Windsor making it fun!

## TEAM MERLIN



Colleagues at Alton Towers bringing some fun to CBeebies Land

### Talent and development

It is essential to Merlin's future growth that we recruit and develop the 'Team Merlin' of the future. We are an entertainment company, dedicated to providing memorable experiences to our guests, so we seek out the people who have a love of fun and a natural ability to inject some magic into the lives of our guests when they come and visit one of our attractions. Once recruited, we then nurture their talents and support their development throughout their careers with us.

### Recruitment

We use technology more and more in our hiring strategy to improve the application process, with social media a big part of this approach. We work on building relationships in developing markets to improve our campaigns there and make us as appealing as possible to local candidates. Our recruiters need to be experts in choosing Merlin people with the right skills and attitudes, so we have online tools to help them share best practice, as well as videos with opinions and ideas from our senior leaders.



### XLR8

We have a well-established fast track graduate programme in place for marketing and general management positions, which we call XLR8. Roles on the programme are always tailored to the individuals who are supported through their career every step of the way. The success of this can be seen through our 2012 intake, all of whom have progressed to permanent roles in 2014. We have also promoted lots of our previous XLR8 alumni into senior positions across the Group during the past year. The 2014 intake included fun-loving, talented recruits from across the UK, North America, Germany, China and Australia.

### Leadership development programmes

We have many superb leadership development programmes in place, including our flagship 'Xcalibre' course, run with Kingston University in the UK and aimed at leaders who have bags of potential. We also have the Merlin leadership programme, which we run across the globe. In addition, during the course of last year we introduced some 'Bootcamps', which are development centres specifically for our general management, finance and HR team members. These courses include a combination of personal development and competency assessment to help us identify and nurture talent.





### Merlin employee exchange programme

The Merlin Employee Exchange Programme helps our people via a 'job swap' in another attraction (that can be anywhere in the world) to help them develop new skills, experiences, and relationships, positioning them for their next step in their professional journey.

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

### Compensation and benefits

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

### Share plans

This year we made good progress towards our goal of helping as many of our colleagues as possible to take an equity stake in Merlin. We call this 'owning a piece of the magic', and we believe it is an important way of making Team Merlin even more committed to our success.

Following our Listing in November 2013, we launched our first Employee Sharesave plan in January 2014 to give all our permanent colleagues the chance to save money over a three year period to buy Merlin shares. This was communicated internally with a comprehensive, multi-media campaign that included videos from our CEO, webinars, face to face briefings, intranet updates, posters and 'table-top teasers'. Overall, almost 30% of permanent staff took up the opportunity to start saving to buy shares. In the UK, the take-up rate was 40%, with some teams having more than 80% of their people taking part.

We have also continued to roll out the other long term incentive plans that we launched last year, making grants to more than 50 colleagues who joined Merlin or were promoted to senior management grades during the year.

### Other benefits initiatives

We run a number of programmes to support our teams and continue to harmonise our local benefit structures on a territory by territory basis.

With our rapid growth, 2014 has seen a big step up in the number of colleagues moving to new countries to support our business growth. Our international mobility programme is therefore proving invaluable in helping us move our talent safely, securely and comfortably.

We offer an external, confidential Employee Assistance Programme to support our staff when they need it. We also offer reduced-cost gym memberships at a number of sites and have various wellness initiatives around the Group.



## MERLIN ALL EMPLOYEE SHARESAVE



Actors from the Blackpool Tower Dungeon, ready for Scary Fun!

# RISKS

## *and uncertainties*

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

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

#### **Evolution in approach**

During the course of 2014, Merlin has reviewed its overall risk management approach to further align it to the management of the business and the Board Committee structure.

Prior to this change in approach, risks were categorised into: health and safety matters; current trading and future expansion risks. All matters were overseen by a Corporate Risk Management Committee which reported to the Executive Committee and, through the CEO, to the Board. In addition, there was a dedicated Health, Safety and Security Committee of the Board chaired by the Chairman to oversee all health and safety matters.

In the latter part of 2014, an amended approach to risk management has been implemented. The Group has now separated risk management into three components to reflect the varying functions and committees that manage and oversee such risks on an ongoing basis. The three components are:

- Health, safety and security risk.
- Commercial and strategic risk.
- Financial process risk.

Whilst the Board retains overall responsibility, specific Committees are appointed by the Board to oversee the management of the risks in each category:

- The Health, Safety and Security Committee and the Audit Committee comprise Board members to oversee health, safety and security matters and financial process risks respectively.
- The Group's Executive Committee, a non-Board committee, oversees commercial and strategic risk through a Commercial and Strategic Risk Management Committee made up of members of the Executive Committee and other relevant senior managers. It reports quarterly to the Board on such matters, through the CFO.

“

*Risk registers provide the basis for ongoing risk management and all are formally reviewed at least once a year*

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RISKS *and uncertainties***Risk appetite**

The Board has defined the Group's risk appetite (tolerance of risk) according to whether a risk is pure or speculative.

Pure risk refers to situations where there is clear regulatory guidance and matters are strictly defined, such as ride safety, accounting practices or food hygiene. The Group has a very low appetite for pure risk. In practice this means that wilful breach of any national or local legislation is unacceptable.

Speculative risk relates to decisions for which acceptance of a risk can bring commercial benefit. The Group has a greater appetite for speculative risk, which it assesses based on an appropriate analysis of threats and opportunities, along with appropriate decision-making authority levels. Factors such as the scale of possible commercial upside, the potential market size, the quantum of downside risk and timescales involved may all be relevant to speculative risk decisions.

**Risk management**

Each attraction and central function maintains a risk register, being a record of the material risks it faces categorised into the three components of risk as identified above. The registers include a rating of each risk, based on an assessment of the likelihood and impact after taking into account existing mitigating control measures. Where this assessment indicates a high residual risk, additional actions are considered to further mitigate the risk. In respect of financial risks, such actions may include the use of hedging instruments to protect against movements in foreign exchange and interest rates, following an assessment of the perceived risks in each case. Risk registers provide the basis for ongoing risk management and all are formally reviewed at least once a year.

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

**Health, safety and security risks**

Integral to Merlin's strategic vision is our absolute commitment to continuously achieve high standards of health, safety and security (HSS). Merlin's number one priority is delivering safe and memorable experiences to guests. Our unequivocal focus is on ensuring that our operations are as safe as possible at all times, thereby honouring the trust that our guests, employees and shareholders place in us. Our ultimate aim is to proactively and continuously improve HSS performance.



*Our unequivocal focus is on ensuring that our operations are as safe as possible at all times, thereby honouring the trust that our guests, employees and shareholders place in us*

**HSS management**

Responsibility for the management of HSS resides with the Board, with day to day management delegated, via the Executive Committee, to the relevant management teams throughout the Group with local HSS committees in place at both Operating Group and attraction levels.

Merlin's HSS Policy and health and safety management system together set mandatory obligations for standards and performance across all our operations. Our approach, which is well embedded across the Group, incorporates the requirements contained within the UK official guidance on the safe practice of fairgrounds and amusement parks (HS(G)175), as endorsed by the UK Health and Safety Executive. Similar guidance, including in respect of robust independent inspection regimes, is applied in all territories in which we operate.

**HSS assurance**

Merlin conducted 78 HSS audits during 2014 to assess compliance with our HSS policy and manual, which are reported to the HSS Committee. These audits are in addition to the regional and attraction based self-inspections that also take place throughout the year. In addition, thorough in-service annual inspections were conducted on all our rides during the reporting period, meeting UK requirements (or other national equivalents) as a minimum. These are typically performed by accredited independent third party inspectors.

All attractions that prepare and serve food and beverages are subject to half-yearly or annual food safety audits, performed by specialist independent third party inspectors, to verify compliance with Merlin's comprehensive food safety policy.

## RISKS *and uncertainties*

### **Commercial and strategic risks**

Commercial and strategic risk management is delegated from the Board, via the CEO and the Executive Committee, to the Commercial and Strategic Risk Management Committee (CSRMC). This latter Committee comprises, the CFO, who is a member of the Board, relevant members of the Executive Committee and other relevant senior managers and is chaired by the CFO. It meets four times per year with matters arising being reported to both the Executive Committee and the Board on a quarterly basis by the CFO. To provide the Non-executive Directors with sufficient information to gain assurance over the process of commercial and strategic risk management, a fuller document is provided annually detailing the items discussed and output of the CSRMC. Furthermore, in 2015 the minutes of each meeting will be issued to the Non-executive Directors.

The management of commercial and strategic risk is embedded across the Group through normal business review processes. In addition, from 2014 onwards, each attraction and central function is required to perform a full risk assessment workshop on an annual basis. The purpose of this process is to review any material changes in the external commercial landscape and to assess whether recent trading trends may require an alternative risk management approach. These annual assessments are incorporated into the commercial and strategic section of the risk register for each Operating Group and are aggregated at Group level.

### **Financial process risk**

Financial processes within the Group are led and co-ordinated by the central finance function. Financial process risks are managed by that team through an ongoing assessment of external regulatory changes, the quality and timeliness of internal financial reporting and other financial risk areas such as taxation and treasury. Key issues are reviewed on a quarterly basis by a senior finance team within Merlin.

Further assurance is gained from both the internal and external audit processes. In 2014 the internal audit function, based on an annual assessment of risk, provided audit coverage of material central functions and attractions covering over 70% of revenue generated, identifying procedural weaknesses and providing a structure to assess management's response. The Group is also subject to external audit. Matters arising from both audit functions are reported to the Audit Committee.

### **Business continuity planning**

Disaster recovery plans are in place at all attractions, incorporating escalation procedures and crisis management protocols that are regularly updated on a groupwide basis. More broadly, business continuity plans exist to allow the attractions to recover performance in the event of various adverse incidents. Examples of such incidents could include prolonged power failure, major IT failure or life support system failure within a SEA LIFE attraction. It is recognised that only limited contingency planning can be made against natural disasters such as major flooding or earthquakes, however the Group's geographic diversity provides protection against the financial impact of such occurrences.

The tables on the following pages highlight the main risks that have been identified through the Group's risk assessment processes and that have the potential to impact on our strategic development. The tables show whether, in the opinion of the Board, such risks are increasing, stable or decreasing based on management assessment, review of available data and after taking account of the mitigating factors identified.

## RISKS and uncertainties

Description	Mitigating factors	Risk trend	
<b>Health, safety and security (HSS)</b>			
Ride and attractions safety	<p><i>Health and safety is one of Merlin's Key Performance Indicators.</i></p> <p>A serious accident to a guest or staff member on a ride or at an attraction could cause harm to an individual and impact confidence in the Group's brands.</p>	<ul style="list-style-type: none"> <li>• Proactive ownership of HSS risks by line management based on the provision and adoption of HSS policies, Codes of Practice and guidance notes.</li> <li>• Competent and trained operational and engineering staff, backed up by professional HSS teams supporting, monitoring and inspecting attractions.</li> <li>• Utilisation of HSS systems to support the management of risks with annual risk register and action planning processes by each attraction.</li> <li>• Regular internal and annual independent external auditing regimes.</li> <li>• Regular review of performance as well as key policies and procedures.</li> </ul>	Stable
Contractor management	<p>The delivery of new attractions and experiences, which often involve work by sub-contractors. Poor standard of work or unreliable delivery could impact the Group's safety and growth expectations.</p>	<ul style="list-style-type: none"> <li>• Contractor approval procedures.</li> <li>• Major contracts are managed by qualified project managers and are subject to strict tendering processes.</li> <li>• Contractor performance is managed by in-house project management teams.</li> </ul>	Stable
Macro event	<p>A material macro event such as the spread of a worldwide pandemic or malicious attempt to sabotage a ride or attraction could impact visitation.</p>	<ul style="list-style-type: none"> <li>• Detailed security protocols.</li> <li>• Regularly tested major incident management plans.</li> </ul>	Increasing



## RISKS and uncertainties

	Description	Mitigating factors	Risk trend
<b>Commercial and strategic</b>			
Customer satisfaction	<p><i>Customer satisfaction is one of Merlin's Key Performance Indicators.</i></p> <p>A downturn in customer enjoyment of our attractions could impact repeat visitation. Similarly subsequent adverse social media feedback could adversely affect customer likelihood to visit.</p>	<ul style="list-style-type: none"> <li>Regular and detailed customer feedback collected at every location. Data analysed against challenging satisfaction targets and actions taken accordingly.</li> <li>Ongoing investment in our attractions continually refreshes the experiences for customers.</li> </ul>	Stable
People availability and expertise	<p><i>Staff engagement is one of Merlin's Key Performance Indicators.</i></p> <p>Merlin is a people business. The inability to attract and retain motivated, customer service orientated staff could impact guest satisfaction and future expansion.</p>	<ul style="list-style-type: none"> <li>Personal development plans in place at all levels of the business to encourage long term employment stability.</li> <li>Succession planning processes embedded across the Group and proactively managed.</li> </ul>	Increasing
Animal welfare	<p>Growth would be impacted if animals were lost to disease or other welfare issues.</p>	<ul style="list-style-type: none"> <li>External Zoo Licence audits ensure appropriate animal care.</li> <li>Internal ethics committee and the Merlin Animal Welfare and Development team ensure the ethical treatment of animals in our care.</li> </ul>	Stable
Availability and delivery of new sites and attractions	<p>The Midway and LEGOLAND Parks growth strategy is predicated on the availability of suitable sites. A decline in the pipeline of suitable and economically viable sites could inhibit this growth.</p> <p>Planning permission is often required for new rides and attractions so growth could be impacted if planning permission were not able to be obtained.</p>	<ul style="list-style-type: none"> <li>Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of expansion opportunities.</li> <li>In 2014 the LEGOLAND development and site search teams have been expanded to support the development of new parks and other sites.</li> <li>Sites regularly update their development masterplans and teams work closely on fostering links with their local communities.</li> </ul>	Stable
Competition	<p>Competition for leisure time and new entrants to the market could reduce opportunities for growth.</p>	<ul style="list-style-type: none"> <li>Diversification to reduce reliance on individual attractions or locations.</li> <li>Ongoing investment in sites to ensure continued appeal to visitors.</li> </ul>	Increasing
IT robustness, technological developments and cyber security	<p>The Group has grown in the past both organically and through acquisition and as a consequence has varied IT systems across its portfolio. Such systems are integral to the Group's operations and financial reporting integrity. The Group is conscious of the increasing threat of cyber crime.</p>	<ul style="list-style-type: none"> <li>IT strategy focused on ensuring the long term stability of operating systems and data security, whilst keeping pace with the changing face of consumer IT expectations.</li> <li>Significant 2014 investment to ensure the Group remains compliant with payment card industry standards.</li> <li>Additional measures put in place to mitigate the increasing threat of cyber security risk.</li> <li>Regular updates to the Board on the progress of the IT strategy.</li> </ul>	Increasing
Weather / seasonality	<p>Individual attractions performance can be affected by particularly adverse weather at key trading periods.</p>	<ul style="list-style-type: none"> <li>Increased portfolio hedging as the proportion of revenue generated from Asia Pacific and North America regions increases.</li> <li>Healthy mix of indoor and outdoor attractions.</li> <li>Strategy to drive an increased percentage of pre-booked business.</li> </ul>	Reducing

## RISKS and uncertainties

	Description	Mitigating factors	Risk trend
<b>Financial process</b>			
Anti-bribery and corruption	<p>An incident of bribery or corruption could lead to prosecution and fines and could cause reputational damage to the Company.</p> <p>Merlin's business model is lower risk relative to other industries as the majority of transactions are of low value and to individual customers.</p> <p>Merlin has a well embedded culture across the Group in which fraud and bribery at any level are not tolerated. Merlin does however operate globally and increasingly within territories with a historically higher propensity to bribery and corruption.</p>	<ul style="list-style-type: none"> <li>• Global fraud and bribery training programme in place alongside a fraud policy sign off for all staff.</li> <li>• Regular assessment of bribery exposure, and in 2014 performed an assessment workshop to reassess risks across the Group.</li> <li>• Robust financial and contractual controls with regard to procurement activities. Internal audit monitors purchasing processes on a rotational basis.</li> <li>• A separate profit protection team monitors for theft or other criminal activity across the Group and ensures best practice for protection is shared between sites.</li> <li>• A whistleblowing policy is in place together with an independently operated employee hotline.</li> </ul>	Stable
Credit risk	<p>Merlin has relationships with a number of banks and is therefore inherently exposed to some credit risk.</p> <p>Merlin has very limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit.</p>	<ul style="list-style-type: none"> <li>• Counterparty credit ratings are regularly monitored and there is no significant concentration of credit risk with any single counterparty.</li> </ul>	Stable
Foreign exchange risk	<p>Merlin has its main borrowings and revenues in Sterling, Euros, US Dollars and Australian Dollars so is inherently exposed to exchange rate fluctuations which could impact on financial performance.</p> <p>Merlin reports its results in Sterling and as such is subject to translation risk in reporting its consolidated results.</p>	<ul style="list-style-type: none"> <li>• Broad match of borrowings in the currencies of underlying revenues.</li> <li>• Treasury policies in place and reviewed annually with regular reviews of currency exposures.</li> <li>• Currency exposures hedged where appropriate.</li> <li>• The Group presents constant currency figures where appropriate to show the underlying results of the Group excluding the impact of foreign exchange rate translation differences.</li> </ul>	Increasing
Interest rate risk	<p>Merlin continues to finance its operations through a combination of predominantly floating rate debt, and equity. It is therefore inherently exposed to interest rate fluctuations which could impact on financial performance.</p>	<ul style="list-style-type: none"> <li>• Interest rate swap arrangements in place to fix the majority of the debt and substantially all of these are hedge accounted.</li> <li>• Group policies in place in terms of counterparty relationships and minimum credit rating criteria.</li> </ul>	Stable
Liquidity / Cash flow risk	<p>Many of Merlin's businesses are seasonal in nature, generating cash in peak trading periods and utilising cash out of season, when capital investments are undertaken and fixed costs continue to be incurred.</p> <p>Merlin's growth plans include both the roll out of existing Midway and LEGOLAND brands, as well as strategic acquisitions when appropriate opportunities present themselves. The Group needs to have sufficient cash to fund these activities.</p> <p>Lack of liquidity and changes to the global credit market could impact the Group's long term ability to meet current growth targets.</p>	<ul style="list-style-type: none"> <li>• Short term cash flow forecasts are updated frequently in order to ensure liquidity for business operations on an ongoing basis.</li> <li>• Forecasts look forward for at least three years and are reviewed regularly to ensure sufficient financial headroom exists and to meet the covenant tests set out in the Group's banking facilities.</li> <li>• Merlin maintains strong relationships with a number of lenders and keeps the debt markets under review in order to ensure that funding is obtained at the right time and at the right price to ensure the availability of funds to meet its strategic growth plans.</li> </ul>	Stable

# GROUP

## *Financial Review*

2014 WAS ANOTHER SUCCESSFUL YEAR FOR MERLIN. IN THE FACE OF ADVERSE FOREIGN EXCHANGE RATES THE COMPANY GREW REVENUES BY 4.8%, DRIVING AN INCREASE IN UNDERLYING EBITDA OF 5.3% AND GENERATING OPERATING CASH FLOW OF £357 MILLION. THE GROUP CONTINUED TO DE-LEVER AS A RESULT OF ITS EARNINGS GROWTH AND STRONG CASH FLOW GENERATION. ✨



**Andrew Carr**  
Chief Financial Officer



## GROUP Financial Review

	2014 £m	2013 £m	Growth +/- £m	Change at actual rate %	Change at constant rate %
Revenue	1,249	1,192	57	+4.8%	+9.6%
EBITDA <sup>(1)</sup>	411	390	21	+5.3%	+11.0%
Operating profit <sup>(1),(2)</sup>	311	290	21	+7.1%	+13.3%
Net finance costs <sup>(1)</sup>	(62)	(104)	42	+41.5%	
Profit before tax <sup>(1)</sup>	249	186	63	+34.6%	
Taxation <sup>(1)</sup>	(70)	(24)	(46)	(195.3%)	
Profit for the year <sup>(1)</sup>	179	162	17	+11.1%	
Post-tax exceptional items	(17)	(17)	-	(4.2%)	
Leverage on net debt to underlying EBITDA	2.3x	2.6x			

**Trading performance**

Like for like revenue grew by 7.1% in 2014. When combined with the contribution from new attractions and accommodation, total revenue grew by 9.6% also on a constant currency basis. However, the reported revenue growth was suppressed by significant unfavourable movements in foreign exchange rates, resulting in 4.8% reported growth to £1,249 million. Further detail on the impact of foreign exchange movements is provided overleaf.

**Visitor numbers** grew by 4.9% during the year, reflecting a combination of underlying growth in the existing estate of attractions, as well as the addition of six new Midway attractions. The existing estate benefited from good weather across all of the main trading periods in Europe; the phenomenal success of 'The LEGO Movie' with its consequent impact on LEGO brand awareness and our ability to successfully leverage specific promotional activities; and a strong performance across Resort Theme Parks. Our Midway businesses delivered a solid year with specific challenges in Bangkok, which suffered from political unrest, whilst our North American Midways were adversely impacted by the extremely cold weather early in the year which reduced visitation and had a knock-on effect on school holiday periods.

**Revenue per capita (RPC)** was £18.15, in line with the prior year (2013: £18.14). This was driven by general underlying increases and a positive mix impact with proportionally higher visitation in the LEGOLAND Parks which bring higher average spend levels. This was however offset by adverse foreign exchange impacts. The Company's focus continues to be on revenue maximisation rather than specific volume or RPC targets.

Over the past four years, the Company has reported growth in revenue at a compound annual growth rate of 11.8% and average like for like revenue growth of 4.8%.

**Underlying EBITDA** grew by £21 million, or 5.3% to £411 million, despite the significant unfavourable foreign exchange movements. Underlying growth was 7.8% on a like for like basis, increasing to 11.0% with the contribution of new attractions and accommodation, on a constant currency basis. The reported compound annual growth rate in EBITDA over the past four years was 12.6%.

Merlin's operating model is such that increased revenues at existing attractions will flow through to operating profit, subject to expenditure on a number of incremental variable costs, such as direct cost of sales, incremental labour costs and variable rents. Operating margins are also impacted by the mix of revenues across attractions, including the impact of foreign exchange translation, as well as the nature of additional revenues generated by each site. In 2014, the growth in EBITDA as a percentage of revenue reflected a healthy conversion of revenue into profit, tempered by increases in variable trading costs, new share-based remuneration and corporate costs as a result of the IPO in 2013, along with certain remedial costs to the hotel at LEGOLAND Windsor.

**Underlying operating profit** growth of £21 million and 7.1% was driven by the growth in EBITDA. The reported depreciation and amortisation charge remained flat year on year at £100 million reflecting underlying increases offset by the impact of foreign exchange movements.

**Table notes:**

<sup>(1)</sup> References to EBITDA, net finance costs, taxation and all other profit measures in the table above and the following commentary are stated on an underlying basis, before exceptional items unless otherwise stated. Further details are provided of exceptional items on page 114.

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

Details of the Group's accounting policies are contained within the financial statements on pages 104 to 161 and those areas requiring significant judgement in the preparation of the financial statements are summarised on page 110.

Further information regarding the Group's segmental analysis; geographical revenues and assets; and certain operating costs are provided in note 2.1 to the financial statements on pages 111 to 113.

## GROUP Financial Review

### Finance costs

**Net underlying finance costs** of £62 million represented a reduction of £42 million (2013: £104 million). During 2013 facility amendments were made which reduced the margins payable on the Group's debt facilities; there was a restructuring of the interest rate swaps portfolio; and borrowings were repaid from the net proceeds of the IPO. During 2014 further debt repayments of £70 million were made.

### Taxation

**An underlying tax charge** of £70 million is equivalent to an effective tax rate of 28.0% (2013: 12.7%) of underlying profit before tax. The difference between the reported effective tax rate and the UK standard weighted tax rate of 21.5% is mainly due to the different tax rates that apply in the various jurisdictions we operate in around the world.

The charge in 2013 reflected similar differences in tax rates offset by the recognition of deferred tax assets in the UK. This UK deferred tax asset recognition came as a result of the Group's financing changes in that year that resulted both in lower underlying interest charges and lower levels of debt, and hence greater certainty of tax becoming payable in the future.

Further detail is provided in note 2.3 to the financial statements.

### Exceptional items

There were no exceptional costs impacting EBITDA or operating profit in 2014 (2013: £30 million in respect of costs associated with the IPO and acquisition related activities).

**Exceptional finance costs** before tax of £23 million were recorded to accelerate the expected amortisation rate of previous loan issuance costs. This arose as a result of the Board's assessment at the end of 2014 that a more reliable estimate of the timeframe for refinancing would be some time during 2015. Further details are provided in the financial statements on page 131.

In 2013 net exceptional finance income of £16 million before tax was recorded in relation to gains and losses on derivative financial instruments which were not hedge accounted.

Tax on exceptional items amounted to a credit of £6 million (2013: charge of £3 million).

### Foreign exchange rate sensitivity

Merlin is exposed to fluctuations in foreign currency exchange rates, principally on the translation of the results of our overseas operations. The table below shows the impact on 2013 revenues of re-translating them at 2014 foreign exchange (FX) rates. Operating profits would be similarly impacted.

Currency	2013 average FX rates	2014 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.55	1.66	(7.5%)	(17)
EUR	1.17	1.24	(6.5%)	(15)
AUD	1.62	1.82	(12.2%)	(10)
Other	-	-	-	(10)
<b>Reduction in 2013 revenues at 2014 FX rates</b>				<b>(52)</b>



*Underlying EBITDA  
grew by £21 million despite  
unfavourable foreign  
exchange movements*



**Earnings per share (EPS)**

Basic earnings per share was 16.0p (2013: 15.1p).

