DELIVERING MEMORABLE EXPERIENCES

MERLIN ENTERTAINMENTS PLC
ANNUAL REPORT AND ACCOUNTS
2017

MERLIN
ENTERTAINMENTS

AT A GLANCE

GEOGRAPHIC AND BRAND DIVERSIFICATION

To find out more information about our brand diversification, go online at:

www.merlinentertainments.biz

OUR GLOBAL PORTFOLIO

Our international footprint and variety of attraction types means we are not dependent on any one market. We operate in Europe, North America and Asia Pacific, with a long term ambition of an even split between these three regions.

We have a broadly 60/40 balance of outdoor and indoor attractions, and with over two thirds of our visitors being domestic, are not reliant on 'fly-in' markets. At an attraction level, visits are increasingly booked in advance, also reducing volatility.

SEA LIFE
Amazing Discoveries
United Kingdom: 13
Continental Europe: 18
North America: 8
Asia Pacific: 9

LEGOLAND DISCOVERY CENTRE
Playful Learning
United Kingdom: 1
Continental Europe: 3
North America: 10
Asia Pacific: 4

THE EYE BRAND
Eye Opening
United Kingdom: 2
North America: 1
Asia Pacific: 1

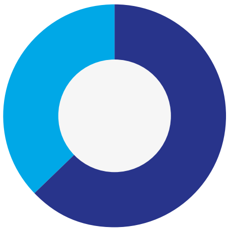
THE DUNGEONS
Scary Fun
United Kingdom: 5
Continental Europe: 3
North America: 1

MADAME TUSSAUDS
Famous Fun
United Kingdom: 2
Continental Europe: 4
North America: 7
Asia Pacific: 10

DIVERSIFIED PORTFOLIO

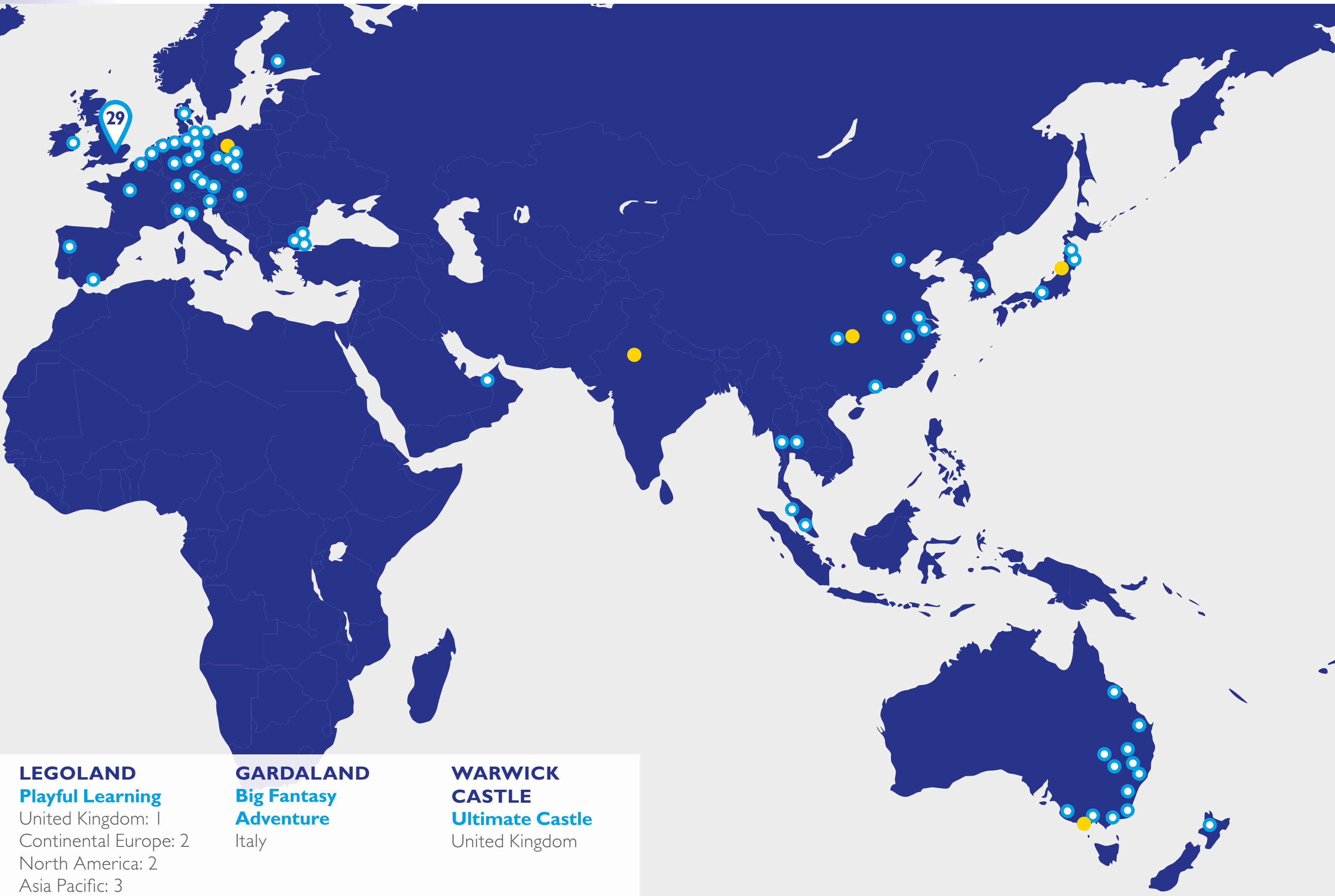
Geography[1]

Tourist/domestic[2]



Weather exposure[1]

(1) Based on 2017 revenue
(2) Based on a sample of visitors answering the question 'What is your home country?'



LEGOLAND
Playful Learning
United Kingdom: 1
Continental Europe: 2
North America: 2
Asia Pacific: 3

GARDALAND
Big Fantasy Adventure
Italy

WARWICK CASTLE
Ultimate Castle
United Kingdom

ALTON TOWERS
Fantastical Escapism
United Kingdom

HEIDE PARK
Extraordinary Adventure
Germany

OTHERS
Little BIG City: 1
Shrek's Adventure!: 1
Ski Resorts: 2
Tree Top Walks: 2
WILD LIFE: 2

CHESSINGTON WORLD OF ADVENTURES
Wild Adventure
United Kingdom

THORPE PARK
Insane Fun
United Kingdom

Key
- Existing Merlin attractions
- Existing UK attractions
- 2017 new attractions

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

124 attractions in

25 countries across

4 continents

CONTENTS

Information online
Visit our website:
www.merlinentertainments.biz

FINANCIAL KPIs

66.0m

VISITORS

+3.5%

2017	**66.0**
2016	63.8
2015	62.9

£1,594m

REVENUE

Total growth +11.6%

Like for like growth +0.7%

2017	**1,594**
2016	1,428
2015	1,278

£474m

UNDERLYING EBITDA

+9.5%

2017	**474**
2016	433
2015	402

£323m

UNDERLYING OPERATING PROFIT ☑

+6.8%

2017	**323**
2016	302
2015	291

20.5p

BASIC EPS

+5.5%

2017	**20.5**
2016	19.5
2015	16.8

£271m

PROFIT BEFORE TAX

+4.8%

2017	**271**
2016	259
2015	237

20.5p

ADJUSTED EPS ☑

+5.5%

2017	**20.5**
2016	19.5
2015	17.8

9.1%

RETURN ON CAPITAL EMPLOYED ☑

2017	**9.1**
2016	9.6
2015	9.7

NON-FINANCIAL KPIs

CUSTOMER SATISFACTION ☑

Based on customer satisfaction surveys.
Our target is a score over 90%.

2017	**96%**
2016	94%

STAFF ENGAGEMENT

Based on annual employee surveys (see page 40).
Our target is a score over 80%.

2017	**86%**
2016	89%

HEALTH AND SAFETY ☑

The Medical Treatment Case (MTC) rate captures the rate of guest injuries requiring external medical treatment relative to 10,000 guest visitations.

2017	**0.04**
2016	0.06

OUR STRATEGY

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.

These four strategic elements are identified by the following icons throughout this Annual Report.

- Delivering high growth
- High return
- Strong brands
- Global portfolio

How we report our results

Last year's financial statements were prepared on a 53 week basis, to 31 December 2016. Reported figures were revenue £1,457 million, underlying operating profit £320 million, profit before tax £277 million and basic EPS 20.8 pence.

Consistent with our approach in previous years, and to provide a more direct comparison between reporting periods, the operating performance commentary is stated on a 52 week basis, unless otherwise noted. More details on the period under review ('52' and '53' week data) and the performance measures used are set out in the Financial and Operating Review on page 33.

Executive Directors' remuneration is linked to certain KPIs, as indicated by the following symbol: ☑. More details on Directors' remuneration are set out in the Directors' Remuneration Report on pages 66 to 87.

Terms used throughout this document are defined in the Glossary on pages 152 to 153.

COMPANY OVERVIEW

DELIVERING MEMORABLE EXPERIENCES

Merlin Entertainments is Europe's leading and the world's second largest visitor attraction operator.

We are first and foremost an entertainment company, with an aim to deliver unique, safe and memorable experiences to millions of visitors across our growing estate – our passion is putting smiles on people's faces!

We believe that we achieve this largely thanks to the commitment and passion of our teams and the strength of our brands, which will never fail to be distinctive, challenging and innovative.

For all our stakeholders, Merlin will always be an exciting company with which to be involved.

Merlin delivers two types of visitor experiences that we manage across three Operating Groups.

- Our Midway Attractions are predominantly indoor attractions located in city centres, resorts or shopping malls, providing visits of shorter duration.
- Our Theme Parks are outdoor attractions offering accommodation, rides, shows and interactive experiences around a central theme. They are managed in two Operating Groups – LEGOLAND Parks and Resort Theme Parks.

WE ARE FIRST AND FOREMOST AN ENTERTAINMENT COMPANY, WITH AN AIM TO DELIVER UNIQUE, SAFE AND MEMORABLE EXPERIENCES TO MILLIONS OF VISITORS

MIDWAY ATTRACTIONS

We have high quality, chainable brands and are the only company to successfully operate the Midway model on a global scale. We are developing new brands to complement the portfolio and broaden our appeal across all key target demographics.

40.7m
Visitors

£656m
Revenue

GLOBAL BRANDS
- SEA LIFE
- Madame Tussauds
- LEGOLAND Discovery Centre
- The Dungeons
- The Eye

More on **page 22**

LEGOLAND PARKS

LEGOLAND Parks are aimed at families with younger children and have LEGO as the central theme. Highly themed accommodation is central to our strategy to develop the customer offering. Merlin holds the global, exclusive rights to the LEGOLAND brand.

15.3m
Visitors

£609m
Revenue

LOCATIONS
- Billund, Denmark
- California, USA
- Dubai, UAE
- Florida, USA
- Günzburg, Germany
- Johor, Malaysia
- Nagoya, Japan
- Windsor, UK

More on **pages 22 to 23**

RESORT THEME PARKS

Resort Theme Parks are national brands aimed at families, teenagers and young adults, with themed accommodation at all locations. They have high brand and customer awareness in their local markets and include the leading theme parks in the UK, Italy and Northern Germany.

10.0m
Visitors

£329m
Revenue

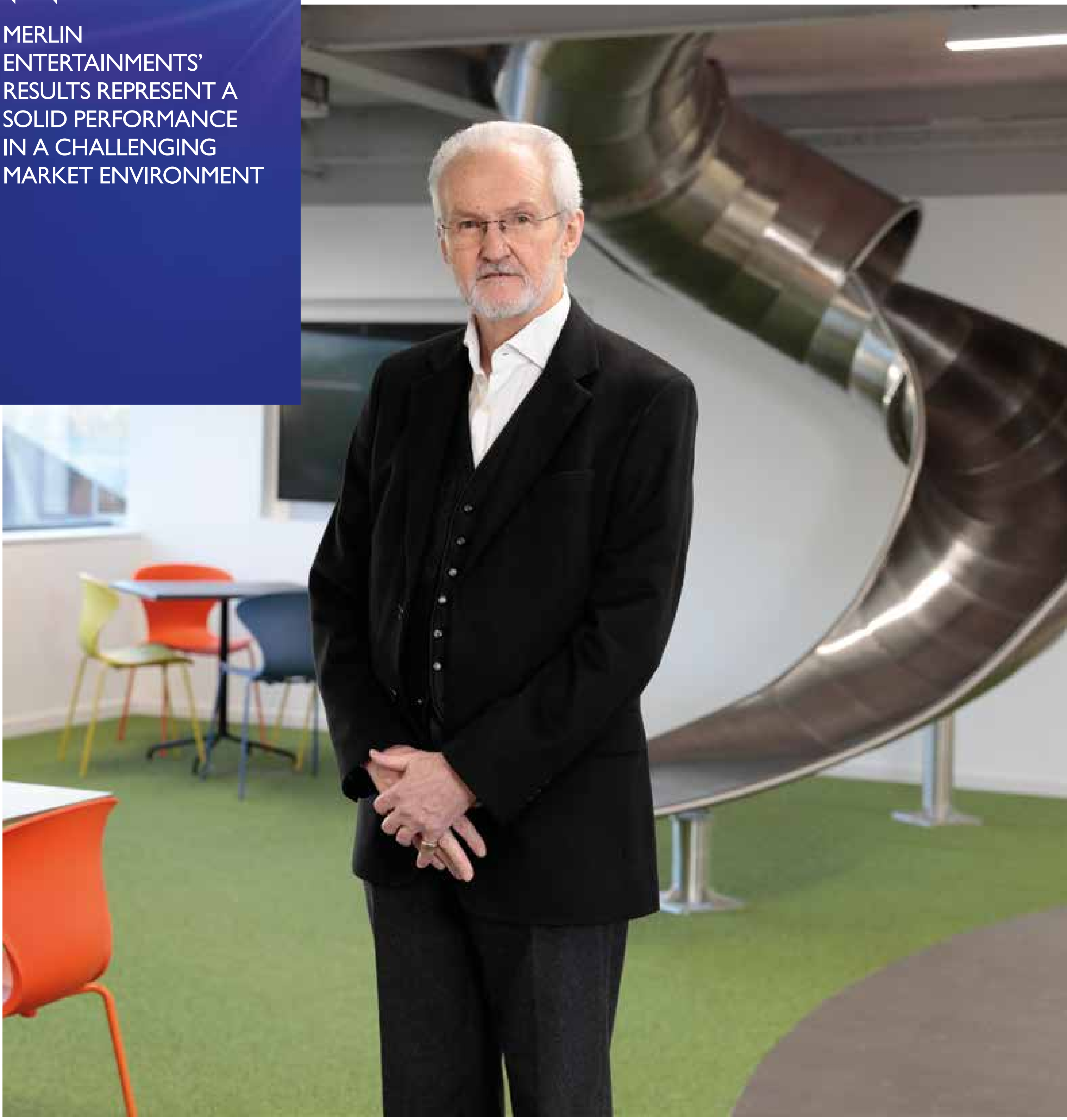
BRANDS
- Alton Towers Resort, UK
- Chessington World of Adventures Resort, UK
- Gardaland Resort, Italy
- Heide Park Resort, Germany
- THORPE PARK Resort, UK
- Warwick Castle, UK

More on **page 23**

CHAIRMAN'S STATEMENT

A SOLID PERFORMANCE

MERLIN ENTERTAINMENTS' RESULTS REPRESENT A SOLID PERFORMANCE IN A CHALLENGING MARKET ENVIRONMENT



Trading and strategy

Merlin Entertainments' results represent a solid performance in a challenging market environment, where a combination of ongoing security concerns impacted the Group's city centre tourist destinations, together with extreme weather at peak trading periods in Northern Europe, Italy and Florida. The trading performance is reviewed in further detail within this Annual Report.

The Company's long-standing strategy to diversify its asset portfolio across brands and geographies continues. In 2017 we opened LEGOLAND Japan and announced plans for LEGOLAND New York which is targeted to open in 2020. We have study agreements in progress for a number of projects in China, and continue to believe there is the scope for 20 LEGOLAND parks worldwide.

Themed accommodation continues to be a clear driver of growth across our theme park estate, which in 2017 included the opening of our CBeebies Land Hotel at Alton Towers Resort. We will add hotel accommodation to LEGOLAND Japan in 2018 and have a medium term pipeline for a variety of different accommodation formats at multiple locations.

In the Midway Attractions Operating Group, the first of the new brand concept 'Little BIG City' attractions opened in Berlin during 2017, while in October we announced the launch of two new IP based attraction formats, 'Peppa Pig' and 'The Bear Grylls Adventure', aimed at the pre-school and adventure seeker markets respectively. These will broaden the Group's appeal within these two markets where Merlin sees significant opportunities. These new formats will augment the ongoing roll out of the Group's existing Midway brands.

Governance and the Board

The Board and its Committees have each continued to provide strong governance and oversight throughout 2017. I am pleased that the recent externally facilitated evaluation exercise confirmed they each remain effective. I would note in particular that in 2017 we appointed a specialist with experience in high-hazard industries, as an independent adviser to the Health, Safety and Security Committee. This has provided independent oversight and challenge, as well as further advice and support, to this already effective Committee.

Ken Hydon has informed the Board that he will stand down as a Director and as Chairman of the Audit Committee at the 2018 Annual General Meeting. On behalf of the Board, I would like to thank Ken for the significant contribution he has made to Merlin over his years of service. I am very pleased that Trudy Rautio, who has a wealth of relevant financial experience, will replace Ken as Chairman of the Audit Committee.

Further details on Merlin's Corporate Governance arrangements and activities are set out in the Corporate Governance Statement and Report on pages 50 to 57.

Dividends

At the Annual General Meeting in April, the Board will be recommending that we pay a final dividend of 5.0 pence per share. Taken together with the interim dividend of 2.4 pence per share paid last September, this will equate to a full year dividend of 7.4 pence per share, up 4.2% on 2016.

Responsibility and sustainability

Merlin has a foundation of robust governance structures and strong operating standards and practices. In the area of health and safety these support our constant focus on keeping our guests, employees and other visitors safe and secure. Our commitment to the environment also continues, with all attractions tasked to reduce energy consumption and carbon emissions.

Merlin is uniquely placed to be a 'Force for Good' in other areas. Our partner charity, the SEA LIFE Trust, protects marine wildlife through its worldwide campaigns. In 2017 this has focused on plastic pollution, overfishing and habitat destruction, with a particular emphasis on protecting sea turtles.

Merlin's Magic Wand, our children's charity partner, continues to deliver magical experiences around the world to children who are disadvantaged through sickness or disability. These activities include arranging visits to our attractions (over 100,000 in 2017), 'taking the magic' to local children's organisations with community outreach activities, and installing 'magical spaces' at children's homes and hospitals. We have also worked further in improving experiences for guests with accessibility challenges, where our initiatives are aimed at improving guest information and delivering accessible environments.

More on **pages 44** to **49**

Our people

Merlin's management team and our thousands of employees around the world are the foundation of our relations with our guests, communities and stakeholders. Together they continue to drive the Group's strategic progress and I am, as always, immensely grateful for their contribution.

Looking forward

In line with the Company's strategy, Merlin will continue to diversify and expand its portfolio. This strategy, together with the ongoing commitment of the Group's employees, gives me confidence that Merlin will continue to deliver further growth.

Sir John Sunderland
Chairman
28 February 2018

MARKET OVERVIEW

UNDERSTANDING OUR CUSTOMERS

We operate in an attractive, dynamic, global marketplace. Worldwide we see growth in leisure spend, more time devoted to leisure activities and an expansion of the middle classes in emerging economies. We believe international tourism will continue to grow, as will the market for short break vacations.

We see a growing trend of consumers desiring experiences rather than material goods. They are increasingly seeking those experiences with trusted brands, supported by new technologies and global media. Furthermore, while technology has become central to people's lives, consumers have a greater desire to 'escape' and spend more time with friends and family.

Set out below are some of the key trends and why Merlin is well placed to maximise the benefits arising from them:

1 International tourism

More affordable air travel, improved transport infrastructure, and emerging middle classes that want to travel have all driven significant growth in overall international tourism in recent years. We believe this trend will continue and especially benefit our Midway attractions located in key gateway cities.

Why Merlin: We are the only company to successfully operate the Midway model on a global scale and have made significant progress in recent years in expanding the portfolio. We have over 100 Midway attractions, many of which are 'clustered' within city centre destinations offering a range of visitor experiences in popular locations. A strong pipeline of sites is continually reviewed as we look to increase our presence in existing markets and move into new territories.

2 Short breaks

In developed markets there is a continuing shift towards shorter, more frequent breaks. In the UK there has been significant growth in breaks lasting two to four nights as the traditional two week family holiday has declined. This market dynamic benefits our theme parks which are predominantly domestic-focused and increasingly targeting the short break market, as well as our Midway attractions located in city centres.

Why Merlin: We are a global leader in themed accommodation; a key driver of organic growth and a strong lever for improving guest satisfaction in our theme parks. We continue to invest heavily in a wide range of accommodation concepts providing immersive brand experiences while catering for different budgets. In Midway we continue to develop our portfolio of products to capture the growing city centre visitor market. Little BIG City is a great example, targeted at both domestic and international tourists, uniquely bringing to life the history of the city in which it is located.

3 Leisure time and consumer behaviour

In many parts of the world, consumers are looking to spend their increasing disposable income on experiences, rather than goods. We believe that this is further reinforced as the world becomes more digital, increasing the value many consumers will place on high quality time shared with friends and family.

Why Merlin: Each of Merlin's current 124 attractions are positioned to tap into this trend, whether that be a thrill-seeker visiting one of our theme parks, a family with young children immersing themselves in a LEGOLAND park, or city centre tourists enjoying the ultimate viewing experience at The London Eye. Merlin Magic Making, our unique in-house creative team, continues to develop new innovative concepts to broaden our demographic catchment and deliver unique, compelling experiences, both in our existing attractions and new formats.

4 Brand awareness

In a competitive market, brand awareness and customer loyalty are key differentiators for visitor attractions and increasingly a core element of the platform for growth. They provide a clear focus for a particular target demographic as a vital part of the 'premiumisation' of the product and support opportunities for geographical expansion.

Why Merlin: Merlin is in an enviable position to leverage its incredible collection of brands and build market share. Our portfolio has a wide range of mature and iconic brands such as LEGOLAND, where we have an exclusive global licence to own and operate attractions. Innovative use of IP allows us to develop product within our existing estate, providing new experiences for relevant consumer groups, for example 'CBeebies Land' at Alton Towers or 'Star Wars' within Madame Tussauds. Moreover we are collaborating with global IP owners to participate in new markets. During 2017, we announced exclusive global partnership agreements with international brands Peppa Pig and Bear Grylls, to create new concepts aimed at the pre-school and adventure seeking markets respectively.

CUSTOMER EXAMPLES

CITY CENTRE TOURISTS

On a trip to New York, a group of three friends want to make the most of what the city has to offer – a visit to the world famous Madame Tussauds is first on their list of things to do. On arrival, they are delighted that there is a value ticket which not only includes the MT but also the 'Big Bus Tour' of the city, part owned by Merlin and one of its strategic partners.

Walking around the attraction there are plenty of opportunities to take selfies with the amazing stars on display (and share them online with #MTNYSelfie) or maybe even treat themselves to a unique professional photo with 'Donald Trump'. To finish off the day they take part in the full sensory, immersive 'Ghostbusters: Dimension' experience – considered to be one of the best virtual reality experiences in the world.

FAMILIES

A family with two children aged five and eight who seek shared memories and value high quality experiences (and of course have a shared love of LEGO!). They live only an hour from LEGOLAND California, using their family annual pass to visit many times each year.

Despite being familiar with the park, they use the free App to make the most of their visit, benefiting from dining and retail offers, as well as finding special events on during the day. This year they are really excited to try out the NINJAGO ride and the other attractions in the NINJAGO World.

In the afternoon the family love to upgrade their tickets to visit the on-site themed waterpark, finishing the day off with a stop off at 'The Big Shop' to buy that essential souvenir of another great family day out.

TEENAGERS & YOUNG ADULTS

College has finished for the summer and a group of thrill-seekers want to kick it off with an adrenaline fuelled trip to the Alton Towers Resort. Needing a full weekend of fun, they decide to stay on-site in our themed Splash Landings Hotel, purchasing tickets on their mobile phone in advance. Not only does this give them easy access to the park, but as hotel guests, allows them to get in one hour before day visitors.

Knowing how popular some of the rides are, they buy Fastrack tickets to reduce the waiting time on their favourite rides. Throughout their stay they keep themselves topped up with food and drink; all you can eat lunch at the 'Pizza Pasta Buffet' and, for dinner, 'Dine of Your Life' at the UK's first 'Rollercoaster Restaurant'. And so as not to forget the excitement, twists and turns, all of their pictures are captured on a DigiPass – all their digital photos for one great price.

NEW BRANDS

With the launch of 'The Bear Grylls Adventure' and 'Peppa Pig' attraction formats, Merlin is developing its portfolio offering for a broader range of customers. See more on page 25.

BUSINESS MODEL

STRATEGY FOR GROWTH

UNIQUE RESOURCES AND VALUE DRIVERS

STRONG BRANDS AND ICONIC ASSETS

- Chainable global brands within Midway Attractions.
- Mutually synergistic relationship with LEGO (the world's top toy brand) at the heart of our LEGOLAND parks.
- In Resort Theme Parks, five branded parks and a Heritage Castle. Each park is typically number one or two in their respective market; we operate five of the top 20 theme parks in Europe.

IP PARTNERSHIPS

- Global, exclusive rights to the LEGOLAND IP.
- Established global, regional and local IP partnerships, for example with Star Wars, DreamWorks Animation, Ghostbusters, CBeebies and other well known names.
- New global IP partnerships to develop Bear Grylls and Peppa Pig themed attractions.

EXPERIENCED TEAM

- Executive leadership team with over 100 years' sector experience.
- Around 29,000 employees at peak season.

More on **page 40**

DEFINING HEALTH AND SAFETY STANDARDS FOR THE INDUSTRY

- One of the industry leaders in health and safety governance and management.
- Pioneering new engineering apprenticeships in the UK.

More on **page 46**

MERLIN MAGIC MAKING

- The unique creative and project management resource at the heart of Merlin.
- Consumer insight and research; site search; creative design; production and project management skills.

More on **page 24**

NEW OPENINGS

- A specialist team, focused on finding and developing new LEGOLAND parks and opening and operating all new attractions.

More on **page 25**

OUR SIX STRATEGIC GROWTH DRIVERS

PLANNED INVESTMENT CYCLES IN THE EXISTING ESTATE

Adding new products and features in the existing estate to drive customer satisfaction, increase capacity and provide compelling new propositions to guests.

EXPLOITING SYNERGIES

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

TRANSFORMING THEME PARKS INTO DESTINATION RESORTS

Adding a broad range of themed accommodation to our theme parks.

ROLLING OUT NEW MIDWAY ATTRACTIONS

Opening new Midway attractions under our chainable global brands, often with a 'cluster' focus to drive commercial advantages.

DEVELOPING NEW LEGOLAND PARKS

Combining our operational expertise with LEGO's worldwide popularity.

STRATEGIC ACQUISITIONS

Pursuing acquisition opportunities that complement our strategic objectives.

MERLIN'S REVENUE DRIVERS

ADMISSIONS

The core of Merlin's business is delivering memorable experiences to customers who visit our attractions. Visits are increasingly booked online in advance. Customers are encouraged to upgrade to cluster or multi-day tickets, annual passes, or Fastrack passes to maximise their time at an attraction.

COMMERCIAL

Once inside a Merlin attraction, the customer can take advantage of a number of extra offerings:

- Depending on the attraction type, we offer everything from snack bars to gourmet restaurants – we even have a 'Rollercoaster Restaurant' at Alton Towers Resort!
- Customers can take home a physical print or digital downloads of their day out – our photo operations will capture you immersed in the theming of our attractions.
- Retail opportunities including themed souvenirs, clothing and LEGO.

ACCOMMODATION

Customers that stay at resorts report greater satisfaction than day visitors, having more time to experience our restaurants, retail stores or additional experiences outside the park. We have therefore developed multiple accommodation concepts from glamping and holiday village chalets through to four star hotels and luxury lodges, which look to cater for a wide demographic both in terms of theming and price point.