Adjusted earnings per share, which excludes the impact of exceptional items, was 17.7p. (2013: 16.9p).

The 2013 EPS figures were affected by capital changes arising as part of the IPO in November 2013. Growth in the underlying profit after tax of the Group was 11.1%.

**Reconciliation between basic and adjusted earnings**

	2014 £m	2013 £m
Profit attributable to shareholders	162	145
Exceptional items after tax	17	17
Adjusted profit attributable to shareholders	179	162
Weighted average number of shares (million)	1,014	958
Basic earnings per share	16.0p	15.1p
Adjusted earnings per share	17.7p	16.9p

**Dividend**

As previously announced, the Company intends to adopt a progressive dividend policy within an initial target range of payout of 35-40% of underlying profit after tax, so as to maintain an appropriate level of dividend cover whilst retaining sufficient capital in the Group to fund continued investment across our six growth drivers.

In September 2014 we paid our first interim dividend of 2.0 pence per share and we are proposing a final dividend of 4.2 pence per share. This equates to a full year dividend of 6.2 pence per share.



*In September  
2014 we paid our first  
interim dividend*

**Cash flow**

	2014 £m	2013 £m
<b>Underlying EBITDA</b>	411	390
Exceptional items	-	(30)
Working capital and other movements	-	27
Tax paid	(54)	(22)
<b>Net cash inflow from operating activities</b>	357	365
Capital expenditure	(192)	(152)
Other investing activities	(3)	(11)
Net proceeds from IPO	-	194
Interest paid, net of interest received	(56)	(92)
Dividends paid	(20)	-
<b>Net cash inflow before refinancing and repayment of borrowings</b>	86	304
Refinancing and repayment of borrowings	(70)	(179)
<b>Net cash inflow for the year</b>	16	125

**Merlin continues to be highly cash generative.**

The Group generated a net operating cash flow after tax of £357 million (2013: £365 million). This primarily reflects underlying EBITDA, offset by tax payments of £54 million. These tax payments have increased in 2014 as a result of higher profits together with the impact of tax losses in certain territories having been utilised.

## GROUP Financial Review

**Capital expenditure and investing activities of £195 million in aggregate** was incurred in order to invest in both the existing estate businesses (£107 million) and new attractions and accommodation (£88 million, including early stage spend on new LEGOLAND Park developments).

In line with our strategy, Merlin's capital investment programme creates new rides and features for the existing businesses, following the specific investment cycles laid down for each Operating Group. In addition, during 2014 we continued to invest significantly in new accommodation offerings across our theme park resorts. All major capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing the viability and prioritisation of capital investment projects.

Within the £88 million of new development capital expenditure noted above, the Group invested £49 million in expanding the Midway portfolio. Six new attractions were opened in 2014 and we are on track for a further seven in 2015.

**Repayments of borrowings** were made totalling £70 million.

**Net interest paid** of £56 million (2013: £92 million) has reduced reflecting all the factors referred to above in relation to the reduction in the Group's underlying net finance costs.

**Dividends paid** in the year of £20 million comprises the interim dividend for 2014 (2013: £nil).

### Net debt

	2014 £m	2013 £m
Bank loans and borrowings	1,136	1,185
Less: cash and cash equivalents	(285)	(264)
Net bank debt	851	921
Finance lease obligations	84	85
Net debt	935	1,006
Leverage on net debt to underlying EBITDA	2.3x	2.6x

**Leverage on net debt** at the year end equates to 2.3x underlying EBITDA (2013: 2.6x), recognising both the growth in EBITDA and the reduction in net debt as a result of the strong cash generation.

### Loan facilities

Under the existing bank facilities, Merlin has a revolving facility of £150 million (2013: £150 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 27 December 2014, £nil had been drawn down from the revolving facility (2013: £nil). Merlin is required to comply with certain financial and non-financial covenants, including a requirement to maintain certain ratios of EBITDA to both net interest payable and net debt. The existing facility is secured by fixed charges over the shares in certain Group companies and certain intra-Group receivables.

The Group's loan facilities remained unchanged throughout 2014 following the amendments made during 2013 that secured financing out to 2019. Following the IPO and reflecting the Group's subsequent progress, it is pleasing to note that we have now secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities. The Company will continue to explore opportunities to diversify sources of funding and extend maturities.

The new senior unsecured facilities will comprise circa £1,000 million in floating rate term debt, with maturities in 2018 and 2020, along with an increased £300 million revolving credit facility. The reduction in drawn term debt will be funded through the use of circa £130 million of the Group's existing cash balance. The increased revolving credit line will ensure that the Group has adequate committed liquidity facilities to support our seasonality and strategic growth objectives. Under the new facilities we will be required to comply with certain financial and non-financial covenants.

Overall, the new financing arrangements are more suitable for a company of our size and profile. They will provide further flexibility for the Group and, through lower average margins, will reduce the cost of debt finance.

**Net assets**

**Net assets** increased by £119 million from £944 million in 2013 to £1,063 million in 2014.

This reflects £162 million profit for the year, offset by £27 million of other comprehensive income, primarily exchange losses arising on the retranslation of net assets denominated in foreign currencies, together with movements in the valuation of hedge accounted derivatives. In addition we incurred an expense of £4 million in respect of share-based payments and paid an interim dividend of £20 million.

The consolidated statement of financial position on page 106 shows an increase in property, plant and equipment of £89 million from £1,321 million to £1,410 million, primarily reflecting the capital additions referred to previously offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates. Foreign exchange translation differences also account for the majority of the reported reduction in intangible assets from £961 million to £942 million. Working capital has remained broadly flat and net debt has reduced as a result of the financing activities referred to previously. The net pensions liability remained broadly flat at £5 million (2013: £4 million).

Further detail is provided in the notes to the financial statements on pages 109 to 156.

In February 2014 we completed a capital reduction process, whereby £3,183 million of share premium was converted into profit and loss reserves. This conversion had no effect on the overall net asset position but increased distributable reserves by an equivalent amount.

**Return on capital employed (ROCE)**

The Board considers ROCE to be an important metric for appraising financial performance and uses it, along with EPS, in the remuneration of senior executives. The profit measure used in calculating ROCE is based on underlying operating profit after taking account of a normalised long term tax rate. The capital employed element of the calculation is based on net operating assets which include all net assets other than deferred tax, financial assets and liabilities, and net debt. ROCE in 2014 was 10.6% (2013: 10.2%).

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The Group generated  
a net operating cash flow  
of £357 million

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**Summary**

Overall I am again very pleased with our financial performance in 2014. The continued strong trading of the Group, the long term shareholding structure following the recent IPO, together with the stability and flexibility of our bank facilities give an appropriate financial platform on which we can pursue our growth strategy based around our six strategic growth drivers.

**Andrew Carr**  
**Chief Financial Officer**

25 February 2015

# CORPORATE

## *Social Responsibility*

A KEY ELEMENT OF OUR MERLIN WAY CULTURE IS THAT WE CARE ABOUT OUR PEOPLE, OUR VISITORS, THE CREATURES IN OUR CHARGE AND THE COMMUNITIES AND ENVIRONMENT IN WHICH WE OPERATE. WE CALL THIS 'BEING A FORCE FOR GOOD' AND FOCUS OUR EFFORTS IN THE FOLLOWING KEY AREAS: SUSTAINABILITY AND THE ENVIRONMENT; ANIMAL WELFARE; MERLIN'S MAGIC WAND CHILDREN'S CHARITY; AND BECOMING THE COMPANY OF CHOICE FOR VISITORS AND STAFF WITH A DISABILITY. ✨



Our baby Gentoo penguin Elsa,  
born at the SEA LIFE London Aquarium

## CORPORATE Social Responsibility

**Sustainability and the environment****Strategy and governance**

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

**Environmental policy**

Merlin recognises that its operations impact upon the environment and that effective management of this impact is essential for sustainable 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 Group's animal collections.
- Consult with relevant stakeholders to meet the Group's environmental commitments.
- Consider and plan for practical and cost-effective control measures in order to minimise environmental impacts associated with the Group's operations including energy conservation, water reduction, pollution prevention, waste reduction, recycling and disposal.
- Encourage regular investments in environmental initiatives such as low carbon and renewable technologies, improved water management and diversion of waste from landfill.
- Strive to continually improve our environmental performance and minimise the social impact of activities by periodically reviewing our environmental policy in light of our current and planned future activities.

**Environment and energy management**

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

We participate in the UK Carbon Reduction Commitment (CRC) energy efficiency scheme and other applicable environmental regulations globally.

**Greenhouse gas (GHG) reporting**

The Company is required to annually report its carbon dioxide emissions in tonnes emitted. From 2014 Merlin has been collecting the global data necessary, both to meet these reporting requirements and more importantly to drive our long term aim of reducing our emissions intensity by 2% annually.

<b>Report boundaries</b>	Financial control - All facilities under the Group's direct financial control have been included.
<b>Consistency with financial statements</b>	This report covers the twelve month period from 1 December 2013 to 30 November 2014 in comparison to our financial year of January to December 2014.
<b>Methodology</b>	UK Government's Environmental Reporting Guidance (2013 version) applying emissions factors from DEFRA (2014)
<b>Intensity ratio</b>	Emissions per £1 million of revenue
<b>Scope 1 Fuel combustion (natural gas, diesel, site vehicles)</b>	15,349 tonnes of CO <sub>2</sub> equivalent
<b>Scope 2 Purchased electricity</b>	125,989 tonnes of CO <sub>2</sub> equivalent
<b>Group total emissions (Scope 1 and 2)</b>	141,338 tonnes of CO <sub>2</sub> equivalent
<b>Intensity baseline (revenue)</b>	£1,249 million
<b>Emissions intensity</b>	113 tonnes of CO <sub>2</sub> equivalent per £1 million of revenue

**Table notes:**

- We have shown 2014 as our base year upon which our targets will be set.
- Refrigerants have not been recorded due to the challenges of data gathering or estimation. Where practical and material, we plan to include this data from 2015 onwards.



One of our many recycling initiatives at SEA LIFE Sanctuary Hunstanton

CORPORATE *Social Responsibility***Animal welfare**

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

In 2012, Merlin acquired Shanghai Chang Feng Ocean World, which has three Beluga Whales on display. In line with our publicly stated policy on cetaceans in captivity, we are working hard with Whale and Dolphin Conservation (WDC) to find and develop a more natural environment for these animals. Whilst a number of solutions are explored, their welfare is our top priority and we have adapted their daily routine to focus on natural behaviour and keep them sufficiently stimulated and healthy.

**Breed, Rescue, Protect**

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

**SEA LIFE****Breed**

2014 was another great year for the successful breeding of many marine species across the SEA LIFE network with 65 different species and 7,737 individual animals bred including a baby Gentoo Penguin, christened Elsa, at the SEA LIFE London Aquarium and a Black Tip Reef Shark in Günzburg, Germany amongst many other species.

**Rescue**

As part of our 'Rescue Rehabilitation Release Programme' we have rescued many animals through our SEA LIFE network this year. Our focus on releasing these where possible continued with 108 seals and 43 turtles being released through the year. As part of its ongoing rescue and release programme, in May SEA LIFE Busan Aquarium rescued a Finless Porpoise, which is in rehabilitation with the view to being released back to the wild.

**Protect**

In its first full year of operation, the SEA LIFE Trust has benefited greatly from the support of SEA LIFE staff and guests around the globe. The Trust launched its first public campaign in June, 'Wipe out Whaling', a joint initiative with WDC calling for the EU to end the transport of whale meat through European ports. With the support of SEA LIFE, the Trust is gathering many thousands of signatures to help bring an end to this unacceptable practice. During 2014 the Trust committed funding to campaigns working to develop a simple test to determine the illegal use of poison to catch fish; and a project studying the undulate ray that will help sustainable breeding and conservation of the species (see Case Study on page 57).



“

2014 was another great year for the successful breeding of many marine species

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We have raised significant funds across the globe in 2014 to support future projects, and in 2015 the Trust will launch a new global campaign focused on protecting marine habitats.

**WILD LIFE**

Chessington World of Adventures Resort continues its successful breeding programmes with two Scimitar Horned Oryx, two Gentle Lemurs, two Golden Headed Tamarins, one Saki Monkey, two Bolivian Squirrel Monkeys and twelve Black-cheeked Lovebirds all being bred during 2014. Our troop of Gentle Lemurs at Chessington represents over 10% of the entire European collection, a critically endangered species found in the wild in a shrinking area in Madagascar.

The Chessington Conservation Fund (CCF) also committed to a number of projects:

- In partnership with the World Land Trust, CCF now sponsor a ranger to protect the 128 acres of Ecuadorian rainforest (equivalent in size to the Chessington Resort and purchased in 2012) from illegal logging and the bush meat trade.
- CCF funded the purchase of an X-ray machine to help Ape Action Africa in their efforts to rehabilitate orphaned gorillas back to the wild. A case study of the importance of this diagnostic health equipment was showcased on the BBC programme 'Operation Wild' with Shufai the Gorilla.
- CCF worked with a new organisation in Zimbabwe, the Dambari Wildlife Trust, providing identification equipment including cameras to the rangers who actively patrol the area which is frequented by both the threatened White and Black Rhino.

WILD LIFE Sydney Zoo have supported a number of conservation activities:

- A project with Sydney University to address a disease that threatens the survival of the iconic Tasmanian Devil.
- Providing direct support in Queensland to charitable wombat breeding facilities.
- Directly supporting the Rainforest Rescue programme in northern Queensland's Daintree rainforest.





## ENDANGERED UNDULATE RAY PROTECTION

### *What's this all about?*

The undulate ray is a European species of skate which lives in coastal waters from southern UK to the Mediterranean. There has been a sharp decline in the wild population over the last decade, caused primarily by overfishing, being caught as by-catch and habitat destruction. The undulate ray is now classified as 'Endangered' and commercial fishing of the species is now banned in the EU.

### *What are we doing?*

Our Animal Welfare and Development department has been leading a breeding programme for the undulate ray over the last four years. In 2014 Merlin teamed up with the University of Manchester to research the genetic picture of undulate rays in aquariums across the UK. We plan to extend this essential activity across Europe, to understand how these genetic pictures vary from area to area, both in captivity and in the wild.

### *How are we doing it?*

By taking a wide variety of samples from undulate ray populations, including from the wild, we test their genetic makeup. The rays are DNA sampled much like you would see a 'suspect' being swabbed on an episode of 'CSI'. All the creatures are then released unharmed and the DNA information we have collected is held in a database. This complex data is then analysed so we can effectively create a large 'family tree' of the UK captive undulate ray population. This will aid a deeper understanding of their genetic structure and guide us in our mission to constructively influence the species' successful survival.

### *What will the results be?*

We will be the first in the world to have mapped the genetic makeup of the species. The knowledge gained will be freely available for use across the globe by fisheries management teams and Non-Governmental Organisations. This will assist the management of wild populations and help protect the long term future of this amazing creature.



CASE STUDY

## CORPORATE Social Responsibility

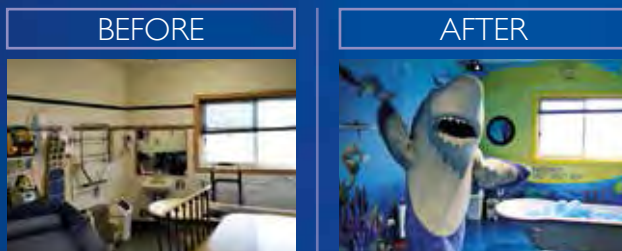
### Merlin's Magic Wand

Merlin's Magic Wand (MMW) forms a key element of Merlin's Corporate Social Responsibility commitment. Our very own children's charity delivers magical experiences around the world to children who are disadvantaged through sickness and disability. The charity arranges great days out at our attractions. For those children faced with conditions and circumstances that prevent them from having a day out, the charity delivers 'Taking the Magic to the Children' projects, which are local outreach initiatives designed to take Merlin's Magic to severely ill children that live within the localities of Merlin attractions.

Merlin's support for the charity continues through providing tickets free of charge (which had a retail value of over £1 million in 2014) and supporting the small charity team by providing office accommodation, IT and HR support.

2014 was another record breaking year for MMW, providing over 64,500 memorable experiences to children and families around the world. In 2014 every Merlin attraction that had been open for more than four months welcomed children through MMW. We are very proud of the 97% satisfaction rating we received for their experience.

MMW completed six new projects in 2014 at children's hospitals, hospices and schools in the UK, Germany and Australia. We have many more planned for 2015 including a LEGOLAND themed play area for a children's therapy centre in Chicago.



A SEA LIFE themed bathroom at the Very Special Kids Hospice in Melbourne

Merlin teams around the world provide tremendous support to the charity, raising awareness and funds, facilitating the MMW visits and getting involved in 'Taking the Magic to the Children' projects. The dedication of employees can be highlighted from the £330,000 raised by attraction teams during the year. Merlin visitors around the world have also got behind the charity, donating their change at attractions and joining in with events.

Corporate partners have shown their support for the charity this year, raising over £110,000 at our gala dinner and annual cricket day. We also continue to benefit from support from our major shareholder base. Blackstone, the LEGO Foundation and CVC have all contributed via events, partnership activity and/or financial grants, and we are grateful in particular to CVC for their ongoing support for the charity.

**"We went to Alton Towers Resort and Skye absolutely loved it! She went on all sorts of rides and loved them all. Thank you, it was just what we needed."**



A Merlin's Magic Wand visitor having a fun time at Alton Towers!

### Disability

Our long term aspiration is to be seen as the company of choice for visitors and staff with disability. We see this as an important element of our 'Being a Force for Good' strategy and aim to drive continuous improvements in this area. Our plan is to exceed the legislative requirements in place in the various locations in which we operate and, in the longer term, provide what will be considered industry leading facilities and experiences. To support our aims we are able to utilise valuable feedback from our MMW visitors in order to deliver improvements and inform future developments to our attractions and resorts. We carry out a comprehensive annual survey of our MMW guests and will be expanding this further in 2015.



A family enjoying our fully accessible LEGOLAND Florida Park

CORPORATE *Social Responsibility*

All aspects of accessibility are being explored including 'Changing Places' toilet facilities, which are much larger facilities with specialist equipment to accommodate the more severely disabled. We have the first one of these facilities within a UK theme park at the Chessington World of Adventures Resort. We are also training front-line staff (including World Host accreditation) and are making improvements to signage and other communication in the attractions. In order to ensure we are applying best practice we are taking advice from other organisations including 'Re-vitalise' and 'Whizz Kidz'.

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

### Community Relations

Our attractions continue to forge partnerships with local charities and other groups supporting disadvantaged people.

Some examples of these local initiatives are:

- Sites in the UK and USA offer opportunities through programmes such as the Prince's Trust and other local initiatives for young, often disadvantaged people to gain work experience and skills training with Merlin. The LEGOLAND Windsor programme is run with the award winning 'Ways to Work' organisation with the local council and provides supported employment to individuals with learning difficulties.
- Madame Tussauds Hong Kong tickets were donated to Yan Oi Tong, Yan Chai Hospital and the Hong Kong Federation of Handicapped Youth in 2014.
- LEGOLAND Florida works with the charities 'Give Kids the World' and the 'Sunshine Foundation's Dream Village' which both bring thousands of sick, disabled and underprivileged children to Central Florida's Theme Parks. In addition it is very engaged with its immediate community, supporting and sponsoring local events, free school trips for local school children, Chambers of Commerce activities and corporate fundraising.
- With the relaunch of Busan Aquarium as a SEA LIFE, we collected all 1,163 of our former Busan Aquarium uniforms and donated them to 'OTCAN' Charity ([www.otcan.org](http://www.otcan.org)), a local non-profit organisation that distributes donated clothes to children in need all over the world.
- The Christmas Carols Concert is a community event that has taken place at Warwick Castle for the past 43 years. The concert, which is regularly attended by over 2,500 local residents raises money for three local charities. The Castle provides the venue at no cost, sells tickets to the event and gives significant operational support.



*Merlin's Magic Wand  
forms a key element of Merlin's  
CSR commitment*



### Other areas

#### Procurement and sourcing

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

We require all of our suppliers to sign the Merlin Entertainments Standard Terms and Conditions of Purchase. We will independently audit certain categories of suppliers, who produce Merlin Entertainments branded products, against the Merlin Social Audit Report. We commit to working with these suppliers to ensure they achieve our standards. Strict sanctions are applied when standards are not met.

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

#### Human Rights

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

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

# CORPORATE

## *Governance Statement*

### **Introduction**

Merlin has a premium listing on the London Stock Exchange. As such it is subject to the UK Corporate Governance Code (the Code), the Disclosure and Transparency Rules (the DTRs) and the Listing Rules.

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

### **Statement of compliance**

Merlin does not yet fully comply with the recommendation of the Code in that it stipulates that at least half the Directors, excluding the Chairman, should be independent of the Group. With this exception, as at the date of this Annual Report, Merlin is in compliance with all relevant provisions of the Code, the DTRs and the Listing Rules and has been compliant throughout the accounting period. We expect to be fully compliant by the time of the AGM.

### **New appointment**

As planned at the time of the IPO, and following a rigorous search process using Spencer Stuart (an external search company with no links to Merlin), Fru Hazitt joined the Board with effect from 1 April 2014.

### **Fair, balanced and understandable**

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

### **Evaluation of effectiveness**

During the year externally facilitated evaluations were undertaken in relation to the Board; the Remuneration Committee; the Nomination Committee and the Health, Safety and Security Committee. These were facilitated by Prism Cosec, who are independent of the Company and also advise the Company on company secretarial compliance matters. The Audit Committee conducted an internal evaluation of its effectiveness.

The effectiveness reviews concluded that the Board and its Committees were functioning well and that each participant brought an independent perspective to the Board's deliberations with no individual or group of individuals exercising undue influence. The reviews further concluded that the transition from the private to public environment had gone smoothly, partly due to the fact that Merlin had operated for a number of years prior to IPO under a corporate governance structure which was more aligned to that of a listed plc. The reviews recognised that the composition of the Board was not settled and that further changes were likely, both to reflect the reducing shareholdings of Blackstone and CVC (two of the pre-IPO major shareholders) and to ensure that the range of experience on the Board remained aligned with the needs of the Group's business as it continued to develop. The reviews recommended a number of ways in which the effectiveness of the Board could be improved and these are being implemented.

### **Investor relations**

The Company communicates with institutional and private shareholders in a number of ways and has a dedicated investor relations team to facilitate the exchange of information and feedback between shareholders and shareholder representative bodies and the Company. Details of major shareholders are provided on page 65.

The Company has a formal reporting calendar in which existing and potential investors are provided with regular information on the financial and trading position of the Group. Merlin's 2015 annual reporting calendar is set out on page 162.

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

At our AGM all shareholders have the opportunity to discuss and raise questions concerning the performance, trading and development of Merlin and to vote on the resolutions proposed. In addition, the Company has a programme of regular meetings with current and potential institutional investors. This activity is led by the CEO and the CFO, together with the Company's investor relations team. They report back regularly to the Board so that the Non-executive Directors in particular can appreciate and discuss the views of shareholders.

# BOARD

## of Directors

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



**Sir John Sunderland,**  
*Non-executive Chairman*

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

Sir John is currently a Non-executive Director of Barclays Bank PLC and AFC Energy plc and an adviser to CVC, which currently has a 5.50% shareholding in the Company. Sir John is also the Chairman of Cambridge Education Group, Chancellor of Aston University, a member of the Council of The University of Reading, and an Associate Member of BUPA.

Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007, President of the Food and Drink Federation from 2002 to 2004, a Non-executive Director of the Rank Group from 1998 to 2006 and a Director of the Financial Reporting Council from 2004 to 2011.



**Nick Varney,**  
*Chief Executive Officer*

Nick has over 24 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

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

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



**Andrew Carr,**  
*Chief Financial Officer*

Andrew is a qualified chartered accountant and was appointed Chief Financial Officer of Merlin Entertainments in 1999. He has been a Director of the Company throughout the year and continues in this role as at the date of this report.

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

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

## BOARD of Directors



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

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

Charles is currently the Senior Independent Director and Deputy Chairman of easyjet plc and the Non-executive Chairman of NetNames and Genesis Housing Association. Charles has spent over 35 years in the travel and tourism industry where his roles included Group Chief Executive of Thomson Travel Group plc, Director Passenger and Cargo Business at British Airways, Executive Chairman of TUI Northern Europe and a Director of TUI AG. He was a Non-executive Director of Whitbread plc from 2000 to 2009 and former deputy Chairman of the National Trust. Charles is a Trustee of the Migration Museum.



**Miguel Ko,**  
*Non-executive Director*

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

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



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

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

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



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

Fru was appointed a Non-executive Director of Merlin Entertainments with effect from 1 April 2014 and continues in this role as at the date of this report.

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

## BOARD of Directors



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

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

Søren is currently the Chief Executive Officer of KIRKBI, following his appointment in March 2010. Søren was formerly a Partner, Chief Financial Officer and member of the Group Executive Board of A.P.Møller - Maersk Group between 2006 and 2009. Prior to this he was Managing Partner of KPMG Denmark, having been a Partner at KPMG since 1997.

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



**Rob Lucas,**  
*Non-executive Director*

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

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



**Dr. Gerry Murphy,**  
*Non-executive Director*

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

Gerry is a Senior Managing Director in Blackstone's private equity group in London, Chairman of Blackstone's European holdings and a Director of a number of Blackstone's portfolio companies. Before joining Blackstone in 2008, Gerry was CEO of Kingfisher plc. He has previously been CEO of Carlton Communications plc, Exel plc and Greencore Group plc and spent his earlier career with Grand Metropolitan plc (now Diageo plc). He is a Non-executive Director of British American Tobacco plc and has also served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc.

# CORPORATE

## Governance Report

### Board membership and UK corporate governance code

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

The Code recommends that a UK listed company's Chairman be independent on appointment. The Chairman was appointed in December 2009. The Board considers that the Chairman was independent on appointment and remains so. The Board does not consider the subsequent introduction of CVC (to whom the Chairman is an adviser) as a shareholder in July 2010 affected the independence of the Chairman for the purposes of the Code. The Chairman's role is to ensure good corporate governance.

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

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

Although Mr Gurassa previously served on the board of Tragus Group Limited (previously a Blackstone portfolio company) and Mr Ko served during the year on the board of Formula One (Delta Topco Limited), a CVC portfolio company, the other Directors have concluded that the judgement, experience and challenging approach of each of them ensured that they made a significant contribution to the work of the Board and its Committees. Their contributions during the year have, in the opinion of the other Directors, amply demonstrated their independence.

Blackstone and CVC, along with KIRKBI, were the pre-IPO major shareholders of Merlin and remain major shareholders. KIRKBI has maintained its shareholding following the IPO and presently holds 29.89% of the issued share capital of the Company. Blackstone and CVC have sold part of their holdings in the Company during the year and, as at the date of this Annual Report, hold 9.35% and 5.50% of the issued share capital respectively.

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

On this basis, the Board considers that although during 2014 it did not comply with the recommendation of the Code concerning the balance of independent Non-executive Directors on the Board, in practice the Board had an appropriate balance of Directors and operated independently of any of its shareholders.

At the beginning of February 2015 Miguel Ko notified the Company that he will not be standing for re-election at the forthcoming Annual General Meeting. The Board intends that Merlin will be fully compliant with the recommendations of the Code (including in relation to Board composition) from the date of the 2015 AGM.

### Relationship agreements

The Company has entered into Relationship Agreements with each of KIRKBI, Blackstone and CVC. Under these agreements:

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

### Underwriting agreement

Under an Underwriting Agreement entered into as part of the IPO, KIRKBI, Blackstone and CVC agreed, subject to certain customary exceptions, not to dispose of any shares in the Company for a period of 180 days following the IPO. Under the same agreement each of the Executive Directors, Non-executive Directors and Merlin Entertainments Share Plan Nominee Limited (on behalf of senior management shareholders) agreed, subject to certain customary exceptions, not to dispose of any shares in the Company for a period of 360 days following Listing.

These restrictions expired during the year and none of the pre-IPO major shareholders are presently under any obligation to the Company restricting their ability to dispose of shares in the Company.



## CORPORATE Governance Report

**Major shareholdings**

As at 24 February 2015, the latest practicable date prior to the date of this Annual Report, the Company had been notified pursuant to DTR5 of the following interests in 3% or more of the Company's total voting rights:

Name of shareholder	Number of ordinary shares	% of issued share capital	Nature of holding (Direct/Indirect)
KIRKBI Invest A/S	302,971,529	29.89	Direct
Blackstone Merlin Holdings Limited	94,790,571	9.35	Direct
Lancelot Holdings S.à r.l. (CVC)	55,726,456	5.50	Direct
Blackrock Investment Management (UK) Limited	65,541,502	6.47	Indirect

**Board and its Committees**

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

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

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

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

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

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

	The Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety & Security Committee <sup>(3)</sup>
Sir John Sunderland	#9/9	N/A	3/3	#3/3	#4/4
Nick Varney	9/9	N/A	N/A	N/A	4/4
Andrew Carr	9/9	N/A	N/A	N/A	4/4
Charles Gurassa	9/9	5/5	#3/3	2/3	4/4
Ken Hydon	9/9	#5/5	3/3	3/3	N/A
Miguel Ko	9/9	5/5	3/3	2/3	N/A
Fru Hazlitt <sup>(2)</sup>	5/9	N/A	2/3	1/3	2/4
Søren Thorup Sørensen	9/9	N/A	N/A	N/A	N/A
Dr. Gerry Murphy	9/9	N/A	N/A	N/A	N/A
Rob Lucas	8/9	N/A	N/A	N/A	N/A

**Table notes:**

# Denotes Chairman.

<sup>(1)</sup> Number of meetings attended during the year / Total number of meetings held in the year.

<sup>(2)</sup> Fru Hazlitt has attended all five of the Board meetings; two out of three Remuneration Committee meetings; the only Nomination Committee meeting; and two out of three Health, Safety and Security Committee meetings held following her appointment in April.

<sup>(3)</sup> In addition to the Board members noted above, the Health, Safety and Security Committee also includes as members the managing director of RTP and the director of health, safety and security. Both of these members attended all four meetings that took place in the year.

## CORPORATE Governance Report

	The Board	Audit Committee
<b>Principal responsibilities and duties</b>	<p>The Board has overall responsibility for overseeing the management of the Company.</p> <ul style="list-style-type: none"> <li>Overseeing the Company's strategy and management.</li> <li>Determining the Company's capital structure.</li> <li>Overseeing the Company's financial reporting and controls.</li> <li>Ensuring the Company maintains a sound system of internal controls and risk management.</li> <li>Approval of the annual capital expenditure budget, major capital projects and strategic transactions.</li> <li>Ensuring effective communication with shareholders and managing investor relations.</li> <li>Considering and, if accepted, implementing recommendations from Committees within their respective remits, including: <ul style="list-style-type: none"> <li>Appointments to the Board and Committees;</li> <li>Board and senior management remuneration;</li> <li>Succession planning;</li> <li>Changes to the Company's share incentive plans.</li> </ul> </li> <li>Appointing Committees and agreeing their Terms of Reference.</li> <li>Corporate governance matters and reporting thereon.</li> <li>Approving major policies, including: <ul style="list-style-type: none"> <li>Health and Safety policy;</li> <li>Fraud policy;</li> <li>Share Dealing policy.</li> </ul> </li> <li>Approving the appointment of principal financial and professional advisers.</li> <li>Approval of major litigation.</li> <li>Approval of Group insurance programme.</li> </ul>	<p>The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, external and internal audits and controls.</p> <ul style="list-style-type: none"> <li>Financial reporting.</li> <li>Internal controls and risk management.</li> <li>Whistleblowing and fraud.</li> <li>Internal audit.</li> <li>External audit.</li> <li>Reporting to the Board on matters within the Committee remit.</li> </ul> <p>See the Audit Committee Report on pages 68 to 73 for further details on the Committee's activities in the year.</p>
<b>Number of meetings</b>	<p>At least six times a year and as required or otherwise at the request of one or more of the Directors.</p> <p>Where urgent decisions are required on matters specifically reserved for the Board between meetings, there is a process in place to facilitate discussion and decision making.</p>	<p>At least three times during the financial year at appropriate times in the audit cycle.</p> <p>In addition, it meets at such other times as the Board or the Committee Chairman requires, or if requested by the external auditors.</p>
<b>Code compliance</b>	<p><b>We do not comply</b></p> <p>The Code recommends that the Board of a UK listed plc should comprise at least 50% independent Non-executive Directors (excluding the Chairman).</p> <p>Although during the year the Board did not comply with this recommendation, as at the date of the 2015 Annual General Meeting the Board expects to be compliant.</p>	<p><b>We comply</b></p> <p>The Code recommends that an Audit Committee should comprise at least three independent Non-executive Directors and that at least one member should have recent and relevant financial experience.</p> <p>The Audit Committee consists of three independent Non-executive Directors. Ken Hydon is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers and is considered by the Board to have recent and relevant financial experience.</p> <p>No members of the Audit Committee have links with the Company's external auditors.</p>

## CORPORATE Governance Report

**Remuneration Committee**

The Remuneration Committee assists the Board in discharging its responsibilities in relation to remuneration.

- Setting the remuneration policy for Executive Directors and the Chairman.
- Reviewing and making recommendations to the Board on senior management remuneration.
- Determining the individual remuneration and benefits package of each of the Executive Directors.
- Determining the fees of the Chairman.
- Reviewing the design of share incentive plans for approval by the Board.
- Ensuring appropriate reporting on remuneration matters in the Annual Report and Accounts.

No Director may participate in discussions relating to his own terms and conditions of remuneration.

Non-executive Directors' fees are determined by the full Board.

See the Directors' Remuneration Report on pages 74 to 92 for further details on the Committee's activities in the year.

**Nomination Committee**

The Nomination Committee assists the Board in discharging its responsibilities in relation to the composition of the Board.

- Reviewing the balance of skills, knowledge and experience on the Board.
- Reviewing the size, structure and composition of the Board.
- Considering and making recommendations to the Board on retirements, re-elections and appointments of additional and replacement Directors and on membership of Committees.
- Considering succession planning for both Executive and Non-executive Directors and the Chairman.
- Considering the time required for Directors to fulfil their roles.
- Developing a policy on diversity and reporting on progress thereon.
- Making appropriate recommendations to the Board on matters within the remit of the Committee.

See the Nomination Committee Report on page 93 for further details on the Committee's activities in the year.

**Health, Safety & Security Committee**

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

- Agreeing, implementing and monitoring the Group's health, safety and security policy.
- Reviewing the effectiveness of the Group's health and safety processes and controls.
- Reviewing the health and safety resources available within the Group and the skills of the health and safety management.
- Reviewing the adequacy of security processes and controls.
- Reporting to the Board on matters within the remit of the Committee.

The Committee recommends to the Board and Group companies the appropriate policies and procedures for ensuring the health, safety and security of visitors, employees, suppliers and assets. The Committee is also responsible for monitoring the adherence to such policies and procedures as well as for making recommendations for improvements.

See the Risks and uncertainties section of this Report on pages 42 to 47 for further details on how the Group manages Health, Safety and Security risks.

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

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

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

**We comply**

The Code recommends that a Remuneration Committee should comprise at least three independent Non-executive Directors.

The Committee consists of three independent Non-executive Directors and the Chairman.

**We comply**

The Code recommends that a majority of the members of the Nomination Committee should be independent Non-executive Directors.

The Committee is chaired by the Chairman of the Board and consists of the Chairman of the Committee and three independent Non-executive Directors.

N/A.

# AUDIT

## Committee Report

### STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

This report describes how the Audit Committee discharged its duties during 2014. It is divided into the following four sections:

- How the Audit Committee operates.
- Risk management and the control environment.
- Where we focused in 2014.
- Responsibilities in respect of internal and external audit.

#### **How the Audit Committee operates**

The first part of the report focuses on how the Committee operates under its terms of reference, which are available on our website. In line with these terms, the Committee created and delivered an annual plan that met all of the Committee's annual obligations.

#### **Risk management and the control environment**

The second part of the report presents our view of risk management and the control environment, in particular how we assess the overall structure of internal controls and risk management within the organisation. Our terms of reference include reviewing the Company's overall risk management systems and we are satisfied the Board has received regular reports that covered all areas of risk.

#### **Where we focused in 2014**

The third part of the report explains the key areas we have focused on in 2014, including determining the appropriateness of significant or complex accounting matters that require the greatest scrutiny. In finalising the annual financial statements we focused in particular on the valuation of assets and impairment and revenue recognition policies and processes. In addition we considered treasury accounting matters. We have concluded that the treatment in the accounts is appropriate, at all times evaluating matters in the context of whether their presentation is fair, balanced and understandable.

#### **Responsibilities in respect of internal and external audit**

The final section of the report explains the Committee's obligations in relation to audit, both internal and external. We are satisfied with the internal audit team's performance and that they focused on the key accounting and financial control matters around the Group, achieving a material coverage of the Company's revenue and assets.

We are also satisfied that management has responded well to the auditors' recommendations. Since writing my 2013 report we have conducted an effectiveness review of the internal audit function which contributed to our assessment that the function is effective.

An effectiveness review of the external auditors was completed covering the quality of their work and independence which resulted in positive feedback with some minor points to be addressed. During 2014 the FRC, as part of its annual review of a sample of audits by the main audit firms, reviewed certain aspects of KPMG's 2013 audit of Merlin. The FRC has provided a copy of the report to me and I note it concluded that there were no matters it wished to formally report on. In light of these reviews and the Committee's interactions with KPMG throughout the year, we recommend they be reappointed at the AGM.

We have continued to keep abreast of guidance in relation to audit retendering and rotation which has been subject to ongoing changes. The UK authorities have recently requested comments on their proposals on how the EU regulation should be adopted and the UK Competitions and Markets Authority (CMA) has also recently issued its requirements for mandatory audit tendering. We are committed to ensuring the audit is tendered in line with the UK's regulations when they are finalised, probably requiring a tender by 2023. Depending on how the UK chooses to adopt the regulations, which have various options and reliefs, KPMG may or may not be eligible to participate.

Our KPMG lead audit partner, Mark Summerfield, has reached the end of his permitted tenure and is being replaced as Senior Statutory Auditor by Hugh Green. We participated fully in Hugh's selection and believe he has substantial, relevant experience. I would like to express my thanks to Mark for his significant contribution over the years.

It has been a good year during which we have appreciated the enthusiastic support of management.

**Ken Hydon**  
**Chairman of the Audit Committee**

25 February 2015

## AUDIT Committee Report

### How the Audit Committee operates

#### The Role of the Audit Committee

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

- To monitor the integrity of the financial statements of the Company and report to the Board on significant financial reporting issues and judgements.
- To review and report on the effectiveness of the Company's internal controls and its overall risk management systems.
- To review the Company's arrangements for its employees to raise concerns through its whistleblowing and fraud policies.
- To monitor and review the effectiveness of the Company's internal audit function, and its material findings, in the context of the Company's overall risk management system.
- To oversee the work of the external auditor's performance and independence.
- To report formally to the Board and make recommendations where it is deemed necessary on matters within its terms of reference, including a formal report to the Board on how it has discharged its responsibilities.

The above obligations form the basis of an annual plan that is agreed before the start of the year and reviewed at each meeting. All elements of this plan were covered during the course of the year.

These terms of reference were subject to a review in 2014 which resulted in the following minor changes:

- Confirmation of the Audit Committee's role in relation to the review and/or approval of the Group's public statements.
- Amendments to reflect the Audit Committee's obligations in respect of risk management, following the changes made to the internal risk management process in 2014 as described in the Risks and uncertainties section on page 42.

#### Membership and meetings

Details of the membership and frequency and attendance at meetings are outlined in the Corporate Governance Report on pages 64 to 67. In addition to the permanent members, the CFO and other key members of management routinely attend. The Chairman and the CEO also frequently attend meetings and others are invited to attend from time to time depending on the matters under discussion. Private meetings are routinely held with internal audit and KPMG. The Committee also meets privately.

### Risk management and the control environment

The Board retains overall responsibility for the Company's internal controls and has overseen some evolution of the Company's risk management processes in 2014, building on the thorough reviews and audits that took place in preparation for the Listing in 2013.

As outlined in the Risks and uncertainties section on pages 42 to 47, the Group has separated risk management into three components: Health, safety and security risk; Commercial and strategic risk; and Financial process risk. The Board has delegated direct responsibility for Financial process risk to the Committee.

The Audit Committee has a dual role in relation to internal controls and risk management.

In assessing internal controls, the Committee first has an obligation to assess the overall process of risk management in place during the year. It considered the evolution of the process described above during the first half of the year and towards the end of 2014 it reviewed the overall process of risk management. The Committee is satisfied that the Company has systems and procedures in place to identify, evaluate and manage material risks to the business.

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

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

## AUDIT Committee Report

### Audit plans and outcomes

The internal audit annual plan is developed in conjunction with management and by assessing various risk factors before being reviewed and approved by the Audit Committee ahead of the start of each year.

The material findings of internal audit are reviewed by management. Internal audit results and management responses are presented at each meeting, with significant findings discussed in more detail and challenged where appropriate. During 2014 our processes have been expanded such that the Audit Committee now reviews management's response to any 'Priority one' internal audit points raised. Priority one matters relate to findings where controls are found to be absent or inadequate in areas which are considered susceptible to fraud or material misstatement (at a local level); where there is any evidence of deliberate falsification of documents; or where there is a perceived risk of harm to guests or staff.

KPMG also present their view of Merlin's control environment at the December meeting following their audit of such processes in the fourth quarter:

These measures, combined with an assessment of discussions with relevant stakeholders of the internal control systems, satisfied the Committee in 2014 that a thorough process exists within Merlin to assess the internal control environment, and that financial process controls are in place to mitigate the risk of a significant loss or fraud occurring.

### Where we focused in 2014

As noted above the Committee operates to its annual work plan, developed from its terms of reference. This plan is reviewed at each meeting to account for any further items that may need to be included as a response to matters arising. In addition we have kept abreast of any updates in governance, legislation or guidance.

The detail below highlights some of the main areas that the Committee focused on in 2014 and we are pleased to report that the Committee had no cause for major disagreements with management during the year:

### Immersion in the business and operations

As part of the Board meeting calendar the Committee members have had the opportunity in 2014 to visit several of the Group's major attractions across Europe and spend time with the local management teams. We also undertook 'deep dives' into three areas during the year: reviewing treasury operations; reviewing tax operations; and reviewing how internal audit reports are actioned across the Group.

### Consideration of significant accounting matters

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

- The valuation of assets and impairment.
- Revenue recognition.

These items were considered by the Audit Committee, at the time they agreed the external auditor's plan, when reviewing the external auditor's final audit findings, and in discussion with relevant members of management. In addition, the Committee considered treasury accounting matters, in the context of the Group's review of financing options during the year.

**The valuation of assets and impairment** is an important area of significant judgement given that Merlin's business involves opening attractions in new and, to some degree, unproven locations. In addition the Group operates existing businesses in geographically and politically diverse areas. The Group has also made material acquisitions in the past in various countries.

The Group has accumulated experience of opening many attractions globally, but inevitably the performance of additional attractions, particularly in new markets, can be difficult to predict accurately. The exposure of existing attractions to macro-economic volatility may indicate a need for an impairment assessment.

These factors make forecasts in the existing estate and acquired businesses similarly uncertain. Valuations are performed by Merlin based on discounted future cash forecasts and other market data. They are complex to perform, include judgemental information such as market discount rates, and are based almost entirely upon forward looking estimates of future cash flows.

Management provided a detailed paper to the Audit Committee, explaining the methodology and judgements applied in order to test the value of assets to determine if impairment is required. Specifically the paper examined the basis by which the discount rate was determined, before being applied to forecast cash flows. Similarly the judgements made in order to calculate an asset's terminal value were also assessed in the paper. A combination of discount rate, terminal value and forecast cash flows are used to calculate the 'value in use'.

## AUDIT Committee Report

Management also provided the detail of each Operating Group's valuation both in terms of value in use, as described above, and fair value less cost to sell. In accordance with accounting standards, comparing the higher of these two valuations to their carrying values determines whether any impairment is required.

Having reviewed the basis of management's calculations and the findings of the external audit on the valuation of assets and impairment, the Committee is satisfied with the appropriateness of the presentation in the financial statements and that no impairment is required.

**Revenue recognition** was considered specifically during 2014 primarily in order to consider the potential impact of IFRS 15, the new accounting standard on revenue from contracts with customers, which will become effective from the 2017 accounting period.

Merlin's revenue is generated by high volumes of low value transactions across numerous jurisdictions globally. Whilst there is limited judgement required in Merlin's revenue accounting policies compared to other sectors, the accuracy of financial reporting requires robust internal controls over cash reconciliations and the accurate cut-off of revenue at the balance sheet date in the instance of advanced sales or payment in arrears by trade customers.

There have been no material changes in revenue streams or processes during 2014 and, as in previous years, the Audit Committee has considered the internal controls in place, including those over its revenue streams, and concludes that they remain effective.

The Committee has further concluded that IFRS 15 is not expected to materially alter the Company's financial results.

**Treasury accounting** was examined by the Committee in the context of management considering that there was an increasing likelihood of refinancing the Group's debt before the contractual end date of the Group's existing lending facility. Accordingly, the amortisation of issue costs was accelerated. The Committee reviewed analysis in respect of the contemplated refinancing and management's accounting paper, explaining the calculation of the accelerated issue cost amortisation.

Following consideration of this analysis the Committee was satisfied with the accounting for and disclosure of this matter.

### Accounting, tax and financial reporting

In addition to considering the material judgement areas, the Committee assessed the main financial statements presented by the Company during the year as well as items that they believe are material to the integrity of the financial processes and output. The Committee:

- Considered the half year and full year financial statements.
- Considered the liquidity of the Group, in particular in relation to any covenants in place.
- Considered the appropriateness of preparing the half year and full year accounts on a going concern basis.
- Reviewed disclosure in the Annual Report and Accounts in relation to internal control, risk management process and the work of the Committee.
- Reviewed and assessed the liability in relation to the Company's defined benefit pension schemes.
- Received technical updates, in particular in relation to the requirements and changes to the Code, and assessed the Audit Committee's report in the context of the Code's requirement for 'fair, balanced and understandable' reporting.

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

### Whistleblowing systems and fraud mitigation

The Committee receives regular updates on whistleblowing, including the quantity, source and nature of incidents reported. Information is also provided on how matters are resolved.

Efforts have been made in 2014 to increase the awareness of the Company's whistleblowing procedures across the Group. The Company has a good culture of encouraging its staff to report incidents of poor practice, as evidenced by 71% of the employees who completed the staff survey stating that they were aware of the whistleblowing process. In order to enhance and embed this culture further, an independent third party hotline provider has been appointed and the hotline will be rolled out across the Group by the middle of 2015. It will provide more detailed reporting and highlight any trends that emerge.

The Company has had a fraud policy in place for some time. This includes the provision of mandatory training for those staff who are considered the most likely to be exposed to fraud risk. In addition, there is a formal policy review and sign off process undertaken by a wider community, including senior executives and middle management. This process has been updated and revised in 2014 following a periodic review of the fraud and bribery risk register, with refresher training provided to relevant staff.

## AUDIT Committee Report

### Misstatements

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

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

### Responsibilities in respect of internal and external audit

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

#### Internal audit

The Company has an internal audit function led by the Group Internal Audit and Risk Management Director who is a member of the Institute of Chartered Accountants in England and Wales. He reports jointly to the Chairman of the Audit Committee and the CFO. With 13 years' experience in both finance and operational roles within the Group, the Committee consider him to have the appropriate experience to lead the function.

The internal audit function comprises a further four in-house auditors, all of whom hold professional accounting qualifications. This team will be expanded by one in 2015 in order to reflect the increasing scale of the Company's operations.

The internal audit function uses external support where necessary, for example PricewaterhouseCoopers (PwC) has provided specialist support to aid the audit of more complex and technical areas, where the internal team did not have the relevant skills. In 2014 PwC supported the audits of the Group's IT and treasury functions.

The Committee received and approved a presentation of the audits planned to be performed in 2014 at the start of the year, including an assessment of the risk approach taken in formulating the priorities. Factors such as size of business, history of audit, competence and stability of local management, material changes to a business and relevance to the Group's strategy were factored into this prioritisation.

During the year, audits have been undertaken providing coverage of approximately 70% of the Group's revenue. In 2014, in addition to the revenue generating locations, internal audits were performed on the central IT function, treasury function, central purchasing functions, centralised payroll processes, retail product buying and procurement functions. This coverage is in line with the plan approved by the Committee.

The internal audit reports are reviewed by management with significant findings also reviewed by the Company's Executive Committee. Any such findings are also discussed at the Audit Committee, along with recommendations. In 2014 an increased focus has been placed on the level of progress made by relevant management on audit findings.

A review of the effectiveness of internal audit was undertaken based on a questionnaire at the end of 2014, the results of which were presented to the Committee in February 2015. Members and attendees of the Audit Committee meetings, along with the senior finance community of the Company, were questioned on a range of subjects including the governance and organisation of the internal audit function, the approach of audit and the effectiveness of their reports and conclusions. The survey results showed that the internal audit function is considered professional and diligent and its internal audits appropriately detailed.

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

#### External audit

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

#### Appointment and governance of the external auditors

The Committee is responsible for recommending the appointment, reappointment or removal of the external auditors to the Board, together with their remuneration and terms of their engagement. Throughout 2014 the Company was also bound by a Facilities Agreement which stipulated that if any newly appointed auditor were not to be one of the 'Big Four' accounting firms, the proposed firm would need to be approved by the majority of the Company's lenders.

Having performed the role of Senior Statutory Auditor for five years, Mark Summerfield will step down from this role at the conclusion of the 2014 reporting cycle as part of KPMG's rules in respect of the maximum duration that one partner can perform in such a role. The Committee has been involved in the selection of the new KPMG partner and has approved the appointment of Hugh Green to act in this position with effect from the 2015 financial year.



## AUDIT Committee Report

In recommending the reappointment of external auditors at the AGM, the Committee has considered the CMA Order, EU Regulation and the UK Corporate Governance Code. These regulations are at different stages of adoption and have several important differences in how they are to be applied. We understand that clarity on how the EU Regulations will be implemented in the UK and therefore how they apply to Merlin will be available during 2015.

Whilst the EU regulations and developments in the UK Corporate Governance Code will set the maximum term for the Company's auditor, the Committee will continue to consider if a shorter term would be appropriate as part of the annual recommendation to the Board on the appointment of the external auditors.

### Remuneration and independence of external auditors

The auditors are eligible for selection to provide non-audit services only to the extent that their skills and experience make them a competitive and most appropriate supplier of these services. Non-audit services are subject to market tenders or tests and are awarded to the most appropriate provider. Non-audit services that are awarded to the auditors are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. The principle followed with regard to non-audit services is that the auditors may not provide a service which:

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

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

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

Management provides the Committee with reports on audit, audit-related and non-audit expenditure, together with proposals of any material non-audit related assignments. The Committee regularly reviews and, where necessary, challenges management to ensure that auditor objectivity and independence is not impaired.

Fees for non-audit services during the year amounted to £0.8 million (2013: £4.2 million). The 2013 figure was significantly higher because of the incremental work performed by KPMG in relation to the IPO process. Details of the fees paid for audit services, audit-related services and non-audit services can be found in note 2.1 to the financial statements.