STAKEHOLDER OUTCOMES

CUSTOMERS

We are always looking to improve customer satisfaction, which we constantly monitor with touch screen terminals at our attractions. We also focus on 'net promoter scores' and engagement via social media.

96%
Customer satisfaction
(see page 1 for more details on this KPI)

EMPLOYEES

It is Merlin's team of highly engaged employees that deliver memorable experiences to our guests worldwide.

86%
Engagement index
(see page 1 for more details on this KPI)

COMMUNITIES

Merlin's attractions operate at the heart of their communities, acting as a responsible partner and contributing to the local economy.

We partner with our two charities to provide children with memorable experiences and to protect the marine environment.

100,000
Merlin's Magic Wand visits

INVESTORS

With good strategic progress, our aim is to deliver good returns and long term value for shareholders.

20.5p
Adjusted EPS

OUR SIX GROWTH DRIVERS

REPORTING ON PROGRESS

EXISTING ESTATE DEVELOPMENT

GROWTH DRIVER	PROGRESS	
PLANNED INVESTMENT CYCLES IN THE EXISTING ESTATE	Typically, each year an attraction receives a 'high', 'medium' or 'low' investment, thereby smoothing capital expenditure across the portfolio and ensuring investments are funded from operating free cash flow. In 2017 all existing estate attractions had 'something new' for customers to enjoy.	Highlights included 'NINJAGO World' in each of LEGOLAND Germany, Windsor and Florida, which are now open at six of our parks, 'The Gruffalo River Ride Adventure' at Chessington World of Adventures and 'Ocean Invaders' at SEA LIFE London Aquarium. We continue to invest, for example developing the unique 'Wicker Man' wooden roller coaster at Alton Towers Resort which will open in 2018.
EXPLOITING SYNERGIES	We seek to leverage the scale of the Group to exploit enhanced operational, marketing and buying power. An example is our investment in e-commerce initiatives that provide commercial benefits and improved 'digital journeys' for our guests.	Our roll out of the accesso® e-commerce platform is largely complete, with the aim of finalising the upgrade of our admissions systems at our major locations targeted for 2018.
TRANSFORMING THEME PARKS INTO DESTINATION RESORTS	We add themed accommodation at our resorts to extend the catchment area, create new revenue streams and improve guest satisfaction. In 2017 we expanded the holiday village at LEGOLAND Billund and opened the new 166 room Beach Retreat at LEGOLAND Florida.	We also added a 61 room 'Castle' hotel at LEGOLAND Windsor, and the 76 room CBeebies Land Hotel at Alton Towers Resort. Customer satisfaction scores of all hotels opened in the year were strong, being above the Group's target score of 90%.

NEW BUSINESS DEVELOPMENT

GROWTH DRIVER	PROGRESS	
ROLLING OUT NEW MIDWAY ATTRACTIONS	Opening new, branded Midway attractions is key to delivering organic growth. Openings in 2017 comprised LEGOLAND Discovery Centres in Melbourne and Philadelphia; Madame Tussauds in Nashville; a SEA LIFE Centre in Chongqing; the launch of the new brand 'Little BIG City' in Berlin; and the first Merlin attraction in India – Madame Tussauds Delhi.	These new Midway attractions added to our existing portfolio and provide a balance between those brands which provide strong early returns and cash conversion and others where we target longer term growth and take a more patient approach.
DEVELOPING NEW LEGOLAND PARKS	We operate LEGOLAND parks under three models (operated and owned, operated and leased, under management contract).	LEGOLAND Japan, Merlin's eighth LEGOLAND park, opened in April 2017 under the operated and leased model. The park, which opened with more than 40 rides, shows and attractions, will be extended in 2018 with the addition of a SEA LIFE Centre and a 252 room hotel.
STRATEGIC ACQUISITIONS	We made no acquisitions during 2017. We continue to assess opportunities where they can complement our organic growth and meet our investment return criteria.	

MEASURING PROGRESS

Organic revenue growth

6.6%
in 2017

Online revenue managed through accesso®

90%+

Rooms opened

+593
in 2016 and 2017

Midway attractions

+11
in 2016 and 2017

LEGOLAND parks

+2
in 2016 and 2017

Return on capital employed

9.1%
in 2017

Delivering high growth

High return

Strong brands

Global portfolio

OUTLOOK

Recognising trading headwinds in certain key markets, we will flex our capital expenditure allocation going forward to focus more on new business development, where we see the opportunity for greater returns. Accordingly, we are reducing planned expenditure in our existing estate by £100 million between 2018 and 2021. Our investment in key support areas such as engineering and health and safety capital expenditure will not be affected.

Throughout 2018, we will begin the process of increasing investment in back office systems and infrastructure, for example modern finance and HR systems, allowing us ultimately to better leverage the growth of the Group.

In 2016 and 2017 Merlin added 593 rooms and will continue to expand the portfolio, with 644 new rooms expected in 2018. The investment case for a range of themed accommodation offerings remains compelling so this will be an area of focus as we allocate capital to seek the best commercial returns.

We will continue our Midway roll out programme, augmenting the existing brands with pilots for 'Peppa Pig' and 'The Bear Grylls Adventure' attractions following the partnerships entered into during 2017.

LEGOLAND New York is targeted to open in 2020. With a large local market, good infrastructure and expansion opportunities at the location, we are confident of the prospects for this development. We continue to work with our development partners as they pursue further investment funding to enable the completion of LEGOLAND Korea. We see opportunities for future parks in China, where we have a number of study agreements underway.

We will continue to monitor the sector for opportunities.

RESORT DEVELOPMENT

FIVE STAR EXPERIENCES

THEMED ACCOMMODATION

Alton Towers Resort has welcomed families with older children for many years. In 2014 the resort introduced CBeebies Land, aimed at families with young children, previously an under-represented demographic at that attraction. The CBeebies Land Hotel opened in 2017 and looks to further enhance the offering to that market.

CBeebies is a strong and compelling Intellectual Property asset operated under a licence deal with BBC Worldwide. It uses the characters and theming from a number of children's favourite shows.

CBeebies Land Hotel
Alton Towers Resort

The CBeebies Land Hotel opened in July 2017 at a cost of £14 million. With 76 rooms it offers a high level of theming, including Octonauts, Postman Pat and In the Night Garden suites! Guests can meet CBeebies characters and enjoy live shows, 'story time' and CBeebies games.

With high customer satisfaction levels and occupancy at 99% during the peak school holiday period, this has been a highly successful first trading period for the hotel.

99%
Occupancy

FUTURE OPPORTUNITIES

We will look to further enhance our themed accommodation offerings in the future, given the benefits this brings to Merlin resorts. In 2016 and 2017 Merlin opened 593 rooms and will continue to expand the portfolio, with 644 new rooms expected in 2018.

COMPELLING INVESTMENTS

NEW LEGOLAND PARKS

As a strong theme park market, Japan presented an amazing opportunity to continue the roll out of LEGOLAND parks in Asia.

Ideally positioned for Japan's 127 million population, the park is located in Nagoya, Japan's third largest city.

Since 2010 we have added four new parks in two continents. These new investments, together with growth at our existing parks, have increased total LEGOLAND Parks revenues from £215 million to £609 million between 2010 and 2017.

LEGOLAND Japan has been developed under our 'operated and leased' model, where we partner with a third party, in this case a subsidiary of KIRKBI, a major Merlin shareholder and owners of the LEGO Group. The site was located and developed by our specialist New Openings team, who will also oversee the management of the park for approximately 18 months.

LEGOLAND Japan is designed for young families and features over 40 themed rides, shows and attractions.

To further build on our resort destination strategy, a 252 room themed hotel and a SEA LIFE Centre will open in 2018.

FUTURE DEVELOPMENTS

New York – in October 2017 Merlin announced plans for LEGOLAND New York, targeted for a 2020 opening. This will be a fully owned park with a 250 room themed four star hotel also planned to open at the same time.

South Korea – we continue to work with our development partners as they pursue further investment funding to enable the completion of LEGOLAND Korea.

China – Merlin has a number of study agreements in progress for potential developments in China with different possible funding options. We see China as a significant development opportunity for future parks.

MIDWAY ROLL OUT

NEW MARKETS

OUR FIRST VENTURE IN INDIA

India is the world's third largest consumer market for leisure tourists, with an emerging middle class and GDP growth expected to be between 7% to 7.5% over 2018/19.

Located in the iconic Connaught Place area of New Delhi, Merlin's first investment in India, a Madame Tussauds, targets both domestic and overseas visitors.

Madame Tussauds (MT) Delhi opened on 1 December 2017. The attraction contains 50 figures of Indian and other celebrities from around the world and is arranged in five areas, comprising Sports, Bollywood, History & Leaders, Hollywood and Music.

MT Delhi is taking the visitor experience to a new level with 'WAX++'. Whilst Madame Tussauds will always be famous for making the most incredible lifelike wax figures, our guests will be the real stars of this story in an exciting, interactive and immersive experience that places them right at the heart of the action!

We anticipate significant growth at the attraction over the next decade, mirroring our experience in other developing markets such as Shanghai, as we develop brand awareness and build market share.

Longer term, we see opportunities for more Midway attractions in India as well as the potential for a LEGOLAND park.

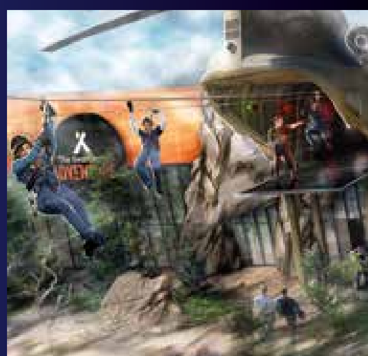
NEW BRAND OPPORTUNITIES

Pre-school market

Recognising the opportunity to expand our offering to the pre-school market, we are partnering with eOne, the owners of the global 'Peppa Pig' IP, to develop new and highly interactive attraction formats specifically aimed at this market.

Adventure/ experience seeker

Customers are increasingly seeking adventure and 'experiences' in their leisure time. In partnership with Bear Grylls, we are developing a unique attraction format that will let guests really stretch themselves in a series of mental and physical challenges.



CHIEF EXECUTIVE'S REPORT

STRATEGIC PROGRESS DESPITE CHALLENGING MARKET CONDITIONS

MERLIN OPERATES IN A FUNDAMENTALLY ATTRACTIVE MARKETPLACE, BENEFITING FROM A NUMBER OF STRUCTURAL GROWTH DRIVERS

OUR INVESTMENT CASE

- A global leader in location based entertainment, operating over 120 attractions across 25 countries and four continents.
- Structurally attractive markets, fuelled by international tourism, desire to travel and experience, and growth in short breaks.
- Clearly defined strategy, unchanged since the creation of Merlin almost 20 years ago.
- Diverse portfolio of strong brands and iconic assets.
- Exclusive, global licence to own and operate LEGOLAND parks.
- A global leader in themed accommodation, driving growth and guest satisfaction in our theme parks.
- Only company to successfully operate the Midway model on a global scale.
- Strong cash flow generation, with a focus on capital discipline and returns.

	52 weeks ended 30 December 2017	52 weeks ended 24 December 2016	53 weeks ended 31 December 2016	52 week growth (actual currency)(1)	Organic growth (constant currency)(1)	Like for like growth(1)
Visitors (m)	66.0	63.8	65.1	3.5%		
Revenue (£m)	1,594	1,428	1,457	11.6%	6.6%	0.7%
EBITDA (£m)	474	433	451	9.5%	3.5%	1.0%
Operating profit (£m)	323	302	320	6.8%	0.0%	

(1) Last year we reported on the 53 weeks to 31 December 2016. Profit metrics were provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with this year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.

2017 overview

A year that started well with positive momentum in almost every part of the Group was ultimately offset by the unprecedented spate of terror attacks in the UK and poor to extreme weather throughout the summer season in Europe. Nonetheless Merlin, due to its increasingly diversified portfolio, was still able to deliver total revenue growth of 11.6% (6.6% organic growth) and EBITDA of £474 million versus £433 million in 2016, welcoming a record 66 million visitors. Our extraordinary team worked hard and recorded significant achievements across the year but, frustratingly, due to these external events, this result was short of expectations and our budget.

During the year, we made good progress against our exciting New Business Development (NBD) programme which continues to offer significant structural growth opportunities. We rolled out further themed, on-site accommodation, opening 383 rooms in the year at four of our theme parks. Our Midway roll out included our first investment in India, Madame Tussauds Delhi, as well as the launch of a new brand – 'Little BIG City' – in Berlin. We opened a new LEGOLAND park in Japan in April, and in October announced our plans to open a park in New York State in 2020. Finally, we announced the launch of two new IP-based global partnerships – 'The Bear Grylls Adventure' and 'Peppa Pig' – and are on track to open our pilot attractions under these brands in 2018.

Merlin remains highly focused upon capital discipline, so it is disappointing that the challenging trading environment of recent years has resulted in returns in some parts of the business, particularly in Midway London, being below our expectations.

As a result, in addition to the cost control measures already in place, we announced in October 2017 our intention to make some medium term adjustments to our long-standing approach to capital allocation. While current volatile conditions endure, we will reduce our existing estate investment in Midway Attractions and Resort Theme Parks, reallocating this towards 'backing the winners' – principally our accommodation strategy where we continue to see strong returns, and to a Productivity Agenda.

Overall, thanks to the flexibility in our strategic model and long term structural growth in our markets, we therefore continue to target broadly similar levels of organic growth, for similar levels of investment, with a greater focus upon New Business Development.

Within our long-standing Midway roll out model we are also recognising a differentiated approach. Where we are opening core Midway brands in developed markets, we continue to expect EBITDA ROIC in the range of 15% to 25%. Recent openings such as LDC Melbourne and LDC Philadelphia are good examples of this. In emerging markets, and with new brands, we believe a longer term perspective to be more appropriate and therefore target a risk-adjusted Internal Rate of Return (IRR) of 14%.

Market overview

Merlin operates in a fundamentally attractive marketplace, benefiting from a number of structural growth drivers.