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

### Assessment of the work of the external auditors

The Committee has evaluated the performance, independence and objectivity of KPMG and also reviewed their effectiveness as external auditors. The assessment of their effectiveness was partly by way of a survey initiated by the Committee on their 2013 audit, issued to Audit Committee members and other attendees, along with senior finance personnel both at Merlin's attractions and at its head office. The survey covered 27 different aspects of the audit and respondents were asked to award one of five ratings against each aspect and provide additional comments.

The survey indicated widespread satisfaction with the services provided by KPMG and the Committee were satisfied with KPMG's responses to points raised in the survey.

In addition, the effectiveness of the 2014 audit was assessed over the year by reference to the following factors:

- The lead audit partner engagement, including the support provided to the Audit Committee.
- The planning and scope of the audit including identification of areas of audit risk and communication of any changes to the plan, including changes in perceived audit risks.
- The quality of communication with the Committee, including the regular reports on accounting and governance matters.
- The skills and experience of the wider audit team and their execution of the audit, including the way they handled the key accounting and audit judgements and communication of the same with management and the Committee.
- Their reputation and standing, including their independence and objectivity and their internal quality procedures.
- The quality of the formal report to shareholders.

We also considered the FRC's Audit Quality Inspections Annual Report 2013/14 and Public Report on the 2013 inspection of KPMG. During 2014, the FRC undertook a review of certain aspects of KPMG's 2013 audit of Merlin. We discussed the review with KPMG and noted that the report issued by the FRC at the end of the review concluded there were no significant findings to be formally reported.

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

# DIRECTORS'

## Remuneration Report

### STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

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

- **Statement from the Chairman of the Remuneration Committee** contains details of our remuneration principles and of the key decisions reached by the Committee during 2014.
- **The Annual Report on Remuneration** contains details of pay received by Directors in 2014 and full details of how we intend to implement our pay policy during 2015. The Annual Report on Remuneration will be subject to an advisory vote at the 2015 AGM.

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

#### Remuneration principles

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

#### Performance orientated

- Rewarding performance is a core part of our ethos. About 75% of our permanent employees participate in a bonus plan and over 300 employees receive regular share awards or share option grants.
- To reinforce the link between performance and pay, most employees are rewarded for the performance of their particular attraction. Only the senior executives (the Executive Committee and their direct reports) and employees of central functions are rewarded for the performance of the overall Group.
- For senior executives, including the Executive Directors, performance related pay, based on stretching short term and longer term targets, forms a significant part of their potential pay packages.

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

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

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

#### Consistent with best practice

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

#### Widespread share ownership

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

## DIRECTORS' Remuneration Report

### Performance in 2014

The financial and operating performance of Merlin in 2014 is set out on pages 2 to 59 in the Strategic Report.

2014 was another successful year for Merlin. The Company grew revenues by 4.8% (9.6% on a constant currency basis), driving an increase in underlying EBITDA of 5.3% and generating operating cash flow of £357 million. The Group continued to de-lever as a result of its earnings growth and strong cash flow generation.

Performance exceeded expectations and hence profit related bonuses became payable for those attractions that outperformed and for the central functions. When combined with individual performance measures this has resulted in a bonus of 100% of maximum entitlement to the CEO and 95% to the CFO.

### Pay decisions for 2015

The proposed pay structure for our Executive Directors for 2015 is outlined on pages 76 to 77. Key decisions made by the Committee in relation to 2015 include:

- The award of a basic 2.0% salary increase for the Executive Directors. This is consistent with the average increase awarded to the Merlin UK workforce.
- The Committee have agreed the same basic structure to the bonus plan as 2014 with individual objectives for the Executive Directors appropriately reflecting Company priorities.

The Committee regularly reviews the existing remuneration arrangements in light of evolving market and best practice. As part of this process, during 2015, we will be reviewing the impact of the revised UK Corporate Governance Code (2014). In particular, we intend to undertake a detailed appraisal of how withholding and recovery of incentive awards ('malus' and 'clawback' provisions) should be most effectively incorporated in our incentive plans for the future.

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

**Charles Gurassa**

**Chairman of the Remuneration Committee**

25 February 2015

## DIRECTORS' Remuneration Report

### ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2015 Annual General Meeting.

### UNAUDITED INFORMATION

#### Implementation of remuneration policy in 2015

This section provides an overview of how the Committee is proposing to implement our remuneration policy (as set out in the Annex to this Remuneration Report) in 2015.

#### Base salary

An annual salary review was carried out by the Committee in September 2014. Following that review, the Committee approved a basic 2% increase in Executive Director salaries effective from 1 October 2014. This increase is consistent with the average salary increase awarded to the Company's UK workforce for 2014/15.

	Salary at Listing (13 November 2013)	Salary 1 October 2014	% increase
Nick Varney	£570,000	£581,400	2.0%
Andrew Carr	£345,000	£351,900	2.0%

#### Pension and benefits

As in 2014, the Executive Directors will receive a Company contribution worth 25% of salary. Nick Varney will receive this contribution as a cash allowance and Andrew Carr will receive a contribution to the Group Pension Plan up to the Annual Allowance and a cash allowance in respect of the balance. They will also receive a standard package of other benefits consistent with those received in 2014.

#### Annual bonus

Key features of the annual bonus plan for 2015 remain consistent with the 2014 plan as follows:

- The maximum annual bonus potential will be 150% of salary for the CEO and 135% of salary for the CFO.
- One third of any bonus earned will be deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.
- Deferred shares will be subject to potential withholding during the deferral period in exceptional circumstances including evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts.

The annual bonus for 2015 for Executive Directors will be determined as detailed below:

#### As a percentage of maximum bonus opportunity

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

Payment under the non-financial elements of the bonus will be scaled back to the extent that Group underlying operating profit targets are not fully met. This means that if there is no payment under the Group underlying operating profit element of the bonus scheme, there will also be no payment under this element of the bonus irrespective of performance against the aforementioned individual measures. The targets themselves, as they relate to the financial year 2015, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

## DIRECTORS' Remuneration Report

### Performance Share Plan

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

The CEO and CFO will be amongst the participants in the PSP award to be granted in April 2015. Awards will be over shares worth, at the date of grant, 250% of salary and 225% of salary for the CEO and CFO respectively.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to December 2017.

- EPS performance condition - 10% of the award will vest for achieving a threshold growth target increasing to 50% vesting for achieving a maximum growth target.
- ROCE performance condition - 12.5% of the award will vest for achieving a threshold level of average ROCE increasing to 50% vesting for achieving a maximum level of average ROCE.

As explained elsewhere in this Annual Report, the Company has just secured new finance facilities that, once drawn, will replace the existing facilities. Accordingly, the Remuneration Committee has elected to delay the setting of the specific threshold and maximum EPS and ROCE targets until closer to the date of grant in April, in order to ensure that the targets are based on the most appropriate business plan forecasts (adjusting for the impact of the new finance facilities) available to the Committee at that time.

The same principles as in the previous grant will apply and it is our intention to communicate the revised targets and their rationale to shareholders once the impact of the new financing arrangements is clear.

The Committee will ensure that the agreed EPS and ROCE targets are detailed in the announcement to the Stock Exchange at the time that the awards are granted.

### Employee Share Plan

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

Invitations for the second award under each of these plans have commenced in February 2015.

### Non-executive Director remuneration

The table below shows the fee structure for Independent Non-executive Directors for 2015 which is unchanged from 2014. Independent Non-executive Director fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee.

	2015
Basic Non-executive fee	£50,000
Senior Independent Director additional fee	£10,000
Audit Committee Chairman additional fee	£10,000
Remuneration Committee Chairman additional fee	£10,000
Chairman of the Board all-inclusive fee	£250,000

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

## DIRECTORS' Remuneration Report

## AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 82 is subject to audit.

**Single total figure of remuneration**

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for 2014 (as Merlin was a newly listed company during 2013, the prior year information is for the period from 13 November 2013 (Listing) until 28 December 2013).

2014 (Full year)							
All figures shown in £000	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long term incentives <sup>(4)</sup>	Other <sup>(5)</sup>	Pension <sup>(6)</sup>	Total
<b>Executive Directors</b>							
Nick Varney	573	20	859	-	3	143	1,598
Andrew Carr	347	18	444	-	3	87	899
<b>Non-executive Directors</b>							
Sir John Sunderland	250	-	-	-	-	-	250
Charles Gurassa	70	-	-	-	-	-	70
Ken Hydon	60	-	-	-	-	-	60
Miguel Ko	50	-	-	-	-	-	50
Fru Hazlitt <sup>(7)</sup>	38	-	-	-	-	-	38
Søren Thorup Sørensen	-	-	-	-	-	-	-
Dr. Gerry Murphy	-	-	-	-	-	-	-
Rob Lucas	-	-	-	-	-	-	-
2013 (from Listing date 13 November 2013)							
All figures shown in £000	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long term incentives <sup>(4)</sup>	Other <sup>(5)</sup>	Pension <sup>(6)</sup>	Total
<b>Executive Directors</b>							
Nick Varney	72	3	58	-	-	18	151
Andrew Carr	43	2	38	-	-	11	94
<b>Non-executive Directors</b>							
Sir John Sunderland	32	-	-	-	-	-	32
Charles Gurassa	9	-	-	-	-	-	9
Ken Hydon	8	-	-	-	-	-	8
Miguel Ko	6	-	-	-	-	-	6
Fru Hazlitt <sup>(7)</sup>	-	-	-	-	-	-	-
Søren Thorup Sørensen	-	-	-	-	-	-	-
Dr. Gerry Murphy	-	-	-	-	-	-	-
Rob Lucas	-	-	-	-	-	-	-

## Notes to the table - methodology:

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

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

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

<sup>(4)</sup> **Long term incentives** - this column relates to the value of long term awards whose performance period ends in the year under review. The first long term incentive award granted post Listing has a performance period that ends in 2016. As a result, this column has a zero figure in 2013 and 2014.

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

<sup>(6)</sup> **Pension** - Executive Directors receive a Company contribution worth 25% of salary. Nick Varney receives this contribution as a cash allowance and Andrew Carr receives this as a contribution to the Group Personal Pension Plan up to the Annual Allowance and, in respect of the balance, as a cash allowance. This figure represents the contribution in respect of the period.

<sup>(7)</sup> Fru Hazlitt joined the Board on 1 April 2014. Fees shown in the table are from that date to 27 December 2014.

## DIRECTORS' Remuneration Report

## Additional disclosures in respect of the single figure table

## Annual bonus

Executive Directors are participants in the central bonus plan. The maximum annual bonus opportunity for the Executive Directors for 2014 was 150% of salary for the CEO and 135% of salary for the CFO. One third of any bonus earned is deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.

The maximum potential annual bonus that could be paid to Executive Directors in respect of 2014 performance was determined by underlying operating profit performance. 20% of that potential bonus was additionally subject to satisfaction of individual objectives. Performance measures and targets applying to the 2014 annual bonus are set out below.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Underlying operating profit	80%	£275.4m (0% of bonus payable)	£293.0m (40% of bonus payable)	£310.6m (80% of bonus payable)	£310.8m	80%
Individual objectives	20% <sup>(1)</sup>	Divided into two equal segments for each Director: <b>CEO:</b> <ul style="list-style-type: none"> <li>• Opening six new attraction developments and at least 200 accommodation 'keys' in 2014 and securing approval for six new attraction developments and 200 accommodation 'keys' in 2015.</li> <li>• Customer satisfaction <sup>(2)</sup></li> </ul> <b>CFO:</b> <ul style="list-style-type: none"> <li>• Achieving an underlying EBITDA margin in 2014 of 32.9%</li> <li>• Achieving an underlying effective cash tax rate in 2014 of 21.6%</li> </ul>			See footnote 2	20% (CEO)  15% (CFO)
<b>TOTAL</b>						100% (CEO) 95% (CFO)

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

<sup>(2)</sup> Following the year end, the Committee assessed performance against the individual objectives for each Director. For the CEO, the Committee determined that the development pipeline and customer satisfaction objectives had been fully satisfied and that the maximum portion of his bonus subject to these objectives should be paid. For the CFO, the Committee determined that the EBITDA margin and cash tax rate objectives had been partially satisfied and that 75% of the portion of his bonus subject to these objectives should be paid.

<sup>(3)</sup> The target relating to customer satisfaction is regarded as commercially sensitive by the Board.

## Scheme interests awarded during the financial year

## Performance Share Plan awards

There was no grant to the Executive Directors under the Performance Share Plan during 2014.

## UK Sharesave awards

The Executive Directors participated in the 7 February 2014 grant of options under the Sharesave Plan on the same terms as other UK employees. Details relating to their participation in this grant are set out below. No performance conditions apply to these options.

	Type of award	Maximum number of shares	Face value	Options exercisable
Nick Varney	Share Option	3,036	£8,997	1 April 2017 - 30 September 2017
Andrew Carr	Share Option	3,036	£8,997	

Each option is exercisable at an exercise price of £2.9635. The option exercise price represents a 20% discount to the average closing price of a share (£3.7043) on the three dealing days prior to the invitation to participate in the Company's Plan which was 13 January 2014. The face value of options in the above table is based on the aforementioned share price.

## DIRECTORS' Remuneration Report

### Payments to past Directors

There were no payments to past Directors during 2014.

### Payments for loss of office

There were no payments for loss of office to Directors during 2014.

### Statement of Directors' shareholding and share interests

A shareholding requirement of 200% of base salary applies to the Executive Directors. Both of the current Executive Directors had a shareholding that surpassed that requirement at 27 December 2014.

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

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

Director	Value of shareholding at 27 December 2014 as a % of salary (Shareholding requirement target)	Number of shares		
		Shares owned outright at 27 December 2014	Interests in share incentive schemes, awarded without performance conditions at 27 December 2014 <sup>(1)</sup>	Interests in share incentive schemes, awarded subject to performance conditions at 27 December 2014 <sup>(2)</sup>
Nick Varney <sup>(3)</sup>	4,401% (200%)	6,477,823	3,036	564,168
Andrew Carr <sup>(3)</sup>	3,182% (200%)	2,835,123	3,036	308,425
Sir John Sunderland	-	531,044	-	-
Charles Gurassa	-	31,746	-	-
Ken Hydon	-	31,746	-	-
Miguel Ko	-	158,730	-	-
Fru Hazlitt	-	31,746	-	-
Søren Thorup Sørensen	-	-	-	-
Dr. Gerry Murphy	-	-	-	-
Rob Lucas	-	-	-	-

#### Notes to the table:

<sup>(1)</sup> This relates to shares awarded under the UK Sharesave plan in February 2014.

<sup>(2)</sup> This relates to shares awarded under the PSP in November 2013. Further details relating to this grant are summarised below.

<sup>(3)</sup> For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 27 December 2014 has been used (£3.95).

Between 27 December 2014 and the date of this report there were no changes in the shareholdings outlined in the above table.



## DIRECTORS' Remuneration Report

## Outstanding awards under the PSP

	Date of grant	Date of vesting	Maximum number of shares	Face value (% of salary)	Dividend equivalent shares*	Performance condition	Performance period
Nick Varney	12 November 2013	1 April 2017	560,952	310%	3,216	EPS: 10% vests for 7% p.a. cumulative growth increasing to 50% vesting for 14% p.a. cumulative growth ROCE: 12.5% vests for average ROCE of 9% increasing to 50% vesting for average ROCE of 13%	29 December 2013 - 31 December 2016
Andrew Carr	12 November 2013	1 April 2017	306,667	280%	1,758		

\* In accordance with the PSP rules, the Committee has determined that an additional award of shares will be made in respect of shares which vest under PSP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (calculated on the assumption that dividends are reinvested in Company shares on a cumulative basis). The figures in the table above relate to assumed reinvestment of the dividends paid during 2014.

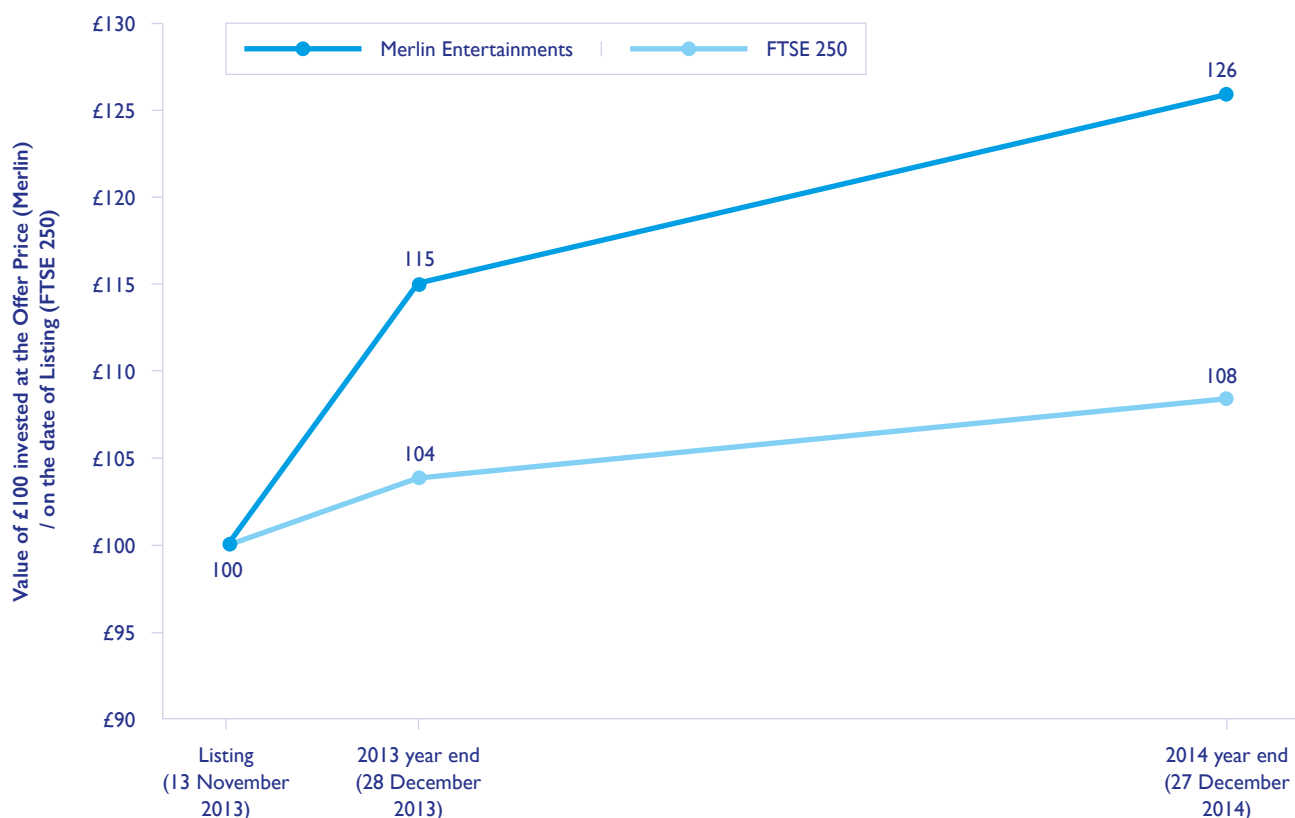
## DIRECTORS' Remuneration Report

## UNAUDITED INFORMATION

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

**Performance graph and CEO remuneration table**

The chart below compares the Total Shareholder Return performance of the Company over the period from Listing to 27 December 2014 to the performance of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which Merlin is a member. The base point in the chart for Merlin equates to the Offer Price of 315p.



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

	2013 from Listing*	2014 full year
CEO single figure of remuneration £000	151	1,598
Annual bonus payout (as a % of maximum opportunity)	n/a (no maximum limit applied in 2013)	100%
PSP vesting outturn (as a % of maximum opportunity)	n/a (no award vested in 2013)	n/a (no award vested in 2014)

\* From Listing on 13 November 2013 to 28 December 2013.

## DIRECTORS' Remuneration Report

**Percentage change in remuneration of the CEO**

Prior to November 2013, Merlin was a private company and its remuneration structure, particularly for senior executives, was significantly different to the structure adopted since Admission.

Given this change in structure during 2013, the Committee does not believe 2013 CEO and employee remuneration is comparable with 2014 CEO and employee remuneration. However, for information purposes, the accompanying table reflects the key changes in CEO and employee remuneration since Admission.

	Salary increase <sup>(1)</sup>	Benefits increase / decrease <sup>(2)</sup>	Annual bonus increase <sup>(3)</sup>
CEO	+2.0%	-24%	n/a
Average for all UK employees	+2.0%	+0%	n/a

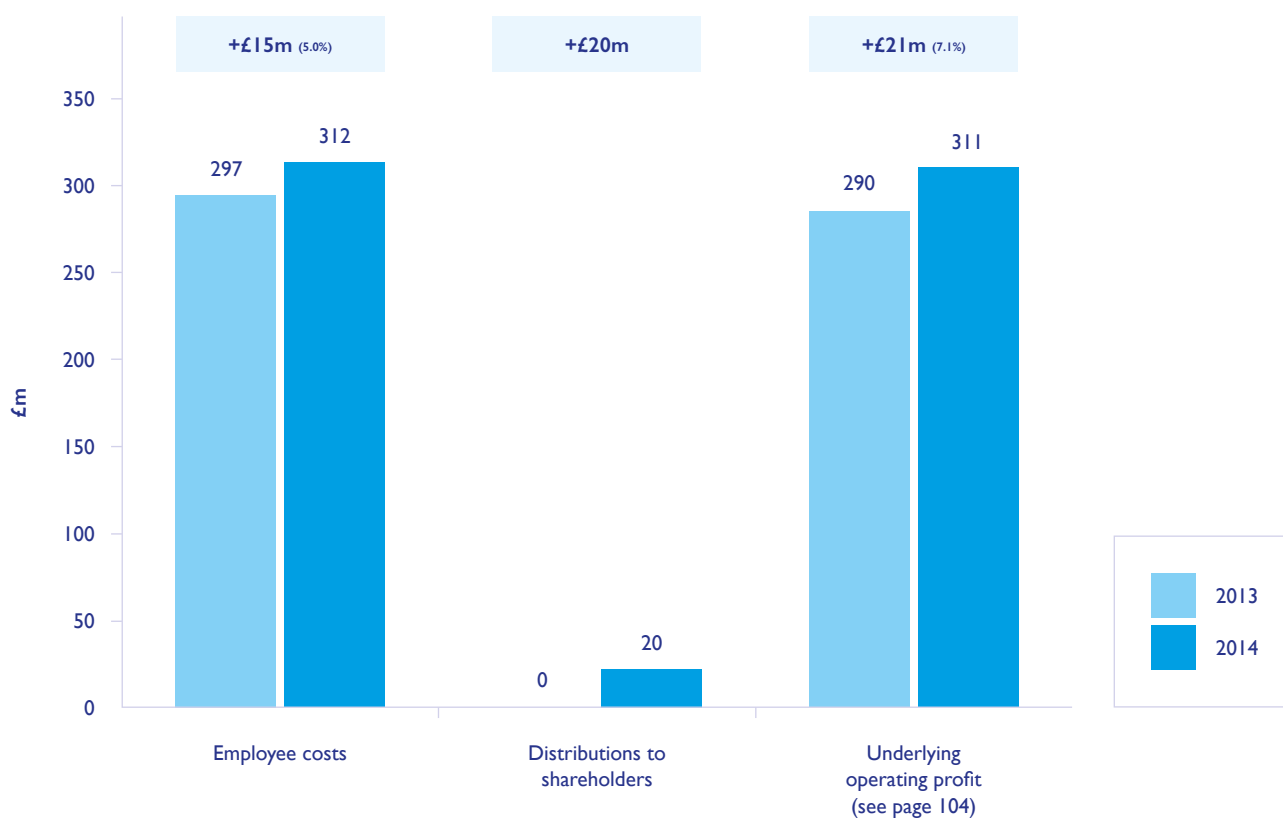
<sup>(1)</sup> As Merlin was not a listed company for the whole of 2013, the Remuneration Committee believes the statutory requirement to show year-on-year change in salary between 2013 and 2014 would not be appropriate. The data shown here represents the first post-Admission salary settlement for the CEO and the average award for UK employees that was effective 1 October 2014. The Remuneration Committee believes that the UK workforce is the most appropriate comparator for this analysis for the UK based CEO.

<sup>(2)</sup> The CEO benefits movement has been calculated using a pro-rated figure for 2013. The decrease in benefits arises from reduced cost of health insurance benefits and car provision.

<sup>(3)</sup> The specific structure of the 2013 annual bonus was designed and agreed in the context of Merlin being a private company. Post Admission, the 2014 annual bonus was significantly restructured so as to reflect standard listed company practice. Given this significant reshaping of the bonus plan, the Committee does not believe that 2013 and 2014 annual bonuses are comparable.

**Relative importance of the spend on pay**

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



## DIRECTORS' Remuneration Report

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

The Committee has been chaired throughout the year by Charles Gurassa. The Committee has comprised the Chairman of the Board and the independent Non-executive Directors.

The Committee met three times during 2014. The CEO, Group HR Director, Group Compensation & Benefits Director and the Group Legal Director (in his role as secretary to the Committee) were also present at some of these meetings by invitation.

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

Deloitte LLP was appointed by the Company in 2013 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte principally on the drafting of the remuneration report, shareholder consultation and market practice. Deloitte was paid £45,595 in fees during 2014 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided tax advice to the Company during the year.

### Shareholder voting on 2013 remuneration report

At the 2014 Annual General Meeting, strong shareholder support was received for our resolutions on remuneration as summarised below.

	Votes for	Votes against	Votes withheld
Approval of the Policy Report	896.7m (99.4%)	5.2m (0.6%)	7.3m
Approval of the Annual Report on Remuneration	905.9m (99.8%)	2.3m (0.2%)	0.9m

### External board appointments

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

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

### Annual General Meeting

The Annual Report on Remuneration section of this Remuneration Report will be submitted for an advisory shareholder vote at our Annual General Meeting to be held on 14 May 2015.

On behalf of the Board

**Charles Gurassa**

**Chairman of the Remuneration Committee**

25 February 2015

## DIRECTORS' Remuneration Report

## ANNEX TO THE REMUNERATION REPORT - POLICY REPORT

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

**Policy table**

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

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

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

## DIRECTORS' Remuneration Report

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

## DIRECTORS' Remuneration Report

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

## DIRECTORS' Remuneration Report

### Notes to the table:

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

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

### Differences in policy from broader employee population

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

### Non-executive Directors

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



## DIRECTORS' Remuneration Report

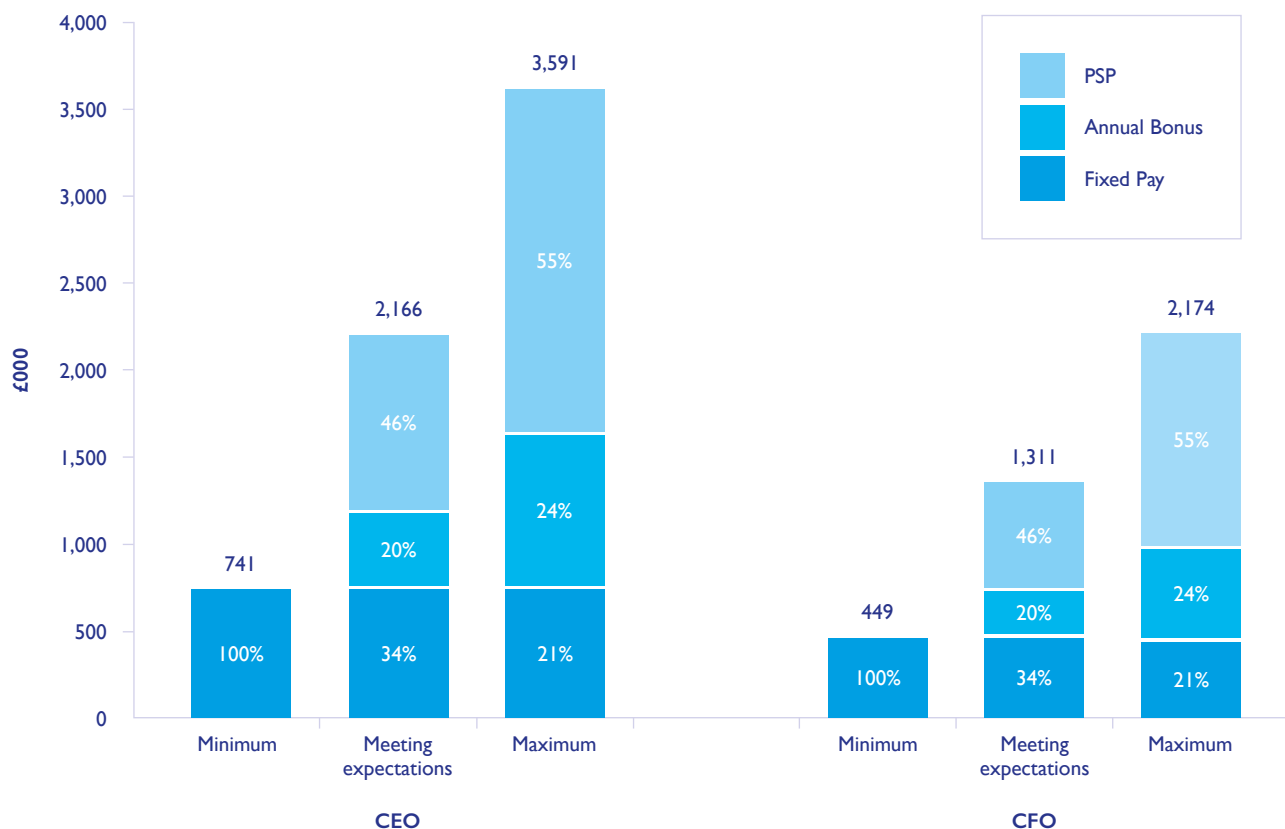
**Illustrations of application of remuneration policy**

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

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

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

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



## DIRECTORS' Remuneration Report

### Approach to recruitment remuneration

#### Principles

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

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

#### Maximum level of variable pay

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

#### Buy outs

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

#### Components and approach

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

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

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

#### Recruitment of Non-executive Directors

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

## DIRECTORS' Remuneration Report

### Service contracts

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

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

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

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

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

### Policy on payment for loss of office

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

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

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

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

### Consideration of employment conditions elsewhere in the Group

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

### Consideration of shareholders' views

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

## DIRECTORS' Remuneration Report

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

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

# NOMINATION

## Committee Report

### STATEMENT FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder

This report describes the activities of the Nomination Committee during 2014. The Committee met three times during the year and we focused our attention on Board appointments, succession planning and diversity.

#### Board appointments

One of the primary objectives of the Nomination Committee during the year has been to address the final elements of the composition of the Board arising from its transition from private to public markets.

Early in the year the Committee confirmed the previously announced appointment of Fru Hazlitt who joined the Company in April 2014. Her extensive experience in the entertainment industry is a valuable addition to our Board and will bring a diversity of knowledge and perspective to our deliberations.

We have also continued to focus on the process of recruiting further independent Non-executive Directors. This is intended to ensure full Code compliance by the time of the Annual General Meeting (AGM) in May 2015, and also takes into account the reduction in shareholdings of Blackstone and CVC in the period following the IPO with the consequential potential impact on the future composition of the Board.

To assist us we have engaged Spencer Stuart, an independent executive search consultancy already familiar with Merlin and our strategic intentions. Reflecting our ambitions for growth, our search has an Asian and North American geographical emphasis and will ensure we benefit from first-hand leisure industry experience to develop a Board with a wider skill set and appropriate leaders for each of our Committees.

Shortly after the year end Miguel Ko confirmed that he will step down as a Non-executive Director and will not put himself forward for re-election at the 2015 AGM, having taken a full time executive position in Asia. Miguel joined the Board shortly before Merlin's IPO in November 2013 and has made a wise and valuable contribution to Merlin, in particular through his knowledgeable insights into the Asian leisure markets. On behalf of the Board, I would like to express our thanks.

#### Succession planning

The Board and Nomination Committee have undertaken detailed succession planning reviews during 2014, focused on Executive Director positions as well as other senior manager roles within the Group. This has identified key individuals already in the Group, for whom high level training and development opportunities have been established and implemented. We have also discussed the Group's senior management structure and how that might evolve as Merlin continues its international expansion. The Group has already recruited well during 2014 in specific senior management roles to enhance certain activities and build the future talent pipeline.

As a result of the work undertaken during 2014, the Board and Nomination Committee have a clear line of sight on what issues need to be addressed and of the plans management has in place. We are encouraged by the depth of talent available within the Group as cover for all our key positions.

#### Diversity

Merlin's policy is for our leaders to have a diversity of thinking, experience, gender, country of origin and cultural background. We believe a diverse Board and management team is more in touch with our customers, employees and investors. While we have not established diversity targets or measures at this time this policy is reflected in the approach we are taking to recruitment at senior manager and Board level.

**Sir John Sunderland**  
**Chairman of the Nomination Committee**

25 February 2015

# DIRECTORS'

## Report

### Introduction

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

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

These sections provide an overview of the strategy, development and performance of the Company's business in the year ended and as at 27 December 2014 together with information on the approach of the Company to Corporate Governance and the constitution, work and effectiveness of the Board and its principal Committees.

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

- The Strategic Report on pages 2 to 59.
- The Corporate Governance Statement on page 60.
- The section entitled 'Board of Directors' on pages 61 to 63.
- The Corporate Governance Report on pages 64 to 67.
- The Audit Committee Report on pages 68 to 73.
- The Directors' Remuneration Report on pages 74 to 92.
- The Nomination Committee Report on page 93.

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

Disclosure	Section title	Pages
Future Developments	Strategic Report	2 to 59
Research and Development	Merlin Magic Making	34 to 37
Employee diversity and engagement	Team Merlin	38 to 41
Greenhouse Gas Emissions	Corporate Social Responsibility	54 to 59
Disabled persons	Corporate Social Responsibility	54 to 59

Disclosure	Section title	Page(s)
Relationship Agreements (additional details)	Corporate Governance Report	64 to 67
Internal Controls	Audit Committee Report	68 to 73
Financial Instruments	Note 5.4 to the Accounts	134
Share Capital and Movements therein	Note 5.7 to the Accounts	143
Subsidiary and Associated Undertakings	Note 6.8 to the Accounts	152

### Directors

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

#### Name

Sir John Sunderland

Nick Varney

Andrew Carr

Charles Gurassa

Ken Hydon

Miguel Ko

Fru Hazlitt

Søren Thorup Sørensen

Dr. Gerry Murphy

Rob Lucas

Each of the Directors, other than Fru Hazlitt, was appointed prior to the start of the financial year. Fru Hazlitt was appointed with effect from 1 April 2014. Each Director in post at the time offered themselves for re-election at the first Annual General Meeting of the Company and their re-election was approved by shareholders. All Directors remained in office at the end of the financial year. Miguel Ko has notified the Company that he does not propose to stand for re-election at the 2015 AGM.

### Directors' indemnities and insurance

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

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

### Appointment and removal of Directors

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

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

Specific details relating to KIRKBI, Blackstone and CVC and their rights to appoint Directors are set out in the Corporate Governance section of this report on page 64.

### Share capital and related matters

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

Specific details under an Underwriting Agreement that relate to KIRKBI; Blackstone; the Executive Directors; Non-executive Directors; and Merlin Entertainments Share Plan Nominee Limited (on behalf of senior management shareholders) are set out in the Corporate Governance section of this report on page 64.

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

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

### Power of Directors in respect of share capital

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

### Related parties

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

- **LEGOLAND Licence and Co-operation Agreement (LCA):** This agreement was entered into on 24 August 2005 with KIRKBI and sets out the rights granted to the Group to use the LEGO and LEGOLAND brands in connection with the development, operation and promotion of the Group's present and future LEGOLAND businesses. It includes certain requirements for the Group to develop LEGOLAND attractions, certain operational requirements for those attractions, and the nature of royalties due to KIRKBI for the use of the rights. The LCA includes rights for KIRKBI to terminate the LCA on a change of control of Merlin but only if this would result in a Licensee (as defined in the LCA) being controlled by a LEGO competitor or an inappropriate party. The LCA defines an inappropriate party as any person or entity (other than a financial institution) where one third of its revenue is derived from the manufacture and sale of tobacco, armaments and/or pornographic material.
- **Relationship Agreements with each of KIRKBI, Blackstone and CVC:** more details are provided in the Corporate Governance section of this Annual Report on page 64.
- **Underwriting Agreement:** more details are provided in the Corporate Governance section of this Annual Report on page 64.

## DIRECTORS' Report

### Change of control

The only other significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, is a Facilities Agreement entered into by the Group with Unicredit Group as facility agent, originally dated 4 March 2007 and amended and restated on 28 June 2013. This includes provisions in relation to a change of control or the sale of all or substantially all of the Group's assets, the occurrence of which will give the lenders under the Agreement the right to accelerate outstanding loans, terminate commitments and enforce their security.

As described below, subsequent to the year end the Group secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities. The new unsecured facilities also contain similar change of control provisions. Further details on the Group's banking facilities are shown in note 5.2 to the financial statements.

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

### Branches outside the UK

The Company has no branches outside the UK.

### Dividend

An interim dividend of 2.0 pence per share was paid on 25 September 2014 to shareholders on the Register on 29 August 2014. A final dividend for the year ended 27 December 2014 of 4.2 pence per share will be recommended for payment to shareholders. The final dividend will be proposed to shareholders for approval at the next Annual General Meeting of the Company.

### Political donations

No political donations were made during the year.

### Reduction of capital

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital. The effect of the reduction of capital was to increase available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

### Subsequent events

Subsequent to the year end, the Group has secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities.

The new senior unsecured facilities will comprise circa £1,000 million in floating rate term debt, with maturities in 2018 and 2020, along with an increased £300 million revolving credit facility. The reduction in drawn term debt will be funded through the use of circa £130 million of the Group's existing cash balance. The increased revolving credit line will ensure that the Group has adequate committed liquidity facilities to support our seasonality and strategic growth objectives. Under the new facilities we will be required to comply with certain financial and non-financial covenants.

### Going concern

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

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

### Audit information

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

### Re-appointment of auditors

As recommended by the Audit Committee, a resolution for the re-appointment of KPMG LLP as auditors to the Company will be proposed at the 2015 Annual General Meeting.

### Approval of annual report

The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 25 February 2015.

For and on behalf of the Board

**Colin N. Armstrong**  
Group Company Secretary  
25 February 2015

**Merlin Entertainments plc**  
Registered number 08700412



# DIRECTORS'

## *Responsibilities Statement*

### **Directors' responsibilities statement**

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

The Directors are required to prepare Group and Parent Company financial statements for each financial year. For this purpose, the Company is the Parent Company of the Group. The Group financial statements are required to be prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and applicable law. However, the Directors are permitted to, and have elected to, prepare the Company financial statements in accordance with generally accepted accounting principles in the UK (UK GAAP).

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

Having taken advice from the Audit Committee, the Remuneration Committee and the Health, Safety and Security Committee as well as from its legal and other professional advisers, the Board considers the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Neither the Company nor the Directors accept (and they hereby exclude) any liability to any person in relation to this Report except to the extent that such liability is imposed by law and may not be validly excluded.

The Board confirms to the best of its knowledge that:

- The Group financial statements contained in this Report (which have been prepared in accordance with IFRSs as adopted by the EU), when taken as a whole, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.
- The Company financial statements (which have been prepared in accordance with applicable UK GAAP), give a true and fair view of the state of affairs of the Company.
- The Directors' Report and the other sections of this Report referred to therein together represent a fair review of the strategy, development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

**Nick Varney**  
**Chief Executive Officer**  
 25 February 2015

**Andrew Carr**  
**Chief Financial Officer**  
 25 February 2015

# INDEPENDENT

## Auditor's Report

### TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC ONLY

#### Opinions and conclusions arising from our audit

##### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 52 week period ended 27 December 2014 set out on pages 104 to 161. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 27 December 2014 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

##### 2 Our assessment of risks of material misstatement

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

#### Carrying value of non-current assets £2,414 million (2013: £2,344 million)

Refer to pages 70 to 71 (Audit Committee Report) and pages 125 to 126 (accounting policy and financial disclosures).

- **The risk** - A history of business combinations and the capital intensive nature of the business model means that the Group has significant balances of goodwill, intangible assets and property, plant and equipment. There is a risk the future performance of the assets may not lead to their carrying values being recoverable in full.

#### OUR AUDIT APPROACH

##### Materiality

- £15.5 million, representing 6.9% of profit before tax.

##### Scope

- 84% of total profits before tax arise in audited components.
- all other components are subject to specified audit procedures or analysis at an aggregated level.

##### Key risks

- valuation of non-current assets; and
- revenue recognition.

This risk is prevalent as there is inherent uncertainty in estimating their recoverable value, principally arising in the inputs used in both forecasting (for example the expected change in visitation and revenues arising from new projects) and discounting future cash flows, and assessing an appropriate earnings multiple (for use in the estimation of Fair Value less Costs to Sell and sensitivity assessments). This uncertainty arises partly due to the unpredictable impact of factors such as competition, the weather, and the political and economic environment on trading performance; but also as the Group's new attractions are often in unproven locations.

A combination of the significance of the asset balances and the inherent uncertainty in the assumptions supporting the valuations of goodwill, brands and any assets showing impairment indicators, means that an assessment of the carrying value of non-current assets is one of the key judgemental areas that our audit concentrated on.

## INDEPENDENT AUDITOR'S REPORT

*To the members of Merlin Entertainments plc only*

- **Our response** - Our audit procedures included, among others, an analysis of the Group's previous ability to forecast cash flows accurately and challenging the reasonableness of current forecasts. These current forecasts include assumptions such as the expected change in visitation and revenues arising from new projects. Our challenge included an assessment of the Group's assumed effect of such projects, including a comparison of this expected change against the past results of similar projects carried out by the Group at other attractions; thereby allowing us to assess the level of the risk inherent in the current cash flow forecasts.

The data used by the Group to determine its earnings multiple and calculate its discount rates was benchmarked against market data, including publicly available analysts' reports and peer comparisons. We performed a sensitivity analysis of the earnings multiple, discount rates and forecast cash flows to show the effect of possible downside scenarios and considered the resulting headroom across the valuations, as well as the appropriateness of the related disclosures. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of non-current assets.

**Revenue recognition £1,249 million (2013: £1,192 million)**

Refer to page 71 (Audit Committee Report) and page 112 (accounting policy).

- **The risk** - Merlin's revenues come from a number of different channels, such as admissions ticketing income, spend in attractions on items such as food and drink, annual passes and hotel revenues. These revenues arise across a large estate of sites that due to the different jurisdictions in which the Group operates, and the Group's decentralised nature, use a number of different revenue systems or system configurations, many of which require manual processes to transfer data to the main finance system.

Manual, rather than automated, processes across multiple decentralised income systems increase the risk of error. Such errors could arise through the under or over recording from outputs from these systems, or due to the need for the separate recording and appropriately timed release of deferred revenue, which arises when tickets are either bought in advance or bought to allow access to multiple attractions.

Although the low value of individual transactions mean an individual error would be both difficult to detect and insignificant, the high volume of transactions mean systemic failure could lead to errors that aggregate into material balances.

- **Our response** - As described in 'Our application of materiality and an overview of the scope of our audit' we selected sites for audit to ensure appropriate coverage of key financial measures, including revenue.

At certain sites we performed testing of the general IT control environment of the systems used to record revenue, followed by testing of the processes to assess the completeness and accuracy of revenue entries arising from these systems. Alternatively, at other sites, we performed testing of the design, implementation and operating effectiveness of manual controls supporting these systems, including reconciliations of till records to revenue entries in the accounting records.

This controls testing was supported by substantive audit procedures including, amongst others, performing reconciliations of total cash received to revenue recorded, predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation), confirmation of the appropriate timing of sales cut-off through journals testing; and substantive testing of deferred and accrued revenue balances through testing back to ticketing system records, corroboration of ticket usage terms to underlying contracts and predictive analytical procedures based on revenue movements.

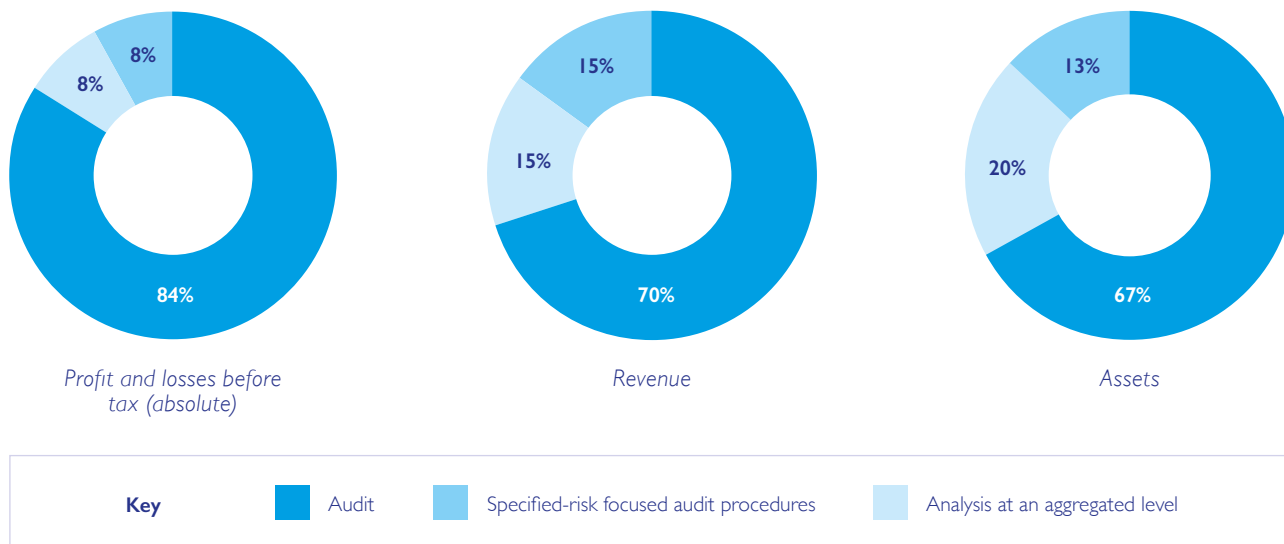
In 2013 we reported on certain risks that arose as a result of the Group's IPO. Without the recurrence of these risks, our focus on revenue recognition was a proportionately larger part of our work for 2014 and so is reported here, despite the nature of the revenue streams and the inherent risks associated with them not changing significantly from the previous year.

## INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

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

#### Scope of our work



The materiality for the Group financial statements as a whole was set at £15,500,000 for 2014. This was determined with reference to a benchmark of profit before tax, of which it represents 6.9%. In 2013, materiality was determined with reference to a benchmark of revenue. Following the Group's IPO at the end of 2013, which led to a significant reduction in the level of debt and therefore the amount of interest paid, we consider that profit before tax better aligns with the principal considerations of the shareholders of the Company, so for 2014 we changed our benchmark measure accordingly.

We agreed with the Audit Committee that we would report all corrected and uncorrected misstatements identified through our audit with a value in excess of £775,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We audited 84% of the total profits and losses that made up Group profit before tax, 70% of total Group revenue and 67% of total Group assets. This included the audit, for group reporting purposes, of the financial information of certain components, audit procedures on certain total Group account balances that present individual risks, specifically interest expenses, and assets arising on consolidation. The components containing these Group account balances were not individually financially significant and therefore did not require an audit for group reporting purposes. Audits for group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: UK, USA, Australia, Denmark, Germany, Italy and Hong Kong.

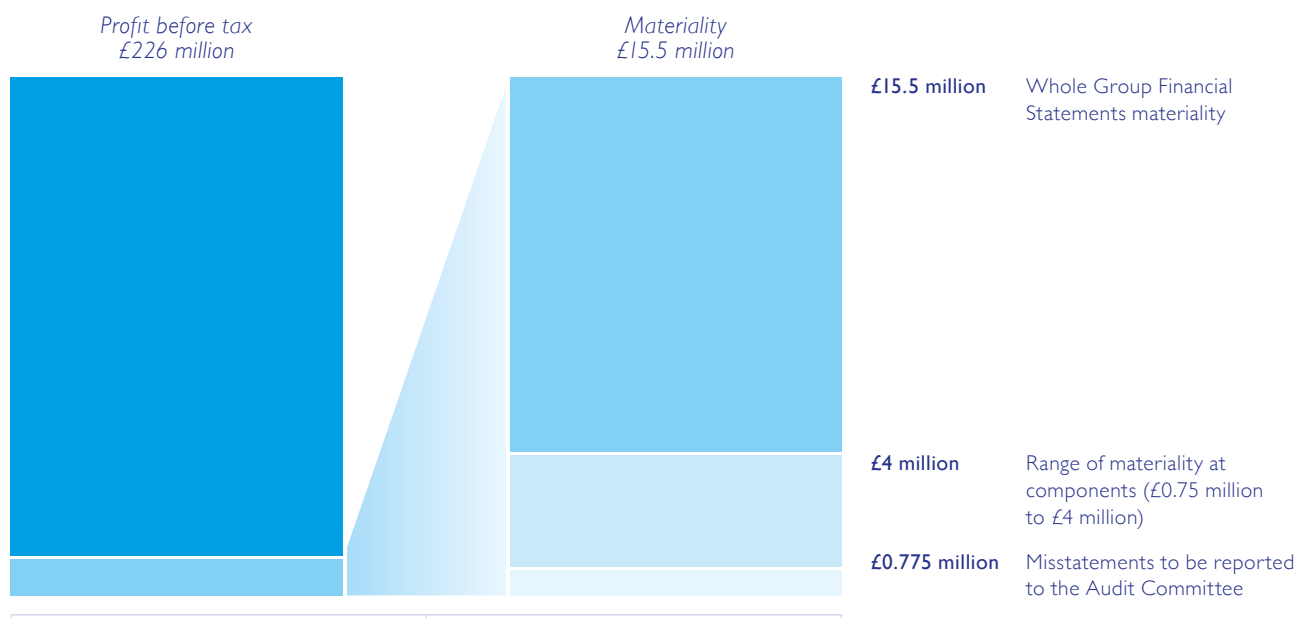
The remaining 16% of total profits and losses that made up Group profit before tax, 30% of total Group revenue and 33% of total Group assets was represented by a large number of smaller reporting components, as the majority of attractions sit within their own statutory entity and there are a large number of intermediary holding companies. None of these components individually represent more than 3.2% of any of the total profits or losses that made up Group profit before tax, total Group revenue or total Group assets. We obtained further coverage by performing specified risk-focused audit procedures over the reasonableness over the financial result and position at 15 of these reporting components. For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 47% of the total profits and losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, gaining coverage over a further 15% of the total profits and losses that made up Group profit before tax. The largest component audited by a component audit team represented 8% of the total profits and losses that made up Group profit before tax.

## INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

## Materiality of the Group Financial Statements



The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component by the Group audit team and ranged from £750,000 to £4,000,000.

Detailed audit and specified procedure instructions were sent to key component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team. The Group audit team visited three key component locations in Italy, Hong Kong and Florida, which included assessing the audit risk and strategy. Teleconferences were also held with these component auditors and all key reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail; with any further work required by the Group audit team then performed by the component auditor.

#### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- information given in the Corporate Governance Statement set out on pages 60 to 67 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

### 5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 96, in relation to going concern; and
- the part of the Corporate Governance Statement on page 60 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 97, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

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

25 February 2015

## FINANCIAL STATEMENTS

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## CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 27 December 2014 (2013: 52 weeks ended 28 December 2013)

	Note	2014			2013		
		Underlying trading £m	Exceptional items <sup>(3)</sup> £m	Total £m	Underlying trading £m	Exceptional items <sup>(3)</sup> £m	Total £m
Revenue	2.1	1,249	-	1,249	1,192	-	1,192
Cost of sales	2.1	(181)	-	(181)	(170)	-	(170)
<b>Gross profit</b>		<b>1,068</b>	<b>-</b>	<b>1,068</b>	<b>1,022</b>	<b>-</b>	<b>1,022</b>
Staff expenses	2.1	(312)	-	(312)	(297)	-	(297)
Marketing		(62)	-	(62)	(63)	-	(63)
Rent		(83)	-	(83)	(80)	-	(80)
Other operating expenses		(200)	-	(200)	(192)	(30)	(222)
<b>EBITDA <sup>(1)</sup></b>	2.1	<b>411</b>	<b>-</b>	<b>411</b>	<b>390</b>	<b>(30)</b>	<b>360</b>
Depreciation and amortisation	4.1, 4.2	(100)	-	(100)	(100)	-	(100)
<b>Operating profit</b>		<b>311</b>	<b>-</b>	<b>311</b>	<b>290</b>	<b>(30)</b>	<b>260</b>
Finance income	5.5	2	-	2	1	20	21
Finance costs	5.5	(64)	(23)	(87)	(105)	(4)	(109)
<b>Profit before tax</b>		<b>249</b>	<b>(23)</b>	<b>226</b>	<b>186</b>	<b>(14)</b>	<b>172</b>
Taxation	2.3	(70)	6	(64)	(24)	(3)	(27)
<b>Profit for the year <sup>(2)</sup></b>		<b>179</b>	<b>(17)</b>	<b>162</b>	<b>162</b>	<b>(17)</b>	<b>145</b>
<b>Earnings per share</b>							
Basic and diluted earnings per share (p)	2.4			16.0			15.1

<sup>(1)</sup> EBITDA - this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

<sup>(2)</sup> Profit for the year for 2014 and 2013 is wholly attributable to the owners of the Company.

<sup>(3)</sup> Details of exceptional items are provided in note 2.2.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 27 December 2014 (2013: 52 weeks ended 28 December 2013)

	Note	2014 £m	2013 £m
<b>Profit for the year</b>		162	145
<b>Other comprehensive income</b>			
<i>Items that cannot be reclassified to profit and loss</i>			
Defined benefit plan remeasurement gains and losses	6.2	(1)	-
Recognition of the assets and liabilities of the defined contribution section of the defined benefit scheme	6.2	(1)	-
		(2)	-
<i>Items that may be reclassified to profit and loss</i>			
Exchange differences on the retranslation of net assets of foreign operations		(23)	(8)
Exchange differences relating to the net investment in foreign operations	5.5	7	(8)
Effective portion of changes in fair value of cash flow hedges		(9)	5
Income tax on items relating to components of other comprehensive income	2.3	-	(1)
		(25)	(12)
<b>Other comprehensive income for the year net of income tax</b>		(27)	(12)
<b>Total comprehensive income for the year <sup>(1)</sup></b>		<b>135</b>	<b>133</b>

<sup>(1)</sup> Total comprehensive income for 2014 and 2013 is wholly attributable to the owners of the Company.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 27 December 2014 (2013: 28 December 2013)

	Note	2014 £m	2013 £m
<b>Non-current assets</b>			
Property, plant and equipment	4.1	1,410	1,321
Goodwill and intangible assets	4.2	942	961
Investments	6.1	6	3
Other receivables	4.4	7	3
Deferred tax assets	2.3	49	56
		2,414	2,344
<b>Current assets</b>			
Inventories	4.4	26	24
Trade and other receivables	4.4	60	64
Other financial assets	5.4	1	6
Cash and cash equivalents	5.1	285	264
		372	358
<b>Total assets</b>		<b>2,786</b>	<b>2,702</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	5.2	5	6
Other financial liabilities	5.4	12	9
Trade and other payables	4.4	226	223
Tax payable		27	21
Provisions	4.5	4	11
		274	270
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	5.2	1,131	1,179
Finance leases	5.1	84	85
Other payables	4.4	23	23
Provisions	4.5	50	37
Employee benefits	6.2	5	4
Deferred tax liabilities	2.3	156	160
		1,449	1,488
<b>Total liabilities</b>		<b>1,723</b>	<b>1,758</b>
<b>Net assets</b>		<b>1,063</b>	<b>944</b>
<b>Equity</b>			
Issued capital and reserves attributable to owners of the Company		1,059	940
Non-controlling interest		4	4
<b>Total equity</b>	5.7	<b>1,063</b>	<b>944</b>

The financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:

**Nick Varney**  
Chief Executive Officer

**Andrew Carr**  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 27 December 2014 (2013: 52 weeks ended 28 December 2013)

	Note	Share capital £m	Share premium £m	Capital reserve £m	Trans- lation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non- controlling interest £m	Total equity £m
At 30 December 2012		1	4	737	(68)	(7)	(54)	613	4	617
Profit for the year		-	-	-	-	-	145	145	-	145
Other comprehensive income for the year net of income tax		-	-	-	(17)	5	-	(12)	-	(12)
Total comprehensive income for the year		-	-	-	(17)	5	145	133	-	133
Bonus issue	5.7	8	2,979	(2,987)	-	-	-	-	-	-
Shares issued	5.7	1	200	-	-	-	(7)	194	-	194
<b>At 28 December 2013</b>		<b>10</b>	<b>3,183</b>	<b>(2,250)</b>	<b>(85)</b>	<b>(2)</b>	<b>84</b>	<b>940</b>	<b>4</b>	<b>944</b>
Profit for the year		-	-	-	-	-	162	162	-	162
Other comprehensive income for the year net of income tax		-	-	-	(16)	(9)	(2)	(27)	-	(27)
Total comprehensive income for the year		-	-	-	(16)	(9)	160	135	-	135
Equity dividends	5.7	-	-	-	-	-	(20)	(20)	-	(20)
Capital restructure	5.7	-	(3,183)	2,250	-	-	933	-	-	-
Equity-settled share-based transactions	5.8	-	-	-	-	-	4	4	-	4
<b>At 27 December 2014</b>	<b>5.7</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>(101)</b>	<b>(11)</b>	<b>1,161</b>	<b>1,059</b>	<b>4</b>	<b>1,063</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 27 December 2014 (2013: 52 weeks ended 28 December 2013)

	Note	2014 £m	2013 £m
<b>Cash flows from operating activities</b>			
Profit for the year		162	145
<i>Adjustments for:</i>			
Depreciation and amortisation	4.1, 4.2	100	100
Finance income	5.5	(2)	(21)
Finance costs	5.5	87	109
Taxation	2.3	64	27
		411	360
Working capital changes		(4)	30
Changes in provisions and other non-current liabilities		4	(3)
		411	387
Tax paid		(54)	(22)
<b>Net cash inflow from operating activities</b>		<b>357</b>	<b>365</b>
<b>Cash flows from investing activities</b>			
Interest received		2	1
Acquisition of subsidiaries	3.1	-	(6)
Acquisition of investments		(3)	-
Acquisition of property, plant and equipment		(192)	(152)
<b>Net cash outflow from investing activities</b>		<b>(193)</b>	<b>(157)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		-	194
Equity dividends paid		(20)	-
Proceeds from bank loans		-	102
Financing costs		-	(11)
Interest paid		(58)	(93)
Settlement of interest rate swaps and foreign exchange contracts		-	(39)
Repayment of borrowings		(70)	(236)
<b>Net cash outflow from financing activities</b>		<b>(148)</b>	<b>(83)</b>
<b>Net increase in cash and cash equivalents</b>		<b>16</b>	<b>125</b>
Cash and cash equivalents at beginning of year		264	142
Effect of movements in foreign exchange		5	(3)
<b>Cash and cash equivalents at end of year</b>	5.1	<b>285</b>	<b>264</b>

## SECTION I BASIS OF PREPARATION

52 weeks ended 27 December 2014

**I.1 Basis of preparation**

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom and its registered office is 3 Market Close, Poole, Dorset, BH15 1NQ.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 27 December 2014 (2013: 52 weeks ended 28 December 2013). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

Additional analysis of other operating expenses has been provided in the consolidated income statement. This has not resulted in any restatement of the 2013 consolidated income statement.

The consolidated financial statements are presented in Sterling.

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

**Going concern**

The Group continues to trade profitably reporting a profit for the year of £162 million (2013: £145 million) and continues to generate cash with operating cash inflows of £357 million (2013: £365 million). As highlighted in note 5.2, the Group is funded by a bank loan facility, due for renewal in 2019. Subsequent to the year end, the Group has secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities (see note 6.7). The Group's forecasts show that it is expected to be able to operate within the terms of both the existing and proposed facilities.

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

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc and its subsidiaries and branches at the end of each reporting period and include its share of its joint ventures' results using the equity method.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated.

Where subsidiaries enter into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, these are considered to be insurance arrangements and accounted for as such. In this respect, the subsidiary concerned treats the guarantee contract as a contingent liability until such time as it becomes probable that it will be required to make a payment under the guarantee.

## SECTION I BASIS OF PREPARATION *(continued)*

52 weeks ended 27 December 2014

### I.1 Basis of preparation *(continued)*

#### Foreign currency

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

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

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

#### Classification of financial instruments issued by the Group

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

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

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

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

#### Judgements and estimates

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

On an ongoing basis the following area involves a higher degree of judgement or complexity and is explained in more detail in the related note:

- Impairment testing (note 4.3).

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

- Treasury accounting - consideration of the likelihood of refinancing the Group's debt before the contractual end date of the Group's existing lending facility (note 5.2).

#### New standards and interpretations

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

## SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 27 December 2014

## 2.1 Profit before tax

## Segmental information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group is managed through its three Operating Groups, which form the operating segments on which the information shown below is prepared. The Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker. An operating segment's results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

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

2014	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m
Segment revenue	529	386	331	1,246
Segment profit, being segment EBITDA	214	142	87	443
Segment depreciation and amortisation	(47)	(22)	(27)	(96)
Segment operating profit	167	120	60	347

2013	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m
Segment revenue	524	352	314	1,190
Segment profit, being segment EBITDA	212	127	81	420
Segment depreciation and amortisation	(48)	(21)	(27)	(96)
Segment operating profit	164	106	54	324

## Reconciliation to statutory items included in the consolidated income statement

2014	Revenue £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m
Segment results	1,246	443	(96)	347
Other items <sup>(1)</sup>	3	(32)	(4)	(36)
Exceptional items (note 2.2)	-	-	-	-
<b>Total per consolidated income statement</b>	<b>1,249</b>	<b>411</b>	<b>(100)</b>	<b>311</b>

2013	Revenue £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m
Segment results	1,190	420	(96)	324
Other items <sup>(1)</sup>	2	(30)	(4)	(34)
Exceptional items (note 2.2)	-	(30)	-	(30)
<b>Total per consolidated income statement</b>	<b>1,192</b>	<b>360</b>	<b>(100)</b>	<b>260</b>

<sup>(1)</sup> Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributable to the reportable segments.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

**2.1 Profit before tax** *(continued)***Geographical areas**

While each Operating Group is managed on a worldwide basis, part of our strategy is to diversify geographically across the four regions shown below. The information presented is based on the geographical locations of the visitor attractions concerned.

**Geographical information**

	Revenues 2014 £m	Non-current assets 2014 £m	Revenues 2013 £m	Non-current assets 2013 £m
United Kingdom	490	811	466	778
Continental Europe	318	794	307	829
North America	274	429	247	373
Asia Pacific	167	325	172	305
	1,249	2,359	1,192	2,285
Deferred tax		49		56
Investments		6		3
		2,414		2,344

**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, accommodation revenue, retail, food and beverage sales and sponsorship. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Ticket revenue is recognised at point of entry.

From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in the year is not material.



## SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

### 2.1 Profit before tax *(continued)*

#### Cost of sales

Cost of sales of £181 million (2013: £170 million) represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Retail inventory and food and beverage consumables are the principal expenses included under this category.

#### Operating expenses

#### Staff numbers and costs

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

	2014	2013
Operations	15,567	14,573
Attraction management and central administration	1,760	1,712
	17,327	16,285

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	266	255
Share-based payments	4	-
Social security costs	32	32
Other pension costs	10	10
	312	297

#### Auditor's remuneration

	2014 £m	2013 £m
Audit of these financial statements	1.2	1.0
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services <sup>(1),(2)</sup>	0.4	1.1
Other services relating to taxation	0.4	0.3
Services relating to corporate finance transactions <sup>(2),(3)</sup>	-	2.9
	2.3	5.6

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

<sup>(2)</sup> These costs were included within other operating expenses - exceptional items in 2013 (see note 2.2).

<sup>(3)</sup> Services relating to corporate finance transactions in 2013 included fees incurred as part of the IPO process.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

**2.2 Exceptional items****Accounting policy**

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

**Exceptional items**

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

	2014 £m	2013 £m
<i>Within other operating expenses:</i>		
Costs in respect of IPO <sup>(1)</sup>	-	28
Acquisition costs <sup>(2)</sup>	-	2
<b>Exceptional items included within EBITDA and operating profit</b>	<b>-</b>	<b>30</b>
<i>Within finance income and costs:</i>		
Unrealised gain on re-measurement of financial derivatives at fair value <sup>(3)</sup>	-	(20)
Unrealised loss on re-measurement of financial derivatives at fair value <sup>(3)</sup>	-	4
Loss on re-measurement of financial liabilities measured at amortised cost <sup>(4)</sup>	23	-
	23	(16)
<b>Exceptional items before income tax</b>	<b>23</b>	<b>14</b>
Exceptional items income tax (credit)/charge <sup>(5)</sup>	(6)	3
<b>Exceptional items for the year</b>	<b>17</b>	<b>17</b>

<sup>(1)</sup> Certain professional and advisory fees were incurred in 2013 as part of the process of listing shares in the Group through an Initial Public Offering. They are separately presented as they are not part of the Group's underlying operating expenses. In addition, £7 million was recognised directly in equity.

<sup>(2)</sup> Directly attributable acquisition and subsequent integration costs were incurred in respect of the acquisitions in 2013 described in note 3.1. These are separately presented as they are not part of the Group's underlying operating expenses.

<sup>(3)</sup> 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. Further details are provided in note 5.5.

<sup>(4)</sup> The loss on re-measurement of financial liabilities at amortised cost has been separately presented as this item represents an adjustment to the expected amortisation period of previous loan issuance costs and therefore is not part of the Group's underlying finance cost. Further details are provided in note 5.2.

<sup>(5)</sup> The exceptional items income tax charge reflects the tax effect of the exceptional items above.

## SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

### 2.3 Taxation

#### Accounting policies

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted 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

	2014 £m	2013 £m
<i>Current tax expense</i>		
Current year	56	26
Adjustment for prior periods	3	(1)
Total current income tax	59	25
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	4	4
Changes in tax rate	(1)	-
Adjustment for prior periods	2	(2)
Total deferred tax	5	2
<b>Total tax expense in income statement</b>	<b>64</b>	<b>27</b>

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

**2.3 Taxation** *(continued)***Reconciliation of effective tax rate**

	2014 %	2014 £m	2013 %	2013 £m
Profit before tax		226		172
Income tax using the domestic corporation tax rate	21.5%	48	23.0%	40
Non-deductible expenses	2.5%	6	9.8%	16
Income not subject to tax	(1.9%)	(4)	(9.9%)	(17)
Effect of tax rates in foreign jurisdictions	7.1%	16	10.6%	18
Effect of changes in tax rate	(0.4%)	(1)	0.1%	-
Unrecognised temporary differences	(0.5%)	(1)	1.0%	2
Effect of recognising deferred tax assets previously unrecognised	(2.0%)	(5)	(16.9%)	(29)
Adjustment for prior periods	2.1%	5	(2.0%)	(3)
<b>Total tax expense in income statement</b>	<b>28.4%</b>	<b>64</b>	<b>15.7%</b>	<b>27</b>

During 2013 a number of financing changes occurred which lowered the Group's ongoing finance cost. These included the restructuring of debt facilities, the settlement of interest rate swaps and the repayment of debt following the IPO, which led to an increased certainty over the availability of future taxable profits in the UK. This resulted in the recognition of deferred tax assets in the UK arising largely from unclaimed capital allowances.

Sensitivity analysis was performed when the assets were recognised. This showed that no reasonably foreseeable changes in the future taxable profits of the UK operations or the forecast capital spend would result in non-utilisation of the deferred tax assets. No significant sensitivities were noted in respect of the deferred tax assets recognised during 2014.

The effective tax rate (ETR) in 2014 and in particular 2013 was affected by the recognition of deferred tax assets, referred to above. Excluding the effect of this recognition, the ETR would be 30.4% (2013: 32.6%). This ETR has reduced from 2013 to 2014 due to a reduction in tax due in overseas jurisdictions. The ETR based on underlying trading, excluding exceptional items, was 28.0% in 2014 (2013: 12.7%).

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

Within other comprehensive income a tax charge totalling £nil (2013: £1 million) has been recognised relating to foreign exchange differences relating to the net investment in foreign operations.

SECTION 2 RESULTS FOR THE YEAR (continued)  
52 weeks ended 27 December 2014

## 2.3 Taxation (continued)

### Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Property, plant and equipment	30	40	(114)	(112)	(84)	(72)
Other short term temporary differences	31	26	(7)	(13)	24	13
Intangible assets	-	-	(47)	(48)	(47)	(48)
Tax value of loss carry-forwards	-	3	-	-	-	3
<b>Tax assets/(liabilities)</b>	<b>61</b>	<b>69</b>	<b>(168)</b>	<b>(173)</b>	<b>(107)</b>	<b>(104)</b>
Set-off tax	(12)	(13)	12	13	-	-
<b>Net tax assets/(liabilities)</b>	<b>49</b>	<b>56</b>	<b>(156)</b>	<b>(160)</b>	<b>(107)</b>	<b>(104)</b>

Other short term temporary differences primarily relate to financial assets and liabilities and various accruals and prepayments.

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

#### Movement in deferred tax during the current year

	29 December 2013 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	27 December 2014 £m
Property, plant and equipment	(72)	(10)	-	(2)	(84)
Other short term temporary differences	13	8	2	1	24
Intangible assets	(48)	-	-	1	(47)
Tax value of loss carry-forwards	3	(3)	-	-	-
<b>Net tax (liabilities)/assets</b>	<b>(104)</b>	<b>(5)</b>	<b>2</b>	<b>-</b>	<b>(107)</b>

In 2014 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to increases in financial assets and liabilities, principally in the UK.

## SECTION 2 RESULTS FOR THE YEAR (continued)

52 weeks ended 27 December 2014

**2.3 Taxation** (continued)

## Movement in deferred tax during the previous year

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

In 2013 net deferred tax liabilities in respect of property, plant and equipment decreased because previously unrecognised deferred tax assets were recognised in the year, offset by amounts utilised in the period. The previously unrecognised deferred tax assets related primarily to unclaimed capital allowances on UK property, plant and equipment where their recoverability was reassessed based on expected profitability of the business given the financing changes which occurred during the year. The movement in net deferred tax assets in respect of other short term temporary differences primarily related to movements in various accruals and prepayments. The movement in deferred tax assets due to losses was as a result of the use of losses in the USA.

## Unrecognised deferred tax assets

	2014 £m	2013 £m
Property, plant and equipment	4	7
Other short term temporary differences	23	30
Intangible assets	3	4
Tax value of loss carry-forwards	51	55
<b>Net tax assets</b>	<b>81</b>	<b>96</b>

The unrecognised deferred tax assets relating to loss carry-forwards include £1 million (2013: £nil) which expire within five years and £nil (2013: £1 million) which expire within ten years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be recognised.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

52 weeks ended 27 December 2014

## 2.4 Earnings per share

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

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share is calculated in the same way except that the profit for the period attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

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

	2014 £m	2013 £m
Profit attributable to ordinary shareholders	162	145
Exceptional items net of tax (see note 2.2)	17	17
<b>Adjusted profit attributable to ordinary shareholders</b>	<b>179</b>	<b>162</b>
	<b>2014</b>	<b>2013</b>
Basic weighted average number of shares	1,013,746,032	957,880,691
Dilutive potential ordinary shares	434,077	-
<b>Diluted weighted average number of shares</b>	<b>1,014,180,109</b>	<b>957,880,691</b>

Share incentive schemes (see note 5.8) are treated as dilutive to earnings per share when, at the balance sheet date, the awards are both 'in the money' and would be issuable had the performance period ended at that date. Accordingly, the PSP has a dilutive effect as the performance measures have been partially achieved, whereas the DBP is not dilutive as the awards have not yet been issued, and the CSOP is not dilutive as the options are 'out of the money' after accounting for the value of services rendered in addition to the option price.

For 2013, the PSP performance period had not commenced and the CSOP was 'out of the money', therefore no awards were treated as dilutive.

### Earnings per share

	2014 Pence	2013 Pence
<b>Basic and diluted earnings per share on profit for the year</b>	<b>16.0</b>	<b>15.1</b>
Exceptional items net of tax	1.7	1.8
<b>Adjusted and diluted earnings per share on adjusted profit for the year</b>	<b>17.7</b>	<b>16.9</b>

## SECTION 3 BUSINESS COMBINATIONS

52 weeks ended 27 December 2014

### 3.1 Business combinations

#### Accounting policies

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

Given the specialised nature of the property, plant and equipment acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out in note 4.1. Residual values are based on industry specific indices.

#### 2014

The Group undertook no business combinations during 2014.

#### 2013

##### Rays Ski Shop

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

##### Turkuazoo Aquarium

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

##### Iconic Images

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

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

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

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

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



## SECTION 4 OPERATING ASSETS AND LIABILITIES

52 weeks ended 27 December 2014

**4.1 Property, plant and equipment****Accounting policies**

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

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

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

**New sites**

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

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

**Existing sites**

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction or which extends the useful life of, or enhances existing items of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and useable state and to maintain the useful life of items of PPE is charged to the income statement as incurred. Examples of such expenditure include regular servicing and maintenance of buildings, rides and displays and ongoing repairs to items of PPE.

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

The estimated useful lives are as follows:

<b>Asset class</b>	<b>Depreciation policy</b>
Freehold / long leasehold buildings	50 years
Leasehold buildings	20 - 50 years
Plant and equipment	5 - 30 years

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 27 December 2014

## 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 30 December 2012	812	774	90	1,676
Acquisitions through business combinations (note 3.1)	-	6	-	6
Additions	9	34	106	149
Movements in asset retirement provisions	2	(1)	-	1
Disposals	(5)	(11)	-	(16)
Transfers	63	73	(136)	-
Effect of movements in foreign exchange	(19)	(14)	2	(31)
<b>Balance at 28 December 2013</b>	<b>862</b>	<b>861</b>	<b>62</b>	<b>1,785</b>
Additions	29	46	123	198
Movements in asset retirement provisions (note 4.5)	3	2	-	5
Disposals	(1)	(3)	-	(4)
Transfers	37	57	(94)	-
Effect of movements in foreign exchange	(11)	(9)	-	(20)
<b>Balance at 27 December 2014</b>	<b>919</b>	<b>954</b>	<b>91</b>	<b>1,964</b>
<i>Depreciation</i>				
Balance at 30 December 2012	139	247	-	386
Depreciation for the year - owned assets	28	67	-	95
Depreciation for the year - leased assets	1	3	-	4
Disposals	(5)	(11)	-	(16)
Effect of movements in foreign exchange	(2)	(3)	-	(5)
<b>Balance at 28 December 2013</b>	<b>161</b>	<b>303</b>	<b>-</b>	<b>464</b>
Depreciation for year - owned assets	26	69	-	95
Depreciation for year - leased assets	1	3	-	4
Disposals	(1)	(3)	-	(4)
Effect of movements in foreign exchange	-	(5)	-	(5)
<b>Balance at 27 December 2014</b>	<b>187</b>	<b>367</b>	<b>-</b>	<b>554</b>
<i>Carrying amounts</i>				
At 30 December 2012	673	527	90	1,290
At 28 December 2013	701	558	62	1,321
<b>At 27 December 2014</b>	<b>732</b>	<b>587</b>	<b>91</b>	<b>1,410</b>

## SECTION 4 OPERATING ASSETS AND LIABILITIES *(continued)*

*52 weeks ended 27 December 2014*

### 4.1 Property, plant and equipment *(continued)*

PPE was tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. No impairment charges have been made in the current or prior year. No residual values are typically considered.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 27 December 2014 the net carrying amount of leased buildings was £18 million (2013: £19 million) and the net carrying amount of leased plant and machinery was £34 million (2013: £37 million). Further details in respect of leases and lease obligations are provided in note 5.3.

#### Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to £50 million (2013: £35 million), for which no provision has been made. These commitments are expected to be settled within two financial years of the reporting date.

In addition to the contractual commitments disclosed above, the Group intends to invest circa £53 million in LEGOLAND Japan and circa £57 million in LEGOLAND Korea over the period from 2014 to 2017, as previously announced.