We believe that the long term trend for overall international tourism remains strong, which should lead to increased visitation and spend, particularly in key gateway cities. The emerging middle classes around the world want to travel and seek new experiences in their own and foreign countries. Combined with more affordable air travel and improved transportation, this has resulted in strong growth in international travel, with 1.8 billion international tourist arrivals expected in 2030 – a nearly threefold increase on the 2000 level. In recent years we have seen a number of 'shocks' to international tourism, ranging from the visa restrictions affecting travel from the People's Republic of China to Hong Kong, to the spate of terror attacks across Europe, driving visitors away from city centres and other high profile public places. Our view however is that, much like the impact of foreign exchange rates on international tourism flows, these have resulted in a temporary displacement of tourism, rather than a permanent reduction in the attractiveness of these markets.

It is with this in mind that we continue to roll out new Midway attractions in markets which, in the short term, may be more volatile.

Furthermore, developed markets have seen a substantial decline in the traditional two week summer holiday in favour of shorter, more frequent breaks. This market dynamic benefits our theme parks which are predominantly domestic-focused and increasingly targeting the short break market with themed accommodation, as well as our Midway attractions located in city centres.

Finally, we also see broader trends benefiting our theme parks and Midway attractions located outside of gateway cities. Growth in overall wealth in both developed and emerging markets results in increased income available for leisure activities, and in many parts of the world, consumers are increasingly looking to spend this income on experiences, rather than goods. We believe that this is further accentuated as the world becomes more 'digital', increasing the value many consumers place on high-quality time shared with friends and family, away from smartphones and screens.

Strategy update

Against these attractive market dynamics, Merlin's strategy since 1999 has been to create a high growth, high return, family entertainment business naturally balanced against external factors. Specifically, it is our aim to continue to diversify our portfolio, by geography, brand and customer, ensuring a balance of indoor and outdoor attractions and international and domestic visitation.

To achieve this, Merlin has six strategic growth drivers. Progress against these in 2017 is explained overleaf.

CHIEF EXECUTIVE'S REPORT (CONTINUED)

Existing estate capex – investment in the existing estate allows us to grow visitation to the attraction, provides us with something new to market, and provides a degree of pricing power. In 2017 each of our attractions invested in new products and features, with notable investments including 'Ocean Invaders' at SEA LIFE London Aquarium, 'NINJAGO World' at our LEGOLAND parks, and 'The Gruffalo River Ride Adventure' at Chessington World of Adventures. In October 2017, we announced that we would be reallocating approximately £100 million of capital away from the existing estate over the period 2018 to 2021, as we seek to maintain our capital discipline in the face of a difficult external environment, focusing upon higher returning projects.

Strategic synergies – we continue to leverage the growing scale of the Group through better procurement, promotional activity and technology. Across Merlin annual passes and Group promotions we generate more than £100 million in annual revenue. We have now rolled the accesso® e-commerce platform out across the majority of our estate, whilst the future focus of e-commerce will turn to opportunities in short breaks, annual passes and cluster sales.

Short break positioning – the rationale for investment in on-site themed accommodation and developing our theme parks into short break resorts remains compelling. We continue to enjoy strong financial returns, improved levels of guest satisfaction and increases in advanced bookings. In 2017 we opened 383 rooms across a range of accommodation, and anticipate opening 644 in 2018. We expect annual average capex to be in the range of £70 to £80 million in the medium term though this will vary depending upon timing and mix of openings.

Midway roll out – we seek to balance our Midway openings between core brands in developed markets where we target a 15% to 25% EBITDA ROIC, and new brands or emerging markets where we target a 14% risk-adjusted IRR. We opened six new Midway attractions in 2017 including MT Delhi – our first investment in India – and launched our new brand – 'Little BIG City' – in Berlin. We have nine attractions scheduled to open in the second half of 2018, which will include pilots of the recently announced brands – 'The Bear Grylls Adventure' and 'Peppa Pig'.

We expect average annual capex to be in the range of £60 to £70 million in the medium term though this will vary depending upon timing and mix of openings.

New LEGOLAND parks – in April, we successfully opened LEGOLAND Japan on capital budget and ahead of schedule. Furthermore, we announced in October our plans to open the fully owned and operated LEGOLAND New York Resort, including a 250 room four star hotel, in 2020. This will see us invest approximately £250 million in the site over the period 2017 to 2021. We remain confident in the long term opportunity for new LEGOLAND parks.

Strategic acquisitions – reflecting the strict criteria we apply in assessing investments, we made no acquisitions during 2017. We do however continue to assess opportunities which may provide a platform for further expansion, as well as smaller, single site Midway assets.

Productivity Agenda

Merlin continues to face a number of external cost headwinds. This is most notable in employment costs, which represent approximately half of our operating costs, where we see significant pressures on wages; in Asia from market forces, and Europe and the USA where legislation is driving increases well above the rate of broader inflation. Other fixed costs, including property taxes in the UK, insurance and utilities, are similarly increasing at rates ahead of broader inflation.

Against this backdrop, we have been successful throughout 2017 in limiting the effect of softer trading through a combination of short term cost savings such as variable labour costs. The self-service ticketing terminals installed in our London cluster, which will be rolled out more broadly, have been a good example of this, allowing for a more efficient operation, and also crucially resulting in positive guest feedback.

As announced in October, we will further evolve the way we work over the coming years as we seek more permanent, structural savings. During 2018, we will begin the process of increased investment in back office systems and infrastructure, allowing us ultimately to better leverage the growth of the Group. These actions seek to maintain Group margins at current levels despite the continued challenging cost environment and market volatility.

Health and safety

We seek to be an industry leader, driving best in class health, safety and security standards. Throughout 2017 we have built upon the strong foundations of governance, operating standards and practices, and I am pleased that we have seen a continued improvement in the health and safety key performance indicator measuring medical treatment cases of guests. The safety and security of our guests and employees remains our number one priority and we will continue to invest in retaining our high standards.

Guest satisfaction

We maintain our relentless focus on delivering memorable experiences to our guests. Guest feedback is monitored on a daily basis by both local and central product excellence teams, and is shared across all levels of the organisation. In 2017 we delivered an average guest satisfaction score across the Group of 96%, whilst our average 'Net Promoter' score across our attractions remains very strong at over 50%.

Employee engagement

Our annual employee survey – 'The Wizard Wants to Know' – allows our employees to tell us what they think about Merlin. I am very pleased that this has again shown very high scores, with a 95% response rate, and 94% saying that they enjoy working at Merlin. We're not complacent however, and we continue to invest in our teams in order to create an engaged, motivated and diverse workforce.

In what turned out to be a difficult year, I would like to thank our exceptional employees for their continued hard work and commitment in delivering fun, safe, memorable experiences to all our guests.

Nick Varney
Chief Executive Officer
28 February 2018

OUR EXCITING NEW BUSINESS DEVELOPMENT PROGRAMME CONTINUES TO OFFER SIGNIFICANT STRUCTURAL GROWTH OPPORTUNITIES

Q&A – OPERATING GROUPS

OUR THREE OPERATING GROUP LEADERS

MIDWAY ATTRACTIONS

Nick Mackenzie

Q. What are you and your team most proud of in 2017?

The leadership and commitment that our teams have displayed across all our divisions in delivering exceptional experiences for our guests. Above this, the London and North American businesses have worked hard to counter the impacts of external headwinds; with our other three divisions in the UK, Continental Europe and Asia Pacific having delivered good growth. Asia reported particularly strong results driven by our gateway city clusters, such as Shanghai.

Q. What are the biggest challenges facing you and your team over the coming years?

Midway London is our largest and most profitable division. Front and centre of our focus will be getting back towards our historical growth trajectory. Over a number of years strong growth came from our expansion on the South Bank where we added new attractions and improved the customer experience, while Madame Tussauds continued to perform strongly at its historic location. In the recent, more challenging, period we have worked hard to maximise market share during this temporary decline. We will maintain this focus and remain confident that over time customer volumes will increase and revenues will grow.

Q. What are you and your team most excited about for 2018?

I am excited about new products in development that will underpin growth and further improve the customer experience, in 2018 and into the future. We are working on a number of initiatives with Merlin Magic Making, developing new technologies, for example to show off our amazing SEA LIFE marine displays or to take the Madame Tussauds experience 'beyond wax'.

LEGOLAND PARKS

Hans Aksel Pedersen

Q. What are you and your team most proud of in 2017?

In September, LEGOLAND Florida was hit by Hurricane Irma which led us to close the park for several days. Managing such a crisis is something the team plans for, and I'm therefore very pleased to say that this training and preparation paid off, as evidenced in the following feedback a guest posted on Facebook.

"Everyone at the park and the resort were above my expectations. The staff worked overtime to make sure all of the guests were comfortable during a scary, pre-Hurricane time…Even when they lost power they did their best to provide food and entertainment for the kids and make everyone as comfortable as possible! We knew devastation was happening around us – but being there we felt safe, kids were happy 24/7, and it took our minds off the unknown at home which we really needed at times!! We will never forget our 4 nights there and can't wait to go back! THANK YOU LEGOLAND!!"

Q. What are the biggest challenges facing you and your team over the coming years?

LEGOLAND Parks had another year of strong growth in 2017. Our near term challenge will be in maintaining these growth levels, particularly given that the next LEGO movie is not until 2019. With that in mind we are very excited to have signed an exclusive agreement with Warner Bros. for 'LEGO Movie' themed lands in all LEGOLAND parks from 2019.

Q. What are you and your team most excited about for 2018?

There is plenty going on in 2018. LEGOLAND California will see the launch of 'LEGO City: Deep Sea Adventure' – a real submarine that takes you on a hunt for treasure amongst all kinds of sea creatures, including stingrays and sharks. The park will also see the opening of a 250 bedroom 'LEGO Castle' themed hotel which will double the size of our unique accommodation there.

RESORT THEME PARKS

Justin Platt

Q. What are you and your team most proud of in 2017?

The continued recovery at Alton Towers Resort is a testament to the great team we have at that attraction and the underlying strengths of what is, for many people in the UK, the definitive theme park. During the year we opened the CBeebies Land Hotel, a truly magical addition to the resort, which had strong occupancy levels and great KPIs. It is also the first major third party IP hotel Merlin has built outside of the LEGOLAND parks.

At Chessington World of Adventures Resort we brought another well-loved children's IP to life with 'The Gruffalo River Ride Adventure', aimed at the pre-school market. Re-imagining an existing ride allowed for great capital efficiency and we're pleased to have driven strong KPIs and visitation with this new, incremental pre-school audience.

Q. What are the biggest challenges facing you and your team over the coming years?

A big challenge, but also a great opportunity, is how we maximise our potential in the short break market. We have seen a clear shift over recent years away from guests taking longer holidays, towards having more frequent shorter breaks. We consider ourselves to be a global leader in themed accommodation and we continue to push this – using both our own and external IP.

We find that guests who spend more than one day with us tend to report greater levels of satisfaction. Not only is the accommodation itself a key appeal, but they are able to explore more of what we have to offer in the resort, and do so in a more relaxed way.

Q. What are you and your team most excited about for 2018?

I'm really excited about two key developments. Firstly, the new 'Wicker Man' ride at Alton Towers which looks fantastic. This is of course targeted towards the thrill-seeker market and we're hopeful that this will drive further recovery at the resort.

Secondly, following the agreement signed with eOne in 2017, we'll be launching 'Peppa Pig Lands' at Heide Park and Gardaland. We had great pre-school success with CBeebies and The Gruffalo and are hoping to replicate that with Peppa Pig.

Q&A – MMM AND NEW OPENINGS

OUR CREATIVE AND DEVELOPMENT LEADERS

MERLIN MAGIC MAKING (MMM)

MMM is the unique resource that sits at the heart of everything Merlin does.

FINDING THE MAGIC

Utilising consumer insight and research, MMM finds new business opportunities, ranging from the strategic roll out of the Midway estate to potential acquisitions.

CREATING THE MAGIC

Driving innovation across the Group, MMM creates high-class compelling propositions for the existing estate and new attractions. This includes creating Merlin's very own in-house Intellectual Property.

PRODUCING THE MAGIC

MMM takes creative ideas and then produces amazing content for our attractions, making LEGO models, wax figures and attraction theming. The Merlin Animal Welfare Development (MAWD) team ensures that Merlin provides the best animal care possible as we source creatures for display in our attractions.

DELIVERING THE MAGIC

MMM's project management teams produce world class attractions for our guests to enjoy. They deliver all of Merlin's major existing estate capital projects and new Midway attractions, the latter being handed over to the New Openings team who manage the opening and are responsible for operations in the first 18 to 24 months of trading.

MMM

Mark Fisher

Q. What is your team's greatest achievement in 2017?

In 2017, getting the new NINJAGO ride at LEGOLAND Windsor open on time and on budget was key for the resort to deliver a strong performance. It was a great example of everyone coming together to get a project over the line. We saw the same 'can do' attitude as we developed Madame Tussauds Delhi, our first business in India, and a terrific example of the teamwork needed to solve the countless practical issues which arise when entering new countries. Finally we delivered the models, theming and animation for the new 'Little BIG City' brand in Berlin. The team showed how talented they are by transferring their skills to a new brand and utilising new technologies.

Q. What is your favourite customer story of 2017?

There is never just one story! Sitting on the tube in London I overheard three twenty-somethings talking about 'Derren Brown's Ghost Train' at THORPE PARK and hearing "it's the coolest thing ever, you have to go on it, it feels so real". It's always brilliant hearing guest feedback when they experience our new attractions for the first time. Also, watching kids running into the new NINJAGO ride and experiencing it for the first time at Windsor made all the work worth it.

Q. What are you most excited about going into 2018?

MMM project manages the delivery of all Merlin's major capital investments. This coming year, on top of the launch of the 'Wicker Man' roller coaster at Alton Towers Resort, and the 'LEGO City: Deep Sea Adventure' ride at LEGOLAND California, we will see the innovative work we have been doing in Madame Tussauds and SEA LIFE come to fruition. I'm looking forward to seeing the guests' reactions as we move to the next stage of bringing these brands to life.

Q. What is your team's greatest challenge over the next few years?

We're always looking around us to anticipate changes in the market or consumer trends, or at what other operators are doing. There are two things we will continue to focus on.

First, we need to ensure that we continue to find new sites which generate the required investment returns for both existing and new brands. There are lots of opportunities around the world, but we need to be really careful about how and where we spend money. We've got a great site search team who lead on this, and have strong relationships with landlords and property developers around the world.