### 4.2 Goodwill and intangible assets

#### Accounting policies

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired and any contingent liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands have been valued based on discounted future cash flows using the relief from royalty method, including amounts into perpetuity. Currently all such brands held are regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the demonstrable 'chaining' of brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a definite life on the brands. The brands are tested annually for impairment.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets comprise software licences, sponsorship rights and other contract based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 27 December 2014

## 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 30 December 2012	949	190	25	1,164
Acquisitions through business combinations (note 3.1)	5	-	-	5
Additions	-	-	1	1
Effect of movements in foreign exchange	(12)	1	(1)	(12)
<b>Balance at 28 December 2013</b>	<b>942</b>	<b>191</b>	<b>25</b>	<b>1,158</b>
Additions	-	-	1	1
Effect of movements in foreign exchange	(17)	(5)	-	(22)
<b>Balance at 27 December 2014</b>	<b>925</b>	<b>186</b>	<b>26</b>	<b>1,137</b>
<i>Amortisation</i>				
Balance at 30 December 2012	173	12	9	194
Amortisation for the year	-	-	1	1
Effects of movements in foreign exchange	1	-	1	2
<b>Balance at 28 December 2013</b>	<b>174</b>	<b>12</b>	<b>11</b>	<b>197</b>
Amortisation for the year	-	-	1	1
Effect of movements in foreign exchange	(3)	-	-	(3)
<b>Balance at 27 December 2014</b>	<b>171</b>	<b>12</b>	<b>12</b>	<b>195</b>
<i>Carrying amounts</i>				
At 30 December 2012	776	178	16	970
At 28 December 2013	768	179	14	961
<b>At 27 December 2014</b>	<b>754</b>	<b>174</b>	<b>14</b>	<b>942</b>

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. As a result of these tests, no impairment charges have been made in the year (2013: £nil).

## Goodwill

Goodwill is allocated to the Group's operating segments which represent the lowest level at which it is monitored and tested for impairment. It is denominated in the relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2014 £m	2013 £m
Midway Attractions	530	531
LEGOLAND Parks	38	39
Resort Theme Parks	186	198
	<b>754</b>	<b>768</b>

## SECTION 4 OPERATING ASSETS AND LIABILITIES *(continued)*

*52 weeks ended 27 December 2014*

### 4.2 Goodwill and intangible assets *(continued)*

#### Brands

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2014 £m	2013 £m
<i>Midway Attractions</i>		
Madame Tussauds	26	26
SEA LIFE	15	16
London Eye	10	10
Other	8	8
	59	60
<i>Resort Theme Parks</i>		
Gardaland Resort	45	48
Alton Towers Resort	32	32
Thorpe Park	15	15
Heide Park	11	12
Other	12	12
	115	119
	174	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. The London Eye, Gardaland Resort, Alton Towers Resort, Thorpe Park and Heide Park brands all arise from those specific visitor attractions.

### 4.3 Impairment testing

#### Accounting policies

The carrying amounts of the Group's goodwill, intangible assets and PPE are reviewed annually to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss whenever the carrying amount of those assets exceeds the recoverable amount.

The level at which the assets concerned are reviewed varies as follows:

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

## SECTION 4 OPERATING ASSETS AND LIABILITIES (continued)

52 weeks ended 27 December 2014

**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**

In accordance with accounting standards the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. The Group uses a multiple of EBITDA to estimate fair value. This multiple is based on the Group's average market capitalisation as a multiple of the Group's underlying EBITDA. The Group's internally approved five year business plans are used as the basis for these calculations, with cash flows beyond the five year business plan horizon then extrapolated using a long term growth rate.

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

<b>Estimate</b>	
<b>Future cash flows</b>	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure. The Group uses EBITDA as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
<b>Growth in EBITDA</b>	EBITDA is forecast by an analysis of both projected revenues and costs. Visitor numbers and revenue projections are based on market analysis, including the total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions as well as marketing activity. Operating costs projections are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities as well as general market conditions.
<b>Timing and quantum of future capital and maintenance expenditure</b>	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
<b>Long term growth rates</b>	A growth rate of 2.5% (2013: 2.5%) was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.
<b>Discount rates to reflect the risks involved</b>	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Net present values are calculated using an appropriate pre-tax discount rate of between 9.4% and 13.1% (2013: 9.4% and 12.6%), derived from the Group's post-tax weighted average cost of capital of between 7.4% and 9.7% (2013: 7.4% and 9.3%).
<b>Sensitivity analysis</b>	Impairment reviews and calculation of recoverable amounts are typically sensitive to changes in key assumptions, particularly relating to discount rates and EBITDA growth. At 27 December 2014 if the estimated EBITDA levels used in the value in use calculations had been 1% lower or the discount rate used been 0.1% higher no impairment charges would have arisen.

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

No impairment losses were recorded in 2014 or 2013. The Directors consider that no reasonably foreseeable change in any of the above key assumptions, in particular the discount rate and growth rate assumptions used, would significantly alter the outcome of the Group's impairment testing.

## SECTION 4 OPERATING ASSETS AND LIABILITIES *(continued)*

*52 weeks ended 27 December 2014*

### 4.4 Working capital

#### Accounting policies

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

##### Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

##### Inventories

	2014 £m	2013 £m
Maintenance inventory	6	6
Goods for resale	20	18
	26	24

##### Trade and other receivables

	Current assets		Non-current assets	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade receivables	16	12	-	-
Other receivables	17	25	-	-
Prepayments and accrued income	27	27	7	3
	60	64	7	3

##### Ageing of trade receivables

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

	2014 £m	2013 £m
Neither past due nor impaired	10	6
Up to 30 days overdue	4	4
Between 30 and 60 days overdue	1	2
Over 60 days overdue	1	-
	16	12

SECTION 4 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 27 December 2014

**4.4 Working capital** *(continued)***Trade and other payables**

	Current liabilities		Non-current liabilities	
	2014 £m	2013 £m	2014 £m	2013 £m
Trade payables	31	28	-	-
Accruals	115	116	2	3
Deferred income	69	68	-	-
Other payables	11	11	21	20
	226	223	23	23

**Accruals**

Accruals comprises balances in relation to both operating and capital costs incurred at the balance sheet date but for which an invoice has not been received and payment has not yet been made.

**Deferred income**

Deferred income comprises revenues received or invoiced at the balance sheet date which relate to future periods. The main components of deferred income relate to advanced ticket revenues in respect of online bookings and annual pass purchases; pre-booked accommodation; and certain sponsorship and similar arrangements.



## SECTION 4 OPERATING ASSETS AND LIABILITIES *(continued)*

*52 weeks ended 27 December 2014*

### 4.5 Provisions

#### Accounting policy

Provisions are recognised when the Group has legal or constructive obligations as a result of past events and it is probable that expenditure will be required to settle those obligations. They are measured at the Directors' best estimates, after taking account of information available and different possible outcomes.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Provisions

	Asset retirement provisions £m	Other £m	Total £m
Balance at 29 December 2013	30	18	48
Provisions made during the year	5	2	7
Utilised during the year	-	(2)	(2)
Unwinding of discount	1	-	1
<b>Balance at 27 December 2014</b>	<b>36</b>	<b>18</b>	<b>54</b>
<b>2014</b>			
Current	-	4	4
Non-current	36	14	50
	36	18	54
<b>2013</b>			
Current	-	11	11
Non-current	30	7	37
	30	18	48

#### Asset retirement provisions

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term. These leases are typically of a duration of between ten and 60 years.

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

#### Other

Other provisions largely relate to the estimated cost arising from open insurance claims, tax matters and legal issues. As a result of changes in circumstances during the year, certain provisions were reclassified from current to non-current.

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 27 December 2014

**5.1 Net debt****Analysis of net debt**

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	2014 £m	2013 £m
Cash and cash equivalents	285	264
Interest-bearing loans and borrowings (note 5.2)	(1,136)	(1,185)
<b>Net bank debt</b>	<b>(851)</b>	<b>(921)</b>
Current finance leases (note 5.3)	-	-
Non-current finance leases (note 5.3)	(84)	(85)
<b>Net debt</b>	<b>(935)</b>	<b>(1,006)</b>

Restricted funds of £6 million (2013: £6 million) are included in cash and cash equivalents.

**5.2 Borrowings****Accounting policy****Interest-bearing loans and borrowings**

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

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.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

## 5.2 Borrowings (continued)

## Interest-bearing loans and borrowings

	Current		Non-current		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Secured bank loans	-	-	1,131	1,179	1,131	1,179
Bank interest payable	5	6	-	-	5	6
	5	6	1,131	1,179	1,136	1,185

## Terms and debt repayment schedule

This table provides information about the contractual terms of the Group's interest-bearing loans and borrowings. The principal value is the amount of debt owing at the end of the accounting period. The carrying value is measured at amortised cost, and presents the principal value as adjusted for any prepaid loan issue costs that are being amortised over the term of the facility.

	Currency	Nominal interest rate	Year of maturity	2014		2013	
				Principal value £m	Carrying amount £m	Principal value £m	Carrying amount £m
Secured bank loan	GBP	3.75%	2019	409	408	412	401
Secured bank loan	EUR	3.26%	2019	332	332	378	368
Secured bank loan	USD	3.41%	2019	319	318	329	323
Secured bank loan	AUD	5.90%	2019	73	73	90	87
				1,133	1,131	1,209	1,179
Bank interest payable					5		6
					1,136		1,185

In 2013 the Group entered into an amendment of its existing bank facility that extended the contractual date of repayment from July 2017 to July 2019. The Group accounted for this amendment on a continuation basis, reflecting management's judgement that this was a non-substantive change to the existing facility. The terms of the Group's borrowings provided no clear commercial incentive or contractual commitment to repay them over a specific period that was shorter than the contractual life of the facility. Accordingly, the Group calculated its effective interest rate and estimated the period for amortisation of financing costs based on that contractual term.

The Group determined at 27 December 2014 that a more reliable estimate could be formed of the likelihood and timeframe for an earlier refinancing. This was determined following reviews undertaken by management and external advisors of refinancing options. As a result the Group has accelerated the amortisation of financing costs and the resulting adjustment has been recognised as a loss on re-measurement and separately presented in the income statement as an exceptional charge of £23 million (see note 2.2).

Subsequent to the year end, the Group has secured a new banking facility that, once drawn, will replace the existing debt facilities (see note 6.7).

The existing loans are secured by fixed charges over the shares in certain Group companies and certain intra-group receivables. The nominal interest rate for secured bank loans in the table above represents the floating interest rate, including applicable margin, which prevailed at the reporting date. The Group uses interest rate swaps to hedge its interest rate exposure and these are described in note 5.4.

SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 27 December 2014

**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. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

**Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term. This therefore excludes the potential impact of future performance or rent increases based on inflationary indices.

**Lease arrangements**

The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the property, plant and equipment of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

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

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten and 60 years, with rent increases determined based on local market practice. In addition to a fixed rental element, rents within the Midway Attractions Operating Group can also contain a performance related element, typically based on turnover at the site concerned. Options to renew leases exist at these sites in line with local market practice in the territories concerned.

The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. The potential impact on rent charges of future performance or increases based on inflationary indices are each excluded from these calculations.

There are no significant operating restrictions placed on the Group as a result of its lease arrangements.

**Lease costs and commitments**

During 2014 £86 million (2013: £83 million) was recognised as an expense in the income statement in respect of operating leases. Of this £12 million (2013: £11 million) was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

*52 weeks ended 27 December 2014*

### 5.3 Lease obligations *(continued)*

The tables below set out the total future lease obligations of 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 2014 £m	Interest 2014 £m	Present value of minimum lease payments 2014 £m	Future minimum lease payments 2013 £m	Interest 2013 £m	Present value of minimum lease payments 2013 £m
Less than one year	6	6	-	6	6	-
Between one and five years	26	25	1	26	26	-
More than five years	254	171	83	259	174	85
	286	202	84	291	206	85

	Currency	Nominal interest rate	Year of maturity	2014 £m	2013 £m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	30	31
				84	85

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:

	2014 £m	2013 £m
Less than one year	76	74
Between one and five years	297	291
More than five years	1,326	1,380
	1,699	1,745

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks in 2017, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the assets at the attractions.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

**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 and foreign exchange contracts**

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

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

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

**Hedge accounting**

The Group has designated its interest rate swaps 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 would be recognised immediately in profit or loss.

**Other financial assets**

	2014 £m	2013 £m
<i>Derivative financial instruments</i>		
Hedge accounted interest rate swaps	-	4
Non-hedge accounted interest rate swaps	-	1
Non-hedge accounted foreign exchange contracts	1	1
	1	6

## SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

*52 weeks ended 27 December 2014*

### 5.4 Derivative financial instruments *(continued)*

#### Other financial liabilities

	2014 £m	2013 £m
<i>Derivative financial instruments</i>		
Hedge accounted interest rate swaps	11	8
Non-hedge accounted interest rate swaps	-	1
Non-hedge accounted foreign exchange contracts	1	-
	12	9

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

### 5.5 Finance income and costs

#### Accounting policies

##### Income and costs

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

##### Capitalisation of borrowing costs

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of assets taking a substantial period of time to get ready for their intended use as part of the cost of that asset.

##### Net investment in foreign entities

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. The Group treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

#### Finance income and costs

##### Finance income

	2014 £m	2013 £m
<i>In respect of assets not held at fair value</i>		
Interest income	2	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	-	20
	2	21

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

## 5.5 Finance income and costs (continued)

## Finance costs

	2014 £m	2013 £m
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	62	102
Loss on re-measurement of financial liabilities measured at amortised cost (notes 2.2 and 5.2)	23	-
Other interest expense	2	1
<i>In respect of liabilities held at fair value</i>		
Unrealised loss on re-measurement of financial derivatives at fair value		
- Interest rate swaps and foreign exchange contracts	-	4
<i>Other</i>		
Net foreign exchange loss	-	2
	87	109

Capitalised borrowing costs amounted to £2 million in 2014 (2013: £2 million), with a capitalisation rate of 4.2% (2013: 6.8%).

Tax relief on capitalised borrowing costs amounted to £1 million in 2014 (2013: £1 million).

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

Foreign currency translation differences relating to the net investment in foreign operations amounted to a profit of £7 million in 2014 (2013: loss of £8 million). They are stated before attributable income tax (note 2.3).

## 5.6 Financial risk factors and fair value analysis

**Interest rate risk**

Interest rate risk is the risk that the Group is impacted by changes in interest rates. At 27 December 2014 the Group had floating rate debt in Sterling, Euros, US Dollars and Australian Dollars.

The Group hedges its cash flow exposure to its floating rate loans with interest rate swaps. At the reporting date, over the next three years an average of 55% (2013: 70%) of the secured bank loans were hedged in this way.

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

	Carrying amount	
	2014 £m	2013 £m
<i>Fixed rate instruments</i>		
Financial liabilities - finance leases	(84)	(85)
Financial liabilities - interest rate swaps	(11)	(4)
	(95)	(89)
<i>Variable rate instruments</i>		
Financial assets - cash and cash equivalents	285	264
Financial liabilities - bank loans and overdrafts	(1,131)	(1,179)
	(846)	(915)



## SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

*52 weeks ended 27 December 2014*

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

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.

#### 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 interest rate swaps. This assumes a shift in the yield curve of +/- 50 basis points (bp) (2013: 50bp).

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

	2014		2013	
	Profit or loss £m	Equity £m	Profit or loss £m	Equity £m
50bp increase in interest rates	-	(9)	-	(14)
50bp reduction in interest rates	-	9	-	14

#### Cash flow sensitivity analysis

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

This analysis assumes that all other variables remain constant.

	Profit or (loss)	
	2014 £m	2013 £m
Bank loans and overdrafts	(6)	(5)
Interest rate swaps	5	5
Cash and cash equivalents	1	1
<b>Cash flow sensitivity (net)</b>	<b>-</b>	<b>1</b>

A decrease of 50bp would result in a loss of £1 million (2013: loss of £1 million).

#### Liquidity risk

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury Department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or liquidity funds. In some jurisdictions bank cash pooling arrangements are in place to optimise the use of cash. As at the balance sheet date the Group had access to a revolving credit facility of £150 million (2013: £150 million) in addition to its existing borrowings to meet any shortfalls.

At 27 December 2014, the Group had cash and cash equivalents of £285 million (2013: £264 million) together with this revolving credit facility, which can be used to meet its contractual cash flows.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

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

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.

2014	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m
<i>Non-derivative financial liabilities</i>					
Secured bank loans	(1,324)	(42)	(45)	(1,237)	-
Finance lease liabilities	(202)	(6)	(6)	(19)	(171)
Trade payables	(31)	(31)	-	-	-
<i>Derivative financial liabilities</i>					
Hedge accounted interest rate swaps	(20)	(8)	(8)	(4)	-
Non-hedge accounted interest rate swaps	-	-	-	-	-
Non-hedge accounted foreign exchange contracts	(1)	(1)	-	-	-
	(1,578)	(88)	(59)	(1,260)	(171)

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

**Foreign currency risk**

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

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

The Group's financial instruments are set out by currency on the following page.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

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

2014	Sterling £m	Euro £m	US Dollar £m	Australian Dollar £m	Other £m	Total £m
Cash and cash equivalents	202	8	47	3	25	285
Trade receivables	7	2	3	1	3	16
Secured bank loans	(408)	(332)	(318)	(73)	-	(1,131)
Finance lease liabilities	(54)	(30)	-	-	-	(84)
Derivatives	(2)	(5)	(4)	-	-	(11)
Trade payables	(9)	(12)	(3)	(1)	(6)	(31)
	(264)	(369)	(275)	(70)	22	(956)

2013	Sterling £m	Euro £m	US Dollar £m	Australian Dollar £m	Other £m	Total £m
Cash and cash equivalents	220	8	11	4	21	264
Trade receivables	6	2	2	1	1	12
Secured bank loans	(401)	(368)	(323)	(87)	-	(1,179)
Finance lease liabilities	(54)	(31)	-	-	-	(85)
Derivatives	5	(2)	(6)	-	-	(3)
Trade payables	(10)	(9)	(3)	(2)	(4)	(28)
	(234)	(400)	(319)	(84)	18	(1,019)

The Group treats certain external and intercompany loans as net investment hedging instruments. These hedge the impact of foreign exchange movements that would otherwise occur on both external and intercompany borrowings where the balance is not in the currency of the individual entity concerned. At 27 December 2014 the Group had hedged the following loans:

	2014 £m	2013 £m
Sterling denominated loans	17	17
Euro denominated loans	320	251
US Dollar denominated loans	96	149
Other	17	-
	450	417

Translation movements on these loans are shown in other comprehensive income, see note 5.5.

## Foreign currency sensitivity analysis

The following tables show 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 foreign currencies to which the group is exposed. The analysis assumes that all other variables remain constant.

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

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

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

2014	Profit or (loss) impact			Total £m
	Cash £m	Secured bank loans £m	Foreign exchange contracts £m	
Euro	-	2	4	6
US Dollars	(1)	5	4	8
Danish Kroner	-	-	(2)	(2)
Hong Kong Dollars	-	-	(1)	(1)
Australian Dollars	-	(1)	1	-
Singapore Dollars	-	-	-	-
Japanese Yen	-	-	1	1
	(1)	6	7	12

2013	Profit or (loss) impact			Total £m
	Cash £m	Secured bank loans £m	Foreign exchange contracts £m	
Euro	-	2	3	5
US Dollars	-	5	-	5
Danish Kroner	-	-	(1)	(1)
Hong Kong Dollars	-	-	(1)	(1)
Australian Dollars	-	(2)	1	(1)
Singapore Dollars	-	-	1	1
Japanese Yen	-	-	-	-
	-	5	3	8

## 10% weakening of Sterling

2014	Profit or (loss) impact			Total £m
	Cash £m	Secured bank loans £m	Foreign exchange contracts £m	
Euro	-	(2)	(5)	(7)
US Dollars	1	(5)	(5)	(9)
Danish Kroner	-	-	2	2
Hong Kong Dollars	-	-	2	2
Australian Dollars	-	1	(1)	-
Singapore Dollars	-	-	(1)	(1)
Japanese Yen	-	-	(1)	(1)
	1	(6)	(9)	(14)

SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 27 December 2014

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

2013	Profit or (loss) impact			Total £m
	Cash £m	Secured bank loans £m	Foreign exchange contracts £m	
Euro	-	(2)	(4)	(6)
US Dollars	-	(5)	-	(5)
Danish Kroner	-	-	1	1
Hong Kong Dollars	-	-	1	1
Australian Dollars	-	1	(1)	-
Singapore Dollars	-	-	(1)	(1)
Japanese Yen	-	-	-	-
	-	(6)	(4)	(10)

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

Certain financial assets and liabilities of the Group are held by entities operating with a functional currency other than Sterling and do not have a base in local functional currency or Sterling. Accordingly, these instruments are sensitive to movements in foreign exchange rates but are not impacted by a strengthening or weakening of Sterling as presented above. The impact on profit/(loss) would be a loss of £4 million following a 10% strengthening of the relevant functional currency and would be a profit of £3 million following 10% weakening of the relevant functional currency.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has very limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit, however there are 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**

Market values have been used to determine the fair values of secured bank loans. Where market values are not available, or are not reliable, fair values have been calculated by discounting cash flows at prevailing interest rates. 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 27 December 2014

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

## Fair value versus carrying amounts

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

	2014		2013	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Derivative assets and liabilities</i>				
Hedge accounted interest rate swaps	(11)	(11)	(4)	(4)
Non-hedge accounted foreign exchange contracts	-	-	1	1
<i>Non-derivative assets and liabilities</i>				
Investments	6	6	3	3
Trade and other receivables	33	33	37	37
Cash and cash equivalents	285	285	264	264
Secured bank loans	(1,131)	(1,128)	(1,179)	(1,217)
Finance lease liabilities	(84)	(84)	(85)	(85)
Trade and other payables	(31)	(31)	(28)	(28)
	(933)	(930)	(991)	(1,029)

## Fair value hierarchy

The Group analyses financial instruments carried at fair value by utilising one of the three following valuation methods:

- 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 27 December 2014 the Group had £11 million (2013: £3 million) of derivative financial liabilities classified as Level 2.

At 27 December 2014 the Group had £6 million (2013: £3 million) of investments classified as Level 3. These are a £3 million investment made in 2014 in the consortium company developing LEGOLAND Korea and an investment in IDR Resorts Sdn. Bhd (IDR) acquired for £3 million in 2013, as disclosed in note 6.1. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 6.3).

There have been no transfers between levels in 2014 (2013: nil). No other financial instruments are held at fair value. If the secured bank loans were held at fair value they would be classified as Level 1.

SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 27 December 2014

**5.7 Equity and capital management****Capital management**

The capital structure of the Group consists of debt which includes borrowings (see note 5.2), cash and cash equivalents and equity attributable to equity holders of the parent company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Directors monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and the requirements of the Group's debt covenants are met.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance to fund significant acquisitions or developments intended to increase the overall value of the Group.

Share schemes have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders.

**Share capital and reserves****Share capital**

	2014 Number	2013 Number	2014 £m	2013 £m
<i>Ordinary shares of £0.01 each</i>				
On issue and fully paid at beginning of year	1,013,746,032	156,767,050	10	1
Cancelled in the year	-	(10,868,759)	-	-
Bonus issue	-	804,101,709	-	8
Issued in the year	-	63,746,032	-	1
<b>On issue and fully paid at end of year</b>	<b>1,013,746,032</b>	<b>1,013,746,032</b>	<b>10</b>	<b>10</b>

**Issue of new shares****2014**

There was no issuance of new shares in 2014.

**2013**

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

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

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

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

## SECTION 5 CAPITAL STRUCTURE AND FINANCING *(continued)*

52 weeks ended 27 December 2014

### 5.7 Equity and capital management *(continued)*

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

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

#### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

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

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

An interim dividend of 2.0 pence per share was paid on 25 September 2014 (2013: nil). The Directors of the Company propose a final dividend of 4.2 pence per share for the year ended 27 December 2014 (2013: nil).

#### Capital reserve

Balances arose in the capital reserve when the Group's previous parent company, Merlin Entertainments S.à r.l. arranged its own acquisition by Merlin Entertainments plc, a new legal parent. The balances represented the difference between the value of the equity structure of the previous and new parent companies.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million. When the capital position of the parent company was rearranged the capital reserve was adjusted appropriately such that the equity balances presented in the Group accounts best reflect the underlying structure of the Group's capital base.

#### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

### 5.8 Share-based payment transactions

#### Accounting policy

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

The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. The fair value of the share plans is recognised as an expense over the expected vesting period net of deferred tax with a corresponding entry to retained earnings. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are not material to the financial statements.



## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

## 5.8 Share-based payment transactions (continued)

## Equity-settled schemes

The Group operates four employee share incentive schemes: the Performance Share Plan (PSP), the Company Share Option Plan (CSOP), the All Employee Sharesave Plan (AESP) and the Deferred Bonus Plan (DBP) as set out in the Directors' Remuneration Report and the tables below. A summary of the rules for the schemes and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

## Analysis of share-based payment charge

	2014 £m	2013 £m
PSP	2	-
CSOP	1	-
AESP	1	-
	4	-

The charge in respect of the DBP is £nil (2013: £nil). Awards over shares worth £2 million (2013: £nil) will be made under the DBP in March 2015 based on the share price prevailing at that time. The awards will vest in March 2018.

## Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2014	Number of shares 2013
PSP	November 2013 - September 2014	-	2017 - 2024	9.3	3,611,209	3,633,489
CSOP	November 2013 - September 2014	3.15 - 3.77	2016 - 2024	9.0	2,305,252	2,298,375
AESP	January 2014 - February 2014	2.96 - 3.17	2016 - 2017	2.7	3,180,962	-
<b>Total</b>					9,097,423	5,931,864

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

	PSP		CSOP		AESP	
	Number	WAEP (£)	Number	WAEP (£)	Number	WAEP (£)
Granted during the year	3,633,489	-	2,298,375	3.15	-	n/a
<b>At 28 December 2013</b>	3,633,489	-	2,298,375	3.15	-	n/a
Granted during the year	120,577	-	206,850	3.64	3,555,062	2.98
Forfeited during the year	(142,857)	-	(199,973)	3.17	(374,100)	2.99
<b>At 27 December 2014</b>	3,611,209	-	2,305,252	3.19	3,180,962	2.98
<i>Exercisable at end of year</i>						
At 28 December 2013	-	-	-	-	-	-
<b>At 27 December 2014</b>	-	-	-	-	-	-

## SECTION 5 CAPITAL STRUCTURE AND FINANCING (continued)

52 weeks ended 27 December 2014

**5.8 Share-based payment transactions** (continued)

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2013 and 2014 are as follows:

Scheme	Date of grant	Exercise price (£)	Share price at grant date (£)	Fair value per award (£)	Expected dividend yield	Expected volatility	Award life (years)	Risk free rate
PSP	12 November 2013	-	3.15	3.15	n/a	n/a	3.4	1.1%
CSOP	12 November 2013	3.15	3.15	0.97	0.8%	30%	4.9	1.7%
AESP	13 January 2014	3.17	3.73	0.70	0.7%	20%	2.2	0.8%
	7 February 2014	2.96	3.54	0.84	0.7%	22%	3.3	1.2%

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

- The binomial valuation methodology is used for the PSP and CSOP schemes. The Black-Scholes model is used to value the AESP.
- Due to insufficient trading history in the Group's shares, the expected volatility is based on a portfolio of comparator companies.
- The risk free rate is equal to the prevailing UK Gilts rate at grant date, which is commensurate with the expected term.
- Expected forfeiture rates are based on recent experience of staff turnover levels.
- Behavioural expectations have been estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.

**Equity-settled schemes** (closed)

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

No charge arose during the year (2013: £nil). The number of shares issued was as follows:

	Number 2014	Number 2013
At beginning of year	-	19,283,150
Issued during the year	-	1,320,725
Forfeited during the year	-	(603,875)
Converted into B ordinary shares of Merlin Entertainments plc	-	(20,000,000)
At end of year	-	-

## SECTION 6 OTHER NOTES

52 weeks ended 27 December 2014

**6.1 Investments**

	2014 £m	2013 £m
At beginning of year	3	-
Additions	3	3
<b>At end of year</b>	<b>6</b>	<b>3</b>

**2014**

During the year the Group made a £3 million investment in the consortium company developing LEGOLAND Korea. The investment is accounted for at fair value and is not consolidated.

**2013**

In November 2013 the Group acquired 16,350,300 shares in IDR Resorts Sdn. Bhd. (IDR) for the consideration of £3 million. IDR is accounted for at fair value and is not consolidated. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 6.3).

**6.2 Employee benefits****Accounting policies****Defined contribution pension schemes**

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

**Defined benefit pension schemes**

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

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

**Defined contribution pension schemes**

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £10 million (2013: £10 million).

**Defined benefit pension schemes**

The principal scheme that the Group operates is a closed scheme for certain former UK employees of The Tussauds Group, which was acquired in 2007. The scheme entitles retired employees to receive an annual payment based on a percentage of final salary for each year of service that the employee provided. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

The most recent full actuarial valuation of the scheme was carried out as at 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 to be paid before 1 March 2014.

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2015. The weighted average duration of the defined benefit obligation at 27 December 2014 was 22 years.

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 27 December 2014

## 6.2 Employee benefits (continued)

The assets and liabilities of the schemes are:

	2014 £m	2013 £m
Equities	23	11
Corporate bonds and cash	5	5
Property	-	1
Fair value of scheme assets	28	17
Present value of defined benefit obligations	(33)	(21)
<b>Net pension liability</b>	<b>(5)</b>	<b>(4)</b>

## Movement in the net pension liability

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 30 December 2012	15	(20)	(5)
Transfers out	-	1	1
Net interest	1	(1)	-
Remeasurement gain/(loss)	1	(1)	-
<b>At 28 December 2013</b>	<b>17</b>	<b>(21)</b>	<b>(4)</b>
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement gain/(loss)	2	(3)	(1)
Recognition of defined contribution section assets and liabilities	8	(9)	(1)
<b>At 27 December 2014</b>	<b>28</b>	<b>(33)</b>	<b>(5)</b>

The amount recognised in the income statement was £nil (2013: £nil). The amount recognised in the statement of comprehensive income was a loss of £2 million (2013: £nil).

The closed Tussauds Group scheme operated a defined contribution section underpinned by a minimum level of benefit. Recent experience has indicated that this minimum level of benefit is now giving rise to a deficit; consequently the assets and liabilities of the defined contribution section of the scheme have been recognised in the year.

SECTION 6 OTHER NOTES (continued)  
52 weeks ended 27 December 2014

## 6.2 Employee benefits (continued)

### Actuarial assumptions

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

	2014	2013
Discount rate	3.9%	4.6%
Future salary increases	3.5%	3.7%
Rate of price inflation	3.2%	3.4%

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is SIPA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 85 and a female would have a life expectancy to age 88.

## 6.3 Related party transactions

### Identity of related parties

The Group has related party relationships with its pre-IPO major shareholders, key management personnel, joint ventures and IDR Resorts Sdn. Bhd.

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

### Transactions with shareholders

During the year the Group entered into transactions with, or was partly funded by, the pre-IPO major shareholders, KIRKBI Invest A/S, Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.). The Group also entered into transactions with CVC Capital Partners and the LEGO Group, a related party of KIRKBI Invest A/S. Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 27 December 2014, are as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases £m	Amounts owed to related party £m
<b>2014</b>				
KIRKBI Invest A/S	1	-	7	2
Blackstone Capital Partners	-	-	-	-
CVC Capital Partners	-	-	-	-
LEGO Group	1	-	37	2
	2	-	44	4
<b>2013</b>				
KIRKBI Invest A/S	-	-	7	1
Blackstone Capital Partners	-	-	1	-
CVC Capital Partners	-	-	1	-
LEGO Group	1	1	37	1
	1	1	46	2

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 27 December 2014

**6.3 Related party transactions** (continued)

As members of a banking syndicate, certain shareholders (or other parties related to those shareholders) are owners of elements of the Group's bank loan portfolio as described in note 5.2. Balances outstanding at 27 December 2014 are: parties related to KIRKBI Invest A/S £49 million (2013: £56 million); funds advised by parties related to Blackstone Capital Partners £33 million (2013: £36 million); and funds advised by parties related to CVC Capital Partners £10 million (2013: £31 million).

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

**Transactions with key management personnel**

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 2.1% (2013: 2.6%) of the voting shares of the Company.

The compensation of key management was as follows:

	2014 £m	2013 £m
Key management emoluments including social security costs	7.7	4.2
Contributions to money purchase pension schemes	0.5	0.4
Share-based payments and other related payments	0.8	0.2
	9.0	4.8

The comparative figures for 2013 reflect the fact that the Group was under private ownership until the Listing in November of that year. Consequently they are not directly comparable with the 2014 figures. In particular, the Board structure changed on Listing with a number of new Non-executive Director positions put in place. In addition the reward structure changed, with a different balance between ongoing salary and share-based long term incentive plans.

**Transactions with other related parties**

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group is committed to subscribing for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park. On this basis, IDR and its subsidiaries are deemed to be related parties. At 27 December 2014 and 28 December 2013 the Group had subscribed for 16,350,300 shares in IDR.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 27 December 2014, are as follows:

	2014 £m	2013 £m
Sales to related party	5	2
Amounts owed by related party	3	3

**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 (2013: £1 million).

## SECTION 6 OTHER NOTES *(continued)*

52 weeks ended 27 December 2014

### 6.5 New standards and interpretations

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

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

EU endorsed IFRS and interpretations with effective dates after 27 December 2014 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 2015 or after: The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IAS 19 (Amendment) 'Employee benefits' - defined benefit plans: employee contributions.
- IFRS 2 (Amendment) 'Share-based payment' - definition of 'vesting condition'.
- IFRS 3 (Amendment) 'Business combinations' - classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements.
- IFRS 8 (Amendment) 'Operating segments' - disclosures on the aggregation of operating segments.
- IFRS 13 (Amendment) 'Fair value measurement' - measurement of short term receivables and payables and scope of portfolio exception.
- IAS 16 (Amendment) 'Property, plant and equipment' and IAS 38 (Amendment) 'Intangible assets' - restatement of accumulated depreciation (amortisation) on revaluation.
- IAS 24 (Amendment) 'Related party disclosures' - definition of 'related party'.

During the year the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2017 accounting period. The Group's revenue is generated by high volumes of low value transactions, thereby requiring limited judgement on accounting for revenue compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

### 6.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

### 6.7 Subsequent events

Subsequent to the year end, the Group has secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities.

The new senior unsecured facilities will comprise circa £1,000 million in floating rate term debt, with maturities in 2018 and 2020, along with an increased £300 million revolving credit facility and lower average margins. The reduction in drawn term debt will be funded through the use of circa £130 million of the Group's existing cash balance. The increased revolving credit line will ensure that the Group has adequate committed liquidity facilities to support our seasonality and strategic growth objectives. Under the new facilities we will be required to comply with certain financial and non-financial covenants.

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 27 December 2014

**6.8 Subsidiary and joint venture undertakings**

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
AAE Unit Trust	Australia	-	100.0%	100.0%
AQDEV Pty Limited	Australia	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	Australia	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia	Ordinary	65.0%	65.0%
Hotham Ski Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Illawarra Tree Topps Pty Ltd	Australia	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia	Ordinary	100.0%	-
Limlimbu Ski Flats Ltd	Australia	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia	-	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia	-	100.0%	100.0%
LLA Aquariums Pty Limited	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia	-	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia	-	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia	-	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia	-	100.0%	100.0%
Oceanis NB Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia	-	100.0%	100.0%
Oceanis Unit Trust	Australia	-	100.0%	100.0%
Parkthorn Properties Pty Ltd	Australia	Ordinary	100.0%	100.0%



SECTION 6 OTHER NOTES (continued)  
52 weeks ended 27 December 2014

6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia	-	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia	Ordinary	100.0%	100.0%
US Fly Trust	Australia	-	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China	Ordinary	100.0%	-
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China	Ordinary	100.0%	100.0%
LEGOLAND ApS <sup>(1)</sup>	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy	Ordinary	<sup>(2)</sup> 49.4%	<sup>(2)</sup> 49.4%
Ronchi S.p.A.	Italy	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan	Ordinary	100.0%	100.0%

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 27 December 2014

## 6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l. <sup>(3)</sup>	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore	Ordinary	100.0%	100.0%
Aquaria Twenty-One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC (formerly Merlin Entertainments (Korea) LLC)	South Korea	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey	Ordinary	100.0%	100.0%
Alton Towers Limited	UK	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited (company limited by guarantee)	UK	-	100.0%	100.0%
Charcoal CLG 2 Limited (company limited by guarantee)	UK	-	100.0%	100.0%
Charcoal Holdco Limited	UK	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK	Ordinary	100.0%	100.0%
Iconic Images International Limited	UK	Ordinary	100.0%	100.0%
KZ China Holdco Limited (formerly Tussauds Finance Limited)	UK	Ordinary	100.0%	100.0%
KZ Mexico Holdco Limited (formerly Tussauds Intermediate Holdings 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%

SECTION 6 OTHER NOTES (continued)  
52 weeks ended 27 December 2014

6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
London Eye Holdings Limited	UK	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%
M.E.G.H. Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Trust Trustees Limited (formerly SEA LIFE Marine Conservation Trustees Limited)	UK	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK	Ordinary	100.0%	100.0%
Tussauds (NBD) Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds 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 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%

## SECTION 6 OTHER NOTES (continued)

52 weeks ended 27 December 2014

## 6.8 Subsidiary and joint venture undertakings (continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Lake George Fly LLC	USA	-	100.0%	100.0%
LEGOLAND California LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA	-	100.0%	-
LEGOLAND Discovery Center Boston LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	-	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA	-	100.0%	-
LEGOLAND Discovery Centre US LLC	USA	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA	-	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA	-	100.0%	100.0%
San Francisco Dungeon LLC	USA	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA	-	100.0%	-
SEA LIFE Michigan LLC	USA	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA	-	100.0%	100.0%
SEA LIFE US LLC	USA	-	100.0%	100.0%
The Tussauds Group LLC	USA	-	100.0%	100.0%
<b>Joint venture</b>				
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

<sup>(1)</sup> LL Datterselskab af december 2012 ApS was merged with LEGOLAND ApS during the year.

<sup>(2)</sup> Merlin Entertainments plc has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity.

<sup>(3)</sup> Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries.

## MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

*Company Balance Sheet at 27 December 2014 (2013: 28 December 2013)*

	Note	2014 £m	2013 £m
<b>Fixed assets</b>			
Investment in subsidiary undertaking	iii	3,111	3,107
<b>Current assets</b>			
Amounts owed by group undertakings	iv	58	78
Cash at bank and in hand and short term deposits		-	1
		58	79
Creditors: amounts falling due within one year	v	(2)	(4)
<b>Net current assets</b>		56	75
<b>Net assets</b>		<b>3,167</b>	<b>3,182</b>
<b>Capital and reserves</b>			
Called up share capital	vi	10	10
Share premium	vii	-	3,183
Profit and loss account	vii	3,157	(11)
<b>Shareholders' funds - equity</b>		<b>3,167</b>	<b>3,182</b>

The notes on pages 158 to 161 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:

**Nick Varney**  
Chief Executive Officer

**Andrew Carr**  
Chief Financial Officer

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

### **i Accounting policies**

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

These financial statements have been prepared for the 52 weeks ended 27 December 2014 (*2013: the period from incorporation of the Company on 20 September 2013 to 28 December 2013*).

The Directors have taken advantage of the exemption available under s408 of the Companies Act 2006 and have not presented a profit and loss account of the Company.

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

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

A summary of the Company's significant accounting policies is set out below.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the profit and loss account.

#### **Foreign currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

#### **Share-based payments**

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

#### **Debtors**

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

#### **Financial liabilities and equity instruments**

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

#### **Taxation**

Corporation tax is provided on the taxable profit for the period, using the tax rates that have been enacted at the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and would give rise to an obligation to pay more or less tax in the future. After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates that have been substantively enacted at the balance sheet date.

#### **Dividends**

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

*(continued)*

### ii Employees

The average number of employees of the Company during the period was seven (2013: six). All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report on pages 74 to 92. Two Directors accrued benefits under defined contribution schemes during the year (2013: two).

### iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking £m
<b>Cost and carrying value</b>	
At 20 September 2013	-
Additions	3,107
At 28 December 2013	3,107
Capital contributions to subsidiaries	4
<b>At 27 December 2014</b>	<b>3,111</b>

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the period end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Holding company	Luxembourg	100.0%	Ordinary

A full list of Group companies is included in note 6.8.

### iv Amounts owed by group undertakings

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. These funds are repayable on demand.

### v Creditors: amounts falling due within one year

	2014 £m	2013 £m
Other creditors	-	2
Accruals and deferred income	2	2
	2	4

## NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

(continued)

### vi Called up share capital

	2014 Number	2014 £m	2013 Number	2013 £m
<i>Ordinary shares of £0.01 each</i>				
At beginning of the period	1,013,746,032	10	-	-
Incorporation	-	-	1	-
Share for share exchange	-	-	156,767,049	1
Cancelled in the period	-	-	(10,868,759)	-
Bonus issue	-	-	804,101,709	8
Shares issued	-	-	63,746,032	1
<b>At end of the period</b>	<b>1,013,746,032</b>	<b>10</b>	<b>1,013,746,032</b>	<b>10</b>
<i>Redeemable ordinary shares of £50,000.00 each</i>				
At beginning of the period	-	-	-	-
Incorporation	-	-	1	-
Redeemed	-	-	(1)	-
<b>At end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Company was incorporated on 20 September 2013. On incorporation one A ordinary share of £0.01 was issued for consideration of £0.01 and one redeemable ordinary share of £50,000.00 was issued for consideration of £50,000 (in the form of an undertaking to pay).

On 12 November 2013 the Company redeemed the outstanding redeemable ordinary share at par for £50,000.

On 12 November 2013 the Company, under a share for share exchange agreement, acquired the entire issued share capital of Merlin Entertainments S.à r.l. in consideration for the issue of 136,767,049 A ordinary shares of £0.01 to the previous shareholders of A class ordinary shares of Merlin Entertainments S.à r.l. and 20,000,000 B ordinary shares of £0.01 to the previous shareholders of B class ordinary shares of Merlin Entertainments S.à r.l. Under a subsequent reorganisation, Merlin Entertainments plc acquired the entire issued share capital of Merlin Entertainments Group Luxembourg 3 S.à r.l. and Merlin Entertainments S.à r.l. was liquidated.

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

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

On 13 November 2013 the Company became listed on the London Stock Exchange and the issue of 63,492,064 ordinary shares for a total consideration of £200 million became unconditional.

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.



NOTES TO THE MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS  
(continued)

**vii Reconciliation of movements in shareholders' funds**

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss £m	Total £m
At 20 September 2013	-	-	-	-	-
Loss for the period	-	-	-	(4)	(4)
Share for share exchange	1	-	2,991	-	2,992
Bonus issue	8	2,983	(2,991)	-	-
Issue of shares	1	200	-	(7)	194
<b>At 28 December 2013</b>	<b>10</b>	<b>3,183</b>	<b>-</b>	<b>(11)</b>	<b>3,182</b>
Profit for the year	-	-	-	1	1
Equity dividends	-	-	-	(20)	(20)
Capital restructure	-	(3,183)	-	3,183	-
<i>Share incentive schemes:</i>					
Movement in reserves for employee share schemes	-	-	-	4	4
<b>At 27 December 2014</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>3,157</b>	<b>3,167</b>

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

The profit after tax for the period in the accounts of Merlin Entertainments plc is £1 million (2013: loss after tax of £4 million).

The Directors of the Company propose a final dividend of 4.2 pence per share.

## SHAREHOLDER *Information*

### Share listing

The Company's shares are listed on the London Stock Exchange.

### Share register and registrars

The Company's share register is maintained and administered in the UK by Computershare Investor Services PLC (Computershare) at the following address:

Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ	Telephone: <b>+44 (0)870 703 6259</b> Investor Centre: <b>www.investorcentre.co.uk/contactus</b> Website: <b>www.computershare.com</b>
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Computershare operates a portfolio service for Merlin shareholders called Investor Centre. This provides our shareholders with online access to information about their investments as well as a facility to help manage their holdings online, such as being able to:

- Update dividend mandate bank instructions and review dividend payment history.
- Update member details and address changes.
- Register to receive Company communications electronically.

Computershare also offers an internet and telephone share dealing service to existing shareholders which can also be accessed through the Investor Centre.

### Dividends

An interim dividend of 2.0 pence per share was paid on 25 September 2014 to shareholders on the Register on 29 August 2014.

A final dividend for the year ended 27 December 2014 of 4.2 pence per share will be recommended to shareholders for approval at the 2015 Annual General Meeting of the Company.

### Dividend Re-Investment Plan

The Company is proposing to introduce a Dividend Re-Investment Plan (DRIP) which will allow holders of ordinary shares, who choose to participate, to use their cash dividends to acquire additional shares in the Company which will be purchased on their behalf by the DRIP administrator. Further information in relation to the DRIP will be sent to shareholders in advance of the 2015 Annual General Meeting.

### Financial calendar

The principal dates in our financial calendar for 2015 are as follows:

Preliminary Announcement of Results	26 February
Trading Update	14 May
Annual General Meeting	14 May
Interim Results Announcement	30 July
Trading Update	17 September
Pre-Close Trading Update	1 December

### Shareholder communications

We encourage our shareholders to receive their communications from the Company electronically using email and web-based communications. This means that information about the Company can be received as soon as it is available. The use of electronic communications also reduces costs and the impact on the environment. Shareholders can register for electronic communications through Investor Centre or by contacting Computershare.

Shareholders with any queries regarding their shareholding should contact Computershare. The Investor Relations section of our corporate website also contains information which shareholders may find helpful (see [www.merlinentertainments.biz/investor-relations](http://www.merlinentertainments.biz/investor-relations)).

### Annual General Meeting (AGM)

The AGM of the Company will be held on 14 May 2015 at LEGOLAND Windsor Resort Hotel, Winkfield Road, Windsor, Berkshire SL4 4AY at 11.00am. The Notice of AGM will be sent to shareholders separately.

<b>Registered in</b>	<b>Company number</b>
England and Wales	08700412

<b>EPIC/TIDM</b>	<b>ISIN</b>
MERL	GB00BDZT6P94

### Registered office

Merlin Entertainments plc  
3 Market Close  
Poole  
Dorset  
BH15 1NQ  
United Kingdom

Telephone:	<b>+44 (0)1202 440082</b>
Email:	<b>investor.relations@merlinentertainments.biz</b>
Website:	<b>www.merlinentertainments.biz</b>

<b>Company secretary</b>	<b>Investor relations director</b>
Colin N. Armstrong	Alistair Windybank

### External auditors

KPMG LLP Dukes Keep, Marsh Lane Southampton SO14 3EX United Kingdom	Telephone <b>+44 (0)23 8020 2000</b>
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### Joint Corporate Brokers

Barclays Bank PLC 5 North Colonnade Canary Wharf London E14 4BB	Citigroup Global Markets Limited Citigroup Centre, Canada Square Canary Wharf London E14 5LB
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## FINANCIAL Record

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
<b>Results</b>					
Revenue	1,249	1,192	1,074	946	801
Underlying EBITDA	411	390	346	306	256
Underlying operating profit	311	290	258	232	198
Operating profit	311	260	199	230	158
Profit before tax	226	172	98	96	26
<b>Consolidated statement of financial position</b>					
Property, plant and equipment	1,410	1,321	1,290	1,112	951
Intangible assets	942	961	970	970	917
Cash and cash equivalents	285	264	142	60	67
Non-current interest-bearing loans and borrowings	1,131	1,179	1,333	1,178	1,061
Total equity	1,063	944	617	555	505
<b>Consolidated statement of cash flows</b>					
Net cash flow from operating activities	357	365	348	292	183
Changes in working capital	(4)	30	24	3	6
Net increase/(decrease) in cash and cash equivalents	16	125	81	(4)	(18)

## GLOSSARY

<b>Key terms</b>	<b>Definition</b>
<b>Blackstone</b>	This is one of the three pre-IPO major shareholders of the Company.
<b>Capex</b>	Capital Expenditure.
<b>Cluster</b>	A group of attractions located in a city close to one another.
<b>Constant currency growth</b>	Using 2014 exchange rates.
<b>CVC</b>	This is one of the three pre-IPO major shareholders of the Company.
<b>EBITDA</b>	Profit before finance income and costs, taxation, depreciation and amortisation and after taking account of attributable profit after tax of joint ventures.
<b>EPS</b>	Earnings per share.
<b>Exceptional items</b>	Due to their nature, certain one-off and non-trading items have been classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
<b>Existing estate (EE)</b>	EE comprises all attractions other than new openings.
<b>High-year</b>	Year of high spend in capital investment cycle of an attraction.
<b>IP</b>	Intellectual Property.
<b>IPO</b>	Initial Public Offering.
<b>KIRKBI</b>	This is one of the three major pre-IPO major shareholders of the Company.
<b>KPI</b>	Key Performance Indicator.
<b>LDC</b>	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
<b>Lead price</b>	Face value of a ticket, which may then be discounted.
<b>Like for like (LFL)</b>	2014 LFL growth refers to the growth between 2013 and 2014 on a constant currency basis using 2014 exchange rates and includes all businesses owned and operated before the start of 2013.
<b>Listing</b>	Listing on the London Stock Exchange.
<b>LLP</b>	LEGOLAND Parks Operating Group.
<b>Merlin Magic Making (MMM)</b>	MMM is the unique resource that sits at the heart of everything Merlin does. Employing over 300 people, this specialist in-house business development; creative; production; and project management group constantly raises the bar in innovative thinking.

## GLOSSARY

Key terms	Definition
Merlin's Magic Wand (MMW)	MMW forms a key element of Merlin's Corporate Social Responsibility commitment. Our very own children's charity delivers magical experiences around the world to children who are disadvantaged through sickness and disability.
Midway or Midway Attractions	The Midway Attractions Operating Group and/or the Midway Attractions within it. Midway Attractions are typically smaller, indoor attractions located in city centres or resorts.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
New Business Development (NBD)	NBD relates to attractions that are newly opened or under development for future opening, together with the addition of new accommodation at existing sites. New openings can include both Midway attractions and new theme parks. NBD combines with the existing estate to give the full estate of attractions.
ROCE	Return on Capital Employed. The profit measure used in calculating ROCE is based on underlying operating profit after taking account of a normalised long term effective tax rate. The capital employed element of the calculation is based on net operating assets which include all net assets other than deferred tax, financial assets and liabilities, and net debt.
ROIC	Return on Invested Capital. Incremental EBITDA divided by the capital invested.
RPC	Revenue per Capita, defined as Visitor Revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
Second Gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
Shrek's Adventure!	This is a new attraction opening in 2015, and a potential Midway brand. It is part of the Midway Attractions Operating Group.
Turkuazoo	Turkuazoo Aquarium was a standalone acquisition that has since been rebranded to a SEA LIFE Centre. This is part of the Midway Attractions Operating Group.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements.
Visitors	Represents all individual visits to Merlin owned or operated attractions.
Wizard Wants to Know (WWTK)	WWTK is our annual online employee survey.

## NOTES



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Shrek © DreamWorks Animation LLC.

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London Eye conceived and designed by Marks Barfield Architects.

Operated by London Eye Management Services Limited, a Merlin Entertainments Group Company.

The Madame Tussauds images shown depict wax figures created and owned by Madame Tussauds.

**Registered Office**

Merlin Entertainments plc  
3 Market Close  
Poole  
Dorset, BH15 1NQ

Registered number: 08700412  
Registered in England & Wales

[www.merlinentertainments.biz](http://www.merlinentertainments.biz)