Second, the ever increasing expectations of our guests also challenges us to think outside of traditions and look into new fields to continue delivering memorable experiences. As we develop a wide range of new products and features, the artistry and creativity of the LEGO modellers, clay sculptors and our animal welfare colleagues never ceases to amaze me as they find new ways of entrancing our guests. The MMM team is a truly unique resource and I am confident that we will continue to successfully develop new products.

NEW OPENINGS

New Openings is Merlin's specialist team that develops new LEGOLAND parks, opens new Midway attractions and integrates acquisitions.

John Jakobsen

Q. What is your team's greatest achievement in 2017?

It would have to be the opening of LEGOLAND Japan. This was accomplished only six months after the opening of LEGOLAND Dubai and in the same month we opened three Midway attractions. It was busy, but we truly did see the benefits of being able to draw on the experience of our colleagues from all over the world to make it happen.

Q. What is your team's greatest challenge over the next few years?

We have a very strong long term pipeline of potential LEGOLAND projects, particularly in China, where we are working on a number of study agreements. Our challenge will be to ensure that we manage our resources in the interim such that we are adequately prepared to execute against multiple openings, potentially in quick succession.

In the meantime our current focus is on the opening of our third LEGOLAND resort in the USA, Merlin's single biggest investment ever of approximately £250 million. Construction will ramp up in 2018 for the targeted 2020 opening of LEGOLAND New York.

Q. What are you most excited about going into 2018?

2018 will be the highest number of new openings in one year for Merlin Entertainments, nine in total. We plan to open seven new Midway attractions under our existing brands, plus the new 'The Bear Grylls Adventure' in Birmingham, our first new brand 'Peppa Pig' Midway attraction, as well as our 252 room LEGOLAND hotel that will transform LEGOLAND Japan into a resort.

NEW BRAND OPPORTUNITIES

Over the coming months and years MMM and the New Openings team will continue to work closely together to find, develop and open attractions with new brands.

The teams are currently working on two new Intellectual Property partnerships.

THE BEAR GRYLLS ADVENTURE
Customer type – Adventure/experience seeker
Adventure seekers want a combination of fun mixed in with mental and physical experiences. 'The Bear Grylls Adventure' will provide this in a unique format that brings a number of challenges together in one location, enabling guests to experience a core attraction and then upgrade to other challenges such as indoor skydiving or high ropes.

PEPPA PIG
Customer type – Pre-school
Using this global IP as a platform we will develop unique attraction formats. We see opportunities for high levels of repeat visitation and strong retail spends in attractions which will trade smoothly throughout the year. We will build on what we have learned in our current successful products in this market such as 'The Gruffalo River Ride Adventure' at Chessington World of Adventures Resort, and the CBeebies Land and hotel at Alton Towers Resort. The first realisations of this new partnership will be themed lands at Heide Park Resort in Germany and Gardaland Resort in Italy.

FINANCIAL AND OPERATING REVIEW

ROBUST PROFIT AND CASH FLOW DELIVERY

DESPITE VOLATILE TRADING CONDITIONS, OUR CASH GENERATION REMAINS STRONG, SUPPORTING OUR CONTINUED ROLL OUT OF NEW ATTRACTIONS AND ACCOMMODATION

+7.8%
Operating free cash flow

+5.5%
Adjusted EPS growth

Introduction

Throughout 2017 we continued to deliver on our strategic ambitions, despite volatile trading conditions, whilst our focus on costs and productivity helped mitigate some of the revenue shortfalls. Importantly, our cash generation remains strong, supporting our continued roll out of new attractions and accommodation.

Trading review

To aid comparability, the trading commentary which follows is on a 52 week basis. Unless otherwise stated, all growth rates are presented on a constant currency basis, that is, as if the 2016 results were re-translated at 2017 average rates.

Revenue

Reported revenue for the 52 weeks to 30 December 2017 increased to £1,594 million. On a 52 week basis, organic revenue grew by 6.6%.

On a like for like basis, revenues grew by 0.7%, reflecting increased revenue per capita, offset by lower visitor volumes.

We made good progress with our new business development. We opened six new Midway attractions, which together with the full year benefit of 2016 openings, contributed £16 million to revenue growth. Similarly LEGOLAND Japan and LEGOLAND Dubai contributed £59 million, whilst new accommodation added a further £15 million.

The trading results for each Operating Group are covered in more detail on pages 28 and 29.

EBITDA

Reported EBITDA for the 52 weeks to 30 December 2017 increased to £474 million, albeit held back by the significant decline in trading in London and Gardaland, the largest divisions in Midway Attractions and Resort Theme Parks, respectively. On a 52 week basis, organic EBITDA increased by 3.5% as underlying cost increases in our existing estate and additional pre-opening costs in our new attractions offset revenue growth.

Group EBITDA margin fell slightly to 29.7% from 30.3%, primarily as a result of a decline in the Midway Attractions margin. In addition, the LEGOLAND Parks margin was affected by pre-opening costs and lease charges at LEGOLAND Japan. Central net costs of £48 million were flat on 2016, mainly from savings in variable remuneration.

The cost base at each of our attractions is relatively fixed so revenue increases and decreases are expected to flow through to its operating result. If revenue is anticipated to fall short of our expectations, we will implement focused cost management initiatives to protect profitability, as far as possible.

Operating margins are also impacted by underlying uncontrollable external cost pressures, such as those arising from wage legislation or property taxes. In this case we look to offset any longer term trend with more structural productivity initiatives.

Operating Group margins are affected by the source and mix of revenue in the existing estate and the dilutive effect of new attractions and accommodation, which typically have lower margins than the existing estate and incur costs in the pre-opening period. The Group result is influenced by central costs, which whilst relatively fixed in nature, may rise over time to support the increasing breadth and scale of the business.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2016 performance at 2017 rates would result in a £67 million benefit to revenue and a £25 million benefit to EBITDA. We set this out in more detail by major currency on page 151.

Operating profit

Depreciation and amortisation grew by 11.6% to £151 million. This primarily reflects the roll out of attractions and accommodation, as well as continued investment in assets, such as IT, that have shorter useful economic lives.

On a constant currency basis, underlying operating profit remained flat at £323 million.

	52 weeks ended 30 December 2017 £m	52 weeks ended 24 December 2016 £m	53 weeks ended 31 December 2016 £m	52 week growth (actual currency)	Organic growth (constant currency)[1]
Revenue	1,594	1,428	1,457	11.6%	6.6%
EBITDA	474	433	451	9.5%	3.5%
Depreciation and amortisation	(151)	(131)	(131)	(15.5)%	(11.6)%
Operating profit	323	302	320	6.8%	0.0%
Net finance costs	(52)	(43)	(43)	(18.7)%	
Profit before tax	271	259	277	4.8%	
Taxation	(62)	(62)	(66)	(1.0)%	
Profit for the year	209	197	211	6.0%	
Adjusted earnings per share	20.5p	19.5p	20.8p	5.5%	
ROCE	9.1%	9.6%	10.2%		
Operating free cash flow	315	292	310	7.8%	
Leverage on net debt to EBITDA	2.4x	–	2.3x		

See 'How we report our results' on page 33 for details of how we report our financial performance.

(1) Organic growth represents growth from like for like businesses and new business development at constant currency and excludes growth from acquisitions.

FINANCIAL AND OPERATING REVIEW (CONTINUED)

GEOGRAPHIC PERFORMANCE

Merlin has the longer term aim of sourcing revenues equally from the Europe, the Americas, and Asia Pacific regions. 2017 performance against this is as follows:

Europe *(55% of revenue, 2016: 59%)* saw organic revenue growth of 0.4%, driven by the opening of 217 accommodation rooms and one new Midway attraction. In the existing estate, significant declines in Gardaland and Midway London more than offset growth elsewhere in the region.

The Americas *(27% of revenue, 2016: 27%)* saw organic revenue growth of 5.2% driven by new accommodation at LEGOLAND Florida, with strong like for like growth in the two LEGOLAND parks offsetting a softer Midway performance.

Asia Pacific *(18% of revenue, 2016: 14%)* grew 35.7% on an organic basis. This is predominantly due to the opening of LEGOLAND Japan and, to a lesser extent, the continued focus of our Midway roll out in this region. The region also enjoyed strong like for like revenue growth.

MIDWAY ATTRACTIONS

Organic revenue grew by 1.3% in the Midway Attractions Operating Group. This was driven by the continued roll out of new attractions offsetting a like for like decline of 1.2%.

2017 saw the opening of six new Midway attractions, comprising LEGOLAND Discovery Centres in Philadelphia and Melbourne, a Madame Tussauds in Nashville, a SEA LIFE Centre in Chongqing, the first of our new brand 'Little BIG City' in Berlin and Madame Tussauds Delhi – our first attraction in India. Including the full year benefit of the five attractions opened in 2016, the Midway roll out contributed an additional £16 million of revenue in 2017.

After a strong start to the year, Midway like for like revenue growth slowed following the spate of terror attacks in the UK which particularly impacted trading in London. The attacks led to a significant and immediate decline in domestic visitation, with international visitation falling from the summer onwards. This resulted in an estimated 17% drop in the London visitor attraction market over the key trading period. London is the largest and most profitable of Midway's five regional Divisions and therefore represented the greatest factor in trading performance in 2017.

Trading in North America was affected by lower levels of LEGO sales in our LEGOLAND Discovery Centres as well as reduced international visitation to New York.

Outside of London and North America, our three remaining regional Divisions enjoyed good growth.

Organic EBITDA declined by 5.9%, reflecting the reduction in margin from 36.1% to 33.5%. A key contributor to this was the significant decline in visitation to London given its higher levels of profitability. The margin was further impacted by continued underlying cost pressures which were only partly offset by management action, as well as the effect of the new openings which typically have lower margins than the existing estate. Furthermore, a £2 million credit related to a sales tax rebate was recognised in 2017, compared to £5 million in 2016.

Higher depreciation driven by continued investment in the estate resulted in operating profit declining by 9.3% at constant currency.

Reflecting the capital efficiency of the Midway model, Midway operating free cash flow conversion was 77%. This is expected to increase in the medium term as existing estate capex is reduced.

	2017 52 weeks	2016 52 weeks	2016 53 weeks	52 week growth (actual currency)(1)	Organic growth (constant currency)(1)	Like for like growth(1)
Visitors (m)	40.7	40.6	41.7	0.3%		
Revenue (£m)	656	621	638	5.7%	1.3%	(1.2)%
EBITDA (£m)	220	224	236	(1.8)%	(5.9)%	
EBITDA margin (%)	33.5%	36.1%				
Operating profit (£m)	152	160	172	(5.0)%	(9.3)%	

LEGOLAND PARKS

Organic revenue grew by 18.2% in the LEGOLAND Parks Operating Group, driven by the opening of LEGOLAND Japan, the continued accommodation roll out and like for like revenue growth of 4.7%.

The opening of LEGOLAND Japan in April, and the full year benefit of LEGOLAND Dubai, contributed an additional £59 million of revenue in 2017. LEGOLAND Japan opened on capital budget and ahead of schedule, delivering a small EBITDA contribution, which reflected pre-opening costs and the part year opening. The resort will be extended in 2018 with the addition of a SEA LIFE Centre and 252 bedroom hotel.

A total of 307 rooms were opened in 2017, comprising an 80 room expansion of the holiday village in LEGOLAND Billund, a 166 room holiday village at LEGOLAND Florida and the 61 room Castle Hotel at LEGOLAND Windsor.

Like for like revenue growth of 4.7% was driven by continued product investment and, in particular, the success of 'NINJAGO World' which is now open at six of our parks, and which benefited from the launch of 'The LEGO NINJAGO Movie' towards the end of the year.

Organic EBITDA grew by 15.0%. The reduction in margin from 38.7% to 37.8% was primarily the result of the pre-opening costs and lease charges associated with LEGOLAND Japan.

Operating profit growth of 12.1% was slightly lower than that of EBITDA as a result of increased depreciation following the opening of LEGOLAND Japan.

	2017 52 weeks	2016 52 weeks	2016 53 weeks	52 week growth (actual currency)(1)	Organic growth (constant currency)(1)	Like for like growth(1)
Visitors (m)	15.3	12.8	12.9	19.7%		
Revenue (£m)	609	486	495	25.1%	18.2%	4.7%
EBITDA (£m)	230	188	193	22.0%	15.0%	
EBITDA margin (%)	37.8%	38.7%				
Operating profit (£m)	191	160	165	19.0%	12.1%	

RESORT THEME PARKS

Organic revenue declined by 0.4% in the Resort Theme Parks Operating Group, as the continuing accommodation roll out partly offset a like for like revenue decline of 1.9%.

Accommodation investment in Resort Theme Parks in 2017 represented the 76 room CBeebies Land Hotel at Alton Towers which opened in July, whilst we also benefited from the full year effect of the 163 rooms opened in 2016.

After a strong start to the year, the UK theme park market slowed in the key summer period following the series of terror attacks and the Government's subsequent raising of the threat level. The parks enjoyed positive momentum during Halloween however which, combined with the ongoing recovery of Alton Towers, resulted in good growth for the UK parks overall. In Continental Europe, exceptionally poor weather in Italy led to significant shortfalls in visitation to Gardaland – the largest and most profitable of our six theme parks, whilst unfavourable weather in Northern Germany also impacted trading at Heide Park.

Organic EBITDA decreased by 0.9%. As a result of cost saving measures introduced throughout 2016 and 2017, the EBITDA margin increased from 21.5% to 21.8%.

Operating profit decreased by 8.8% as a result of the decline in EBITDA, on a constant currency basis.

	2017 52 weeks	2016 52 weeks	2016 53 weeks	52 week growth (actual currency)(1)	Organic growth (constant currency)(1)	Like for like growth(1)
Visitors (m)	10.0	10.4	10.5	(3.7)%		
Revenue (£m)	329	319	322	3.2%	(0.4)%	(1.9)%
EBITDA (£m)	72	69	70	4.8%	(0.9)%	
EBITDA margin (%)	21.8%	21.5%				
Operating profit (£m)	36	37	38	(1.3)%	(8.8)%	

(1) Last year we reported on the 53 weeks to 31 December 2016. Profit metrics were provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with this year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.

FINANCIAL AND OPERATING REVIEW (CONTINUED)

FINANCING, TAX AND DIVIDENDS

Interest

Net finance costs of £52 million were incurred in 2017 *(2016: £43 million)*, reflecting increased borrowings following the issuance of further senior notes in March 2017 (net of bank debt repayments), new finance lease liabilities at LEGOLAND Japan, the accounting impact of reassessing the refinancing date of our existing bank facilities, and the impact of movements in exchange rates.

Taxation

The tax charge of £62 million represents an effective tax rate of 22.9%, falling from 23.8% in 2016, primarily due to the impact of changes in tax legislation in the USA.

Significant factors which may impact the Group's future effective tax rate include the USA tax reforms, the ability to continue with our current financing arrangements and changes to local or international tax laws. Further detail is provided in note 2.4 to the financial statements.

Dividend

The Company's policy is to pay a dividend with a target range 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 re-investment in the business.

In September 2017 we paid an interim dividend of 2.4 pence per share and the Board is recommending a final dividend of 5.0 pence per share. This equates to a full year dividend of 7.4 pence per share and represents growth of 4.2% from 2016.

When making proposals for the payment of dividends, the Directors consider the resources available to the Company and its subsidiaries. Specifically, they have taken account of the Company's significant distributable profits (see note vii to the Company financial statements on page 149), as well as the liquidity of the Group.

CASH FLOW

Merlin continues to be highly cash generative, delivering operating free cash flow (being EBITDA less existing estate capital expenditure) of £315 million in 2017 *(2016 53 weeks: £310 million)*. Net cash flow from operating activities for the 52 weeks to 30 December 2017 was £413 million *(2016 53 weeks: £433 million)*.

A total of £336 million was incurred on capital expenditure in 2017, comprising £159 million invested in the existing estate and £177 million on new business development (NBD). All major capital projects are appraised with clear project return targets based principally upon Internal Rate of Return and EBITDA ROIC.

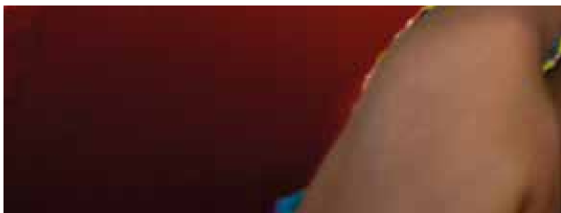
NBD investment represented £90 million in developing new accommodation across our theme park estate and £52 million in new Midway attractions. Capital expenditure of £35 million was incurred in respect of the new LEGOLAND parks.

Other investing activities of £12 million reflects Merlin's share of funding for a hotel currently being constructed at LEGOLAND Dubai and in which Merlin has a 40% interest.

In March, we increased the issuance of our existing notes by €200 million at 103.5% of their nominal value (£178 million), using €50 million (£43 million) of the proceeds to repay bank facilities. We will continue to seek opportunities to further diversify our sources of funding away from the bank markets.

Leverage on net debt at the year end equates to 2.4x underlying EBITDA *(2016: 2.3x)*.

	2017 52 weeks £m	2016 53 weeks £m
EBITDA	**474**	**451**
Working capital and other movements	3	32
Tax paid	(64)	(50)
Net cash inflow from operating activities	**413**	**433**
Capital expenditure – existing estate	(159)	(141)
Capital expenditure – new business development	(177)	(118)
Other investing activities	(12)	(33)
Proceeds from share capital	8	2
Interest paid, net of interest received	(45)	(40)
Dividends paid	(74)	(67)
Other	4	4
Net cash (outflow)/inflow before refinancing and repayment of borrowings	**(42)**	**40**
Refinancing and repayment of borrowings (net)	132	–
Net cash inflow for the year	**90**	**40**



MERLIN CONTINUES TO BE HIGHLY CASH GENERATIVE, DELIVERING OPERATING FREE CASH FLOW OF £315 MILLION IN 2017

FINANCIAL AND OPERATING REVIEW (CONTINUED)

NET ASSETS

Property, plant and equipment increased by £251 million, primarily reflecting the capital additions referred to previously and finance leases entered into at LEGOLAND Japan (see note 4.4), offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates.

The increase in investments reflects the LEGOLAND Dubai investment related to the hotel noted above.

Further analysis of the working capital movements of £9 million are provided in note 3.4 to the financial statements.

The increase in reported net debt is due to the impact of foreign exchange movements on non Sterling borrowings and £111 million in respect of finance lease liabilities recognised for LEGOLAND Japan, developed under our 'operated and leased' model, partially offset by cash generated in the year.

Further details are provided in the consolidated statement of financial position on page 98 and the notes to the financial statements on pages 101 to 142.

Loan facilities

Merlin's current loan facilities are detailed in note 4.2 to the financial statements.

In addition to the Group's term debt of £1,271 million, a multi-currency revolving facility of £300 million *(2016: £300 million)* is available until March 2020 when the facilities mature. At 30 December 2017 none was drawn down *(2016: £nil)*.

This facility, in conjunction with the Group's cash balance of £309 million *(2016: £215 million)*, is available to finance working capital requirements and capital investment. All covenant requirements were satisfied throughout the year with significant headroom, even when taking account of the Group's seasonal trading and cash generation cycles.

We will continue to seek opportunities to further diversify our sources of funding away from the bank markets. We anticipate a refinancing within the next 18 months.

Return on capital employed (ROCE)

Reflecting Merlin's disciplined approach to the use of capital, 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 return measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

ROCE in 2017 was 9.1% *(2016 53 weeks: 10.2%, 52 weeks: 9.6%)*. On a 52 week basis, this reflects a combination of our increased capital investment as well as the inclusion of finance leased assets related to LEGOLAND Japan. See page 151 for how ROCE is calculated.

	2017 £m	2016 £m
Property, plant and equipment	2,092	1,841
Goodwill and intangible assets	1,018	1,017
Investments and other non-current receivables	70	62
Working capital	(169)	(178)
Net debt	(1,160)	(1,025)
Corporate and deferred tax	(175)	(180)
Employee benefits	(6)	(11)
Other liabilities	(103)	(98)
Net assets	**1,567**	**1,428**

PRODUCTIVITY AGENDA

Under the Productivity Agenda already announced, the way we work will continue to evolve to deliver more permanent structural savings, as we build on the successes enjoyed to date through benchmarking and automation.

2018 will be a year of transition as we increase our investment in back office systems and infrastructure, supporting our drive for efficiencies that will enable better support of the growth of the Group. One project I am particularly excited about is 'Finance 21', which looks to optimise the Group's finance organisation, underpinned by the roll out of a cloud based software.

The benefits of these initiatives will begin to come through in 2019, augmenting our constant focus on financial discipline and capital allocation.

SUMMARY

We have delivered a robust performance in volatile market conditions. We are conscious that the trading environment is likely to remain uncertain in the medium term and accordingly have revised the allocation of capital in our existing estate. Combined with our Productivity Agenda, we plan to see the benefits of our continued financial discipline come through in 2019 and beyond.

Anne-Francoise Nesmes
Chief Financial Officer
28 February 2018

How we report our results

Period under review – last year's consolidated Group financial statements were prepared on a '53 week' basis for the period ending 31 December 2016. In most years we report on a '52 week' period. In certain years an additional week is included to ensure that the statutory financial year end date stays in line with the end of December. Within this report we also present '52 week' information for 2016 where we think it will provide a more direct comparison of performance. The difference between the two periods is the week ending 31 December 2016.

Financial KPIs – we present our performance consistently each year. We refer to EBITDA as it is the profit measure we use internally to measure the performance of our attractions. It is the KPI that we feel most appropriately captures the ongoing ability of our attractions to generate operating cash flows.

Operating free cash flow, which is EBITDA less existing estate capital expenditure, is then available to contribute to capital reinvestment to support further growth, service the Group's debt facilities, settle our tax obligations and provide a return to our shareholders.

We refer to 'underlying' results, which remove the impact of any exceptional items and provide a more direct comparison of trading performance. There were no exceptional items in 2017 or 2016.

All balance sheet, and therefore cash flow, information is reported as at the statutory year end date and therefore represents a 52 week period in 2017 *(2016: 53 weeks).*

Our financial performance measures are defined in the Glossary on pages 152 to 153. Where relevant they are clearly set out within the consolidated Group financial statements as shown on pages 96 to 142. Details regarding ROCE are set out within the 'Other financial information' section on page 151. The five year financial record on page 150 contains further information.

Reference to financial statements – 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 103 to 104. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 102.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Internal control and risk management

The Board is responsible for maintaining effective internal control and risk management systems. It keeps them under constant review through its regular monitoring of its sub-committees and executive management.

These activities are supported by 'The Merlin Way', our corporate values. It is the Board's aim that these values should drive good behaviours and actions by all employees.

Internal control framework

The creation of an effective internal control framework has been delegated to executive management by the Board to ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws, regulations, policies and procedures including those relating to health and safety matters;
- effective and efficient operation of business processes.

The internal control framework is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

INTERNAL CONTROL FRAMEWORK

Framework element	Monitoring process
Management structure • Defined reporting lines, accountabilities, authority levels and duty segregation. • Principal operating business units and functions are led by Executive Committee members. • Leadership teams at each attraction and function.	• Regular visits to attractions. • Reporting by internal and external assurance providers to confirm operation of authority delegation and duty segregation. • Regular review and update of authority levels and responsibilities.
Strategic planning, risk management and business performance monitoring • Annually updated five year strategic plan. • Business objectives and performance measures set annually together with budgets and forecasts. • Regular business performance reviews. • Pipeline for new attractions reviewed regularly to ensure developments are on schedule, new ideas fit with our brand portfolio and expected commercial returns are acceptable.	• Reporting and discussion of principal risks that could prevent strategic plan objectives being achieved, together with associated mitigation plans. • Reporting by executive management at every Board meeting on business performance, commercial risks and opportunities. • Board review and approval for major capital expenditure, for example new product development activities or acquisitions.
Policies and procedures • Policies and procedures are in place to manage operational, performance and compliance obligations.	• Reporting by internal and external assurance providers on compliance with policies, procedures, laws and regulations. • Monitoring to ensure these remain appropriate as the business grows and external factors, legislation or regulatory requirements change.
Internal controls The most notable internal controls are in the following areas: • Operational – performance indicators used to ensure safe, effective and efficient attraction operation. • Health, Safety and Security – Safety Management System in place to ensure compliance with regulatory and legislative requirements. • Information Technology – technical, security and disaster recovery controls operate to ensure a stable infrastructure platform exists. • Financial – oversight controls to support prevention and detection of financial reporting misstatement or fraud. Transactional level controls operate on a day-to-day basis. • Business continuity planning – disaster recovery plans incorporate escalation procedures and crisis management protocols. Business continuity plans allow attractions to operate or reinstate performance on the occurrence of adverse events.	• Regular reporting of operational performance metrics to the Board. • Regular reporting by assurance providers to confirm internal controls are operating as intended. • Reporting by profit protection professionals to support management in addressing fraud and theft risks at an attraction level. • Regular deep dive reviews on treasury, taxation and IT. Ad hoc matters are covered as necessary. • Self-certification by management of compliance and control issues.

RISK MANAGEMENT FRAMEWORK

The risk management framework sets out the relevant responsibilities within the Group for risk management together with the oversight, monitoring, reporting and management activities performed to support those responsibilities. The key elements are described below:

TOP DOWN

Oversight, identification, assessment and mitigation at corporate level

Responsibilities	Processes
OVERSIGHT – THE BOARD • Overall responsibility for risk management and internal control systems. • Sets strategic objectives and defines risk appetite. • Provides tone and direction for risk management processes.	• Monitors risks against Group strategy. • Receives regular updates from the Committees noted below. • Annual reporting confirms risk management policy and compliance with procedures.
MONITORING AND REPORTING – REGULAR UPDATES TO THE BOARD **Health, Safety and Security (HSS) Committee(1)** Oversight and guidance on management of HSS risks. Responsible for ensuring compliance with legislation or industry standards in safeguarding guests, employees, visitors and contractors. **Audit Committee(1)** Oversight and guidance on financial process risk. Responsible for assessing the effectiveness of the Group's overall approach to risk management and internal control. **Commercial and Strategic Risk Management Committee(2)** Oversight and guidance on management of commercial and strategic risk. Responsible for the treatment of animals in our care.	• Ongoing review of principal risks and groupwide risk assessment process. • Ongoing assessment of whether material changes in the external landscape or recent trading trends require alternative approaches to monitoring and managing risk. • Members of the various risk committees regularly receive deep dive updates on topics of significant risk to the organisation, such as treasury, taxation, IT security, EU GDPR, property portfolio management and online brand safety. • Regular reports on assurance programmes covering financial processes and health, safety and security controls across the Group.
OPERATING GROUP AND FUNCTIONAL EXECUTIVE MANAGEMENT • Delivery of strategic direction. • Identification of significant risks and mitigation plans for inclusion in the Group risk register. • Monitoring of significant risk and adequacy of mitigating actions at attraction and functional level.	• Ongoing reviews of operational risk assessment for mitigating actions. • Quarterly updates provided to the Board by the custodian of each risk area to provide insight into risk management process.
ATTRACTIONS AND FUNCTIONS • Execution of strategy. • Identification of significant risk and mitigating measures at attraction and functional level for inclusion in local risk registers. • Reviews of operational risk assessment of mitigating actions.	• Peer review by the senior leadership team of risk registers to ensure completeness and accuracy prior to submission to the Operating Group and executive management teams.

Identification, assessment and mitigation at attraction and function level

BOTTOM UP

Notes:
(1) Sub-committee of the Board. See pages 52 to 57 for details of Committee membership and the frequency of meetings.
(2) Delegated responsibility from the Executive Committee. This Committee is chaired by the CFO and meets four times a year, with membership drawn from the Executive Committee.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES (CONTINUED)

Risk appetite

The Group's risk appetite falls into two distinct categories:

Compliance risk – the requirement to comply with legislative or regulatory requirements in all territories where the Group operates. It includes, but is not limited to, ride safety, accounting practices, fraud and bribery, as well as ensuring compliance with the Group's values and ethical principles. In these areas the Board is risk averse and does not countenance any breaches in compliance obligations.

Commercial risk – commercial risks are taken to maximise profitable growth and sustainable returns. These commercial risks must never compromise the health, safety and security of guests, employees, contractors, animals or other visitors. They must also be aligned with the Group's policies on sustainability and the environment. The Group manages these commercial risks through an appropriate analysis of threats and opportunities together with structured review processes, independent expert opinions and decision making authority levels. Factors such as the scale of possible commercial upside, the potential market size, the quantum of downside risk and timescales involved may all be relevant to commercial risk decisions.

Quantitative and qualitative measures ensure effective governance of the Group's risk appetite. Quantitative measures include defined financial and non-financial targets such as EBITDA, ROCE and customer satisfaction scores. Qualitative measures consider items such as reputational impact and compliance with laws and regulations.

Principal risks

Management has identified the principal risks as set out on pages 37 to 39.

The risk committees consider both gross and net risk. Gross risk reflects the exposure before mitigation and is used to compare to the previous year as to whether significant risks are stable, increasing or decreasing.

The risk profile for the Group remains consistent with last year, with the following key changes. City centre businesses are being increasingly impacted by concerns over personal security and, as well as for international inbound tourists, volatility in exchange rates. These risks have been combined this year due to their overlap and are described in a new risk 'Commercial impact of external threats to city centres leading to displacement of tourists'.

The only change in the historic direction of the gross risk profile is the liquidity risk moving from reducing to stable. This is on the basis that the Group has adequate banking facilities in place that currently mature in March 2020.

Brexit

With specific regard to Brexit, the impact is expected to be limited in the short term given the Group's global footprint and the fact that an attraction's cost base and supply chain sit largely in the individual country of operation. In the medium term, a shift in the availability of skills in the UK workforce could impact recruitment in our UK businesses, which the Group will continue to monitor.

Effectiveness of risk management and internal control systems

Based on its review of risk management systems, both throughout the year and annually, the Board is satisfied that the risk management and internal control systems in place remain effective and confirms that:

- there is an ongoing process for identifying, assessing, managing and monitoring the Group's principal risks;
- management's assessment of the principal risks is considered to be appropriate and those risks that have the potential to impact liquidity have been considered in the assessment of the Group's viability;
- the principal risks and internal control processes have been in place and considered by management and the Board throughout the year and up to the date of approval of the Annual Report and Accounts; and
- no significant failings or weaknesses in internal control processes have been identified.

The Group's risk management and internal control process in relation to financial process risk has been documented within the risk management and internal control section of the Audit Committee Report on page 62.

Plans for 2018/19

We continue to refine and strengthen our internal control framework across the business. The continued roll out of accesso®, our admissions system, and the planned implementation of modern finance systems, will help in this regard through the standardisation of business processes and greater automation of transactional level and period end control activities. A new HR system is also being implemented that will enhance our ability to comply with the requirements of the upcoming EU GDPR legislation.

KEY

The Group has identified the principal risks as set out on pages 37 to 39 as those that have the potential to impact the Group's strategy.

We categorise risks to align to the strategic elements they impact as follows:

- Delivering high growth
- High return
- Strong brands
- Global portfolio

- Increasing risk
- Stable
- Decreasing risk

HSS	Health, safety and security risk
CS	Commercial and strategic risk
FP	Financial process risk

Risk	Description	How risks are managed
Safety HSS CS	*Health and safety is one of Merlin's Key Performance Indicators.* Serious incidents leading to guests, staff members or contractors being harmed as a result of: • a failure to follow safety management systems when operating rides; • inadequate maintenance and management of buildings, infrastructure and vegetation; • substandard build quality, asset degradation, fire, flood, storm or utility failure.	• Regular performance reviews. • Proactive ownership of HSS risks by line management. • Competent operational and engineering staff monitor and inspect facilities in accordance with a planned programme, backed up by professional HSS teams. • Annual risk register and action planning processes by each attraction. • Regular internal and independent external auditing and review regimes. • Contractor selection, approval and monitoring by in-house qualified project managers.
Security HSS CS	• Reduction in guest confidence to visit the Group's attractions as a result of sabotage or a terrorist attack on a ride or attraction leading to a guest or staff member or animal in our care being harmed.	• Detailed security protocols before guests or employees access an attraction (e.g. bag searches). • Regular infrastructure reviews to reduce the opportunity for physical threats to guests, staff or animals. • Extensive use of CCTV. • Regularly tested major incident management plans. • Co-operation with local and national security forces. • Appropriate insurance cover.
Innovation, brand development and customer satisfaction CS	*Customer satisfaction is one of Merlin's Key Performance Indicators.* Our growth potential could be impacted if guests: • consider our offerings are outdated, no longer relevant or enjoyable; or • provide negative social media comments that adversely influence the likelihood of a customer to visit an attraction.	• Customer feedback collected at every location and analysed against challenging satisfaction targets. Actions then taken accordingly. • Ongoing investment in our attractions to continually refresh the customer experience. • Engagement with the public and on social media to take any requisite action.
People availability and expertise CS	*Staff engagement is one of Merlin's Key Performance Indicators.* The increasing challenge of attracting and retaining appropriately experienced and well-motivated customer service orientated staff could impact: • guest satisfaction; or • the successful delivery of planned future expansion.	• Driving greater productivity to ensure more motivated, better rewarded employees. • Personal development plans across the business to encourage long term employment stability. • Proactively managed succession planning processes embedded across the Group. • Annual employee survey to monitor employee engagement and identify opportunities to develop HR policies and processes.
Competition and Intellectual Property (IP) CS	• Competition – for leisure time; from new or existing providers of location based entertainment; and for IP around which compelling propositions are created. • Withdrawal of permission to use third party IP content where contractual obligations are not met or partner relationships are not managed effectively.	• Diversification of the portfolio. • Ongoing investment to ensure continued appeal to visitors. • Competitor research and monitoring. • Dedicated in-house creative team to deliver new and innovative compelling propositions and IP. • Proactive management of IP partnerships.
Commercial impact of external threats to city centres leading to displacement of tourists CS	• Personal security concerns that flow from terrorist activity result in falling visitation to a location in which the Group operates, with displacement of both international and domestic tourists. • Exchange rate volatility can have a positive or adverse impact on inbound tourism. If exchange rates work against a country in which the Group generates significant revenue this can adversely impact visitation.	• Increased geographical hedging as a result of further global diversification. • Ability to direct marketing and promotional activity towards domestic or international audiences depending on tourism trends. • Ability to promote access to a wide portfolio of attractions using annual pass or cluster ticketing.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES (CONTINUED)

Risk	Description	How risks are managed
Animal welfare CS	Incidents or staff behaviours leading to animals in our care being harmed as a result of: • a failure to follow prescribed welfare protocols; or • inadequate maintenance and management of buildings, infrastructure and vegetation.	• External zoo licence audits. • An internal ethics committee and the Merlin Animal Welfare and Development team monitor the treatment of animals. • A comprehensive range of policies, standards, procedures and guidelines. • Training programmes for all staff that interact with animals. • Planned preventative maintenance programmes to ensure buildings, infrastructure and vegetation remain suitable for displaying the animals in our care.
Availability and delivery of new sites and attractions CS	The ability of the Group to grow in line with strategic objectives could be inhibited by the lack of: • economically viable sites to locate Midway attractions and LEGOLAND parks; and • timely approval of planning consent required for building new rides and attractions.	• Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of opportunities. • Sites regularly update development masterplans and work closely on fostering links with local communities and planning authorities. • The New Openings team provides dedicated resources to support the Group's roll out strategy.
IT robustness, technological developments and cyber security CS	The Group operates various IT systems and applications, the obsolescence or failure of which could impede trading or the ability to operate an attraction. Without the technical developments necessary to meet consumer or business expectations the Group may fail to deliver the growth required by the business strategy. Failure to put in place adequate preventative measures, if attacked, could lead to data loss or inability to use the IT systems for a prolonged period or loss of personal data resulting in an EU GDPR compliance investigation.	• Strategic focus to ensure the long term stability of operating systems and data security, whilst keeping pace with changing consumer IT expectations. • Increasing resilience and stability of IT infrastructure and security through an expanded use of secured hosting partners and penetration testing regimes. • Further security measures to mitigate the increasing threat of cyber security risk. • A number of data protection policies are in place to protect the privacy rights of individuals in accordance with relevant data protection legislation. A dedicated group has been established to work towards compliance with EU GDPR that comes into force in 2018.
Anti-bribery and corruption FP	While Merlin's business model is lower risk as the majority of transactions are of low value and typically from individual customers, a number of the territories in which Merlin is operating and proposing to enter have a greater historic propensity for incidents of bribery and corruption. Any such incident could lead to criminal or civil prosecution, fines and cause reputational damage to the Group.	• A well embedded corporate culture in which fraud and bribery at any level are not tolerated. • Global fraud and bribery training programmes and a fraud policy sign off for all staff. • Effective financial and contractual controls with regard to procurement activities. • Internal audit monitors purchasing processes on a rotational basis. • 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. • A whistleblowing policy is in place together with an independently operated employee hotline.

Risk	Description	How risks are managed
Liquidity/cash flow risk FP	A lack of liquidity could inhibit the ability of the Group to grow in line with the strategic objectives if: • insufficient cash is generated during peak trading periods to cover fixed costs and capital investments (including strategic acquisitions, the roll out of Midway attractions, the development of new LEGOLAND parks and new accommodation offerings); and • changes in the global credit market impact the Group's long term ability to meet current growth targets.	• A £300 million multi-currency revolving credit facility assists with seasonal cash flow requirements. Continued geographical expansion reduces exposure to any one peak trading period. • Review of weekly cash flow forecasts ensures ongoing liquidity. • Strategic plans cover at least four future 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. • Merlin maintains strong relationships with a number of lenders and keeps the debt markets under review in order to ensure that funding can be obtained at the right time and at the right price to ensure the availability of funds to meet strategic growth plans.
Foreign exchange translation risk FP	Merlin generates its main profits in Sterling, Euros and US Dollars and has long term debt in these currencies. Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.	• The Group presents constant currency figures where appropriate to show underlying results excluding the impact of translation differences. • Treasury policies in place and reviewed annually with regular reviews of currency exposures. • Broad match of borrowings in the currencies of underlying profits. • Currency exposures hedged where appropriate.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over a four year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 37 to 39 of the Annual Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period until December 2021.

The Group's strategic planning process occurs annually on a rolling basis, in the middle of the year, covering the current year plus four further years. It is then reviewed as necessary to take into account the Group's latest view of market conditions. The strategic plan considers all elements of the Group's growth strategy. It focuses on capital investment in the existing estate, where the review period matches or is in excess of pre-determined capital investment cycles; new business development including the roll out of Midway attractions and the development of committed new LEGOLAND parks; and the expansion of our accommodation portfolio. The Group also considers strategic acquisition opportunities and other uncommitted potential major capital projects within the plan period to assess the availability of appropriate funding. Accordingly, the Directors have determined that a four year period to December 2021 is an appropriate period over which to provide its viability statement.

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

While the review has considered all the principal risks identified by the Group, severe but plausible events were focused on for enhanced stress testing. Examples include ride safety incidents and acts of terrorism. The results take into account the controls implemented by the Group as well as the availability and likely effectiveness of specific mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks. The diversification of the Group's attractions helps minimise the risk of serious business interruption for many of its risks, for example extreme weather conditions or changing economic and political environments. It is important to note that a significant portion of planned spending on both the existing estate and for new business development is discretionary in nature. This gives us flexibility to manage cash flows. Merlin's ability to flex the cost base and the ability to rephase or delay capital investment provides some protection to our viability in the face of macro events or uncertainty not in the Group's control.

Merlin's banking facilities currently mature in March 2020. Taking into account Merlin's profitability and financial position it is anticipated that the Group will be able to refinance these bank facilities. The Group will undertake a process to extend or replace these facilities well in advance of the expiry date and therefore the Group does not consider there to be any material impact on the viability assessment.

TEAM MERLIN

PEOPLE

Counting penguins. Protecting the seas. Crafting the perfect celebrity eyebrows. Making a child's day.

At Merlin we all help deliver memorable experiences for our guests, and that is why our people are so important to us. But what makes us one of the world's most unique and rewarding places to work?

The Wizard Wants to Know – our staff survey

95%
Response rate

94%
'I enjoy working for Merlin'

97%
'I am encouraged to minimise risks and ensure a safe working environment'

86%
Engagement index

92%
'I think we deliver memorable experiences for our guests'

Here are just some of the building blocks we focus on, to be a truly awesome employer…

We value our people – employee engagement

Employee engagement has long been a key focus for Merlin. We know that a happy and productive workforce will give our guests a day to remember. Our annual employee survey, 'The Wizard Wants to Know', is the perfect opportunity for Team Merlin to tell us what they think. We are extremely proud that our scores are significantly above the global average; even so we continue to put our energy and enthusiasm into talking to our teams about areas for improvements and better understanding how outside environmental factors influence them.

With almost 30,000 employees at peak season across the globe, we are conscious that we need to keep each and every one of them up to date on what is happening in the wider business. For this we have the 'My Merlin' intranet, as well as a quarterly groupwide newsletter, 'The Wizard'. We also use behind-the-scenes areas, such as TV screens in staff rooms and noticeboards, to keep them up to date on specific topics.

We embrace diversity

Offering an inclusive working environment, where difference is valued, is a crucial part of our strategy, so we are committed to ensuring that diverse groups are fully and properly represented at all levels of our organisation. We strive to ensure we have the best people for every role, regardless of gender, race, disability, sexual orientation, or any other factor.

We are doing well at Board level. A recent report by Hampton Alexander put us in the top FTSE companies for Board diversity, with 44% of our Board members being women. Our Board members also have a wide spread across nationalities and bring a range of experience over industry sectors.

18% of our Executive Committee are women, compared to 20% in 2016.

Of our management positions (General Managers up to and including the Executive Committee) 137 (34%) are female and 268 (66%) are male. This is an increase from 2016 where we had 123 (32%) women. We have also increased the percentage of female permanent employees by 1% to 48% (2017: 4,182, 2016: 4,226). Although improvements have been made we want to increase the percentage of female staff in all areas even further.

In 2018 Merlin will publish its first gender pay gap report, based on data from 5 April 2017, that will show the differences in pay between men and women in all roles across the UK using various statistics. While we operate in the visitor attraction and entertainment sector, we employ many people in roles that have been traditionally dominated by men, such as engineering or electricians. This has an effect on any gender pay gap along with the larger proportion of men in senior leadership roles.

In recent years we have worked hard to achieve a more balanced workforce and better female representation, with two particular areas of focus. Firstly, we will seek to increase the number of women holding senior management positions. Secondly, we look to hire locally for leadership positions as Merlin expands.

To support our aims:

- We continue to drive our 'Women at Merlin' (W@M) initiative which gives women the support to help achieve their ambitions and develop into senior roles. We require balanced shortlists for all management vacancies.
- We regularly conduct talent reviews to recognise and develop potential.
- We have introduced our 'Managing Inclusively' programme to support recruiters and line managers.
- Our regional teams are empowered to look at diversity at a local level and are required to have development plans in place that support their local initiatives as well as Merlin's overall goals.


LEGOLAN

TEAM MERLIN

PEOPLE (CONTINUED)

We constantly innovate

One of our proudest moments of 2017 was how hard the new team worked to successfully open LEGOLAND Japan in April. The team are already building their own culture of fun and innovation. A number of roles were filled by local graduates who spent time in LEGOLAND parks in other countries, allowing them to bring a wealth of knowledge to this new park opening.

As part of getting to know the local community around Goshen, ahead of our announcement that we are targeting to open LEGOLAND New York in 2020, we opened The Community Welcome Center. This initiative helped us engage with local students to arrange internship programmes.

We inspire careers and develop potential

We have always nurtured a global career focus for our employees and are extremely proud to have many success stories. For example:

- One of our team started working in the Alton Towers waterpark in 2006 and now she is the head of our hotels at Alton Towers – the sky's the limit!
- The Head of Operations for our Bangkok Cluster started her life with Merlin as a guest host and has worked her way up over the years.
- One of our Executive Committee started his career as a mascot at one of our parks – now that has to inspire you!

The depth and breadth of roles within our attractions, our creative teams and our central functions, gives endless opportunity for our passionate and hardworking employees.

Developing our people has always been a real focus. We want to ensure we deliver memorable experiences for our guests, which means we need talented people to support our business growth. Reflecting this, our approach is focused on three things – Education; Exposure; and Experience. Incorporating these into our development programmes gives our people the right practical skills to perform in their unique roles. Encouraging the individual to take ownership of their own development is vital. Our role is to give them lots of opportunities to learn and grow as they build their Merlin careers.

In 2017, we launched a number of new development programmes to support our business growth:

- Our 'Attraction Management' programme is designed for the General Managers of the future with a series of global, interactive webinars, projects and activities which focus on the key areas of a high performing General Manager.
- 'Marketing the Magic' supports our marketing community to drive value through understanding the specific capabilities needed for success in our business.
- 'Situational Leadership' is delivered to our managers, in partnership with a global external partner, to ensure consistency of approach across Merlin in driving performance.
- The 'Mentoring at Merlin' programme looks to enhance our mentoring culture and add another dimension to development and career conversations, taking advantage of the magnificent people that we have at Merlin.
- In keeping with our philosophy of nurturing new talent, we have set up three apprenticeship focus areas with external partners. We are extremely pleased that, throughout 2018, we will roll out apprenticeships in Food and Beverage, Engineering and Team Leading.

In September 2017, we welcomed 23 new global graduates into Merlin across our management and marketing schemes of Accelerate Graduates. They will now spend time around our different brands and geographic regions developing the skills that they need for their future Merlin career.

We share ownership

Merlin is strongly committed to ensuring our employees have an active interest in the Company by having the opportunity to buy shares. Of our permanent employees, 33% now participate in at least one of our Sharesave plans, with many contributing to more than one. We are extremely proud of this response.

Merlin's first global Sharesave plan matured during 2017 and, as a result, approximately 400 more Merlin employees were able to own a piece of the magic. We also made more than 420 share awards to colleagues at executive, senior and middle management levels under our long term incentive plans.

We care

2017 has seen the launch of our wellbeing programme, 'Be Well'. The programme consists of five key focus areas, with an emphasis on local delivery to ensure that we are focusing our attention on the relevant wellbeing initiatives within each attraction. Our 2018 plan will see us expanding our global frameworks, whilst creating and nurturing our internal support networks, to allow us to continue to safeguard and support our employees.

We are engineering pioneers

Our Merlin engineers are a vital part of our team, and yet the engineering undertaken by our technical teams at parks and attractions was not a recognised form or discipline (like 'aviation' or 'automotive' engineering for example). In the past, our engineering apprentices were educated as mechanical or electrical engineers, but had to have a significant amount of industry specific on-the-job training to become competent for the engineering work that Merlin carries out.

We wanted to pioneer a change and the introduction of a new UK Government approach to apprenticeships and apprentice standards presented an opportunity for our Global Head of Engineering, Dawn Childs. Dawn lobbied engineering institutions, the Institute for Apprenticeships and BALPPA for approval and support to set up a Trailblazer Group to develop an apprentice standard for an entirely new form of engineering that is specialised for the industry – 'Leisure and Entertainment Engineering'.

Dawn quickly achieved support for the standard from over 20 other non-Merlin parks and attractions and the Standard and End Point Assessment (EPA) methodology was approved by the Institute for Apprenticeships.

The new standards will define key skills, knowledge and behaviours for leisure and entertainment engineering technicians, where college-delivered engineering academics are supplemented by industry led masterclasses. The syllabus and delivery model is very innovative and it is the only Standard and EPA to pass through the required approvals process at the first attempt.

Dawn's commitment is now being showcased as a model for how industry can work with the further education sector. Our first engineering apprentices will start in October 2018.

Looking to the future…

Natalie Bickford, our Group HR Director, is anticipating an exciting few years ahead for Team Merlin:

"Our focus in the coming years is all around our people's role in delivering memorable experiences for our guests. In order to achieve this, we plan to hone in on aspects of the people agenda such as:

- delivering structured and exciting career progression;
- driving productivity;
- developing robust succession and workforce planning;
- ensuring employees have the opportunity to be heard and to contribute; and
- communicating transparent and motivational rewards.

But our single most exciting project will be launching our compelling and relevant Employer Value Proposition across the globe, where we encourage all Merlin employees to 'Love your Work, Work your Magic'."

WHEN YOUR JOB GIVES YOU THE OPPORTUNITY TO RIDE ROLLER COASTERS, EXPLORE DUNGEONS AND MEET SEALS, IT'S HARD TO SEE HOW ANY OTHER JOB COULD EVER MATCH UP

WE MAKE IT FUN FOR OUR GUESTS, BUT FUN IS CONTAGIOUS

IT AFFECTS US ALL AND WE REALLY DO LOVE WHAT WE DO!

MERLIN IS A PLACE TO BRING MY CRAFT TO LIFE

RESPONSIBLE BUSINESS

RESPONSIBILITY IN ACTION

Merlin defines its values not just by the passionate way we do business but also by how we treat our visitors, our people, our suppliers, our planet, our animals, and how we contribute to the communities where our attractions operate. We are committed to being a responsible corporate citizen and design our governance structures and operate our businesses in this regard. Over and above this we are committed to 'Being a Force for Good' and making a positive impact on both the planet and people. We focus on making a difference through our two charities: Merlin's Magic Wand and the SEA LIFE Trust.

Robust governance

Merlin has robust governance standards and practices that extend throughout the business. This starts 'at the top' with an experienced Board that is structured in line with best practice and supported by appropriately rigorous Board Committees. The reports on the activities of these Committees in the year can be found on pages 58 to 87. This approach includes how we identify and manage the principal risks that could affect our business (as set out on pages 37 to 39).

Specifically, we manage Health, Safety and Security risks to ensure we operate our businesses with a constant focus on keeping our guests, employees, other visitors and animals safe and secure – see more on pages 46 to 47.

Strong social conscience

At Merlin we care. Our strong social conscience informs how we address the impact of our business activities on the planet, people and creatures connected to our business; this is exemplified by areas such as our ethical animal husbandry activities, and our approach to procurement.

We recognise the impact that our operations have on the environment and effectively managing this is essential for sustainable business success. See more about our approach to sustainability, including our mandatory greenhouse gas reporting, on page 47.

We have a responsibility 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. More details in this area are available on our website.

Caring for people

We harness the enthusiasm of our employees to demonstrate and reinforce our core 'Merlin Way' values, especially how 'We Care'.

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

Our policy on Human Rights is guided by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work together with the OECD Guidelines for Multinational Enterprises. It is set out in full on our website.

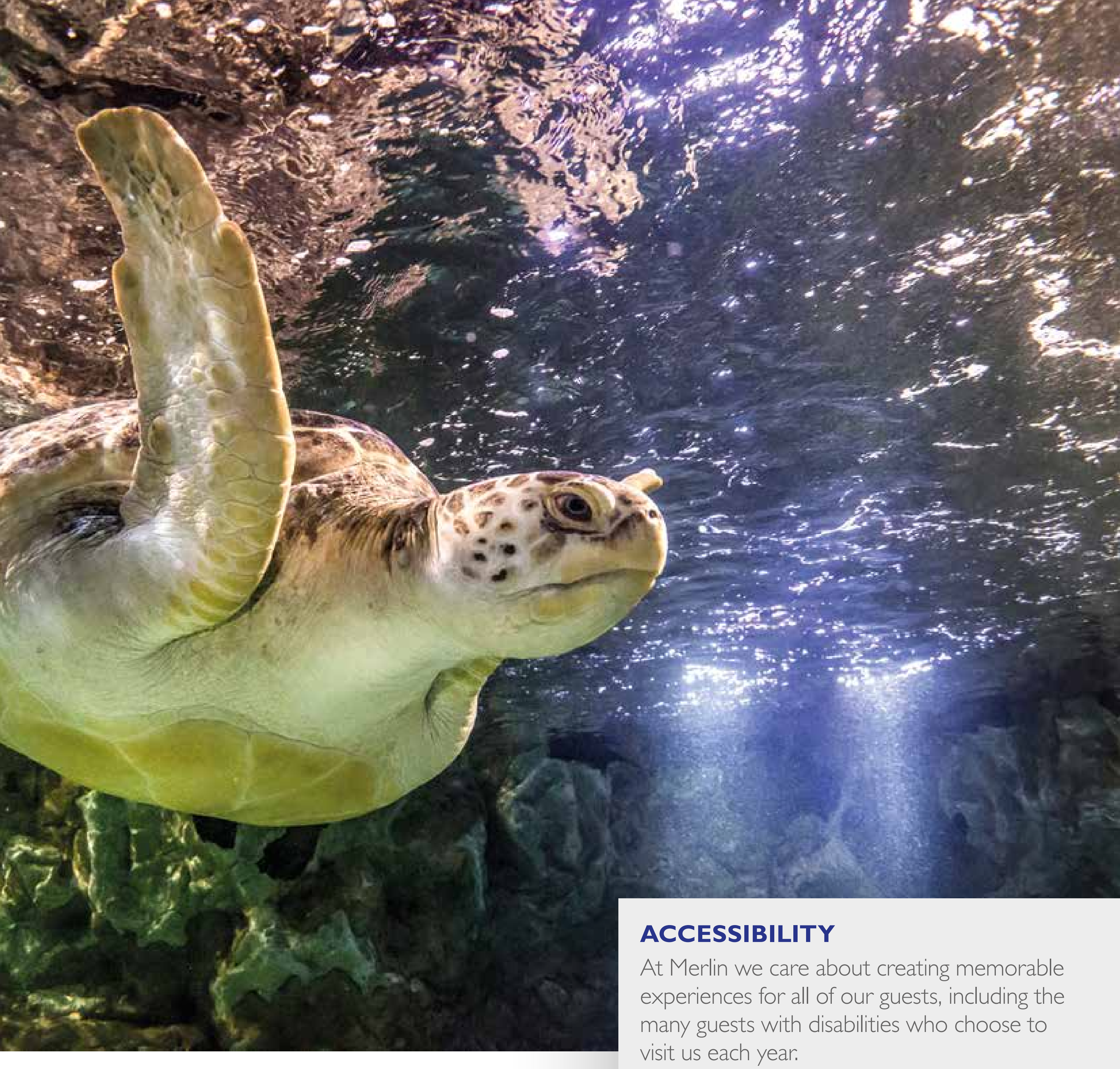
The heart of communities

Our businesses sit at the heart of communities around the world and our teams are proud to be part of and to support those communities in a wide variety of ways.

As well as many local initiatives, we harness the influence of our two partner charities to have an impact in two main areas:

- Our partner charity Merlin's Magic Wand delivers memorable experiences to children facing challenges of serious illness, disability and adversity – see more on page 48.
- Our marine conservation charity partner the SEA LIFE Trust protects our oceans through campaigns and fundraising – see more on page 49.

Our policies and further guidance on our approach, together with answers to frequently asked questions, can be found on our website www.merlinentertainments.biz.



ACCESSIBILITY

At Merlin we care about creating memorable experiences for all of our guests, including the many guests with disabilities who choose to visit us each year.

Over recent years the number of guests with increasingly diverse disabilities has grown significantly. In order to ensure that we continue to meet their needs we are committed to reviewing our facilities to make them better for everyone and to provide safe and welcoming experiences. This can include making necessary reasonable adjustments to those facilities, as well as how we operate at our attractions.

As part of this review process we consider all feedback from our guests and in 2017 we also sent out a survey to over 30,000 guests who had used our 'Ride Access Pass' system to hear their thoughts.

Each area of the business works hard to make continual improvements; just one example from 2017 is the launch of Changing Places toilets at Alton Towers Resort. These new facilities make a real difference to guests who require more than a standard accessible toilet.

RESPONSIBLE BUSINESS

HEALTH, SAFETY AND SECURITY

Merlin is dedicated to delivering best in class Health, Safety and Security (HSS) standards that are clearly understood and implemented across the Group.

What we do

- Training – rigorous training and instruction is fundamental to Merlin's approach to HSS across the business, with mandatory new starter training for all employees.
- Maintenance – robust maintenance systems and procedures comprise daily, weekly, monthly and annual maintenance programmes across Merlin's rides, buildings, facilities and estate. In 2017 a new level of risk assessment was introduced at the design stage of all new attractions. Additionally, our investment in a new global Enterprise Asset Management (EAM) system from INFOR will improve asset performance.
- Construction – best in class standards are maintained across all Merlin's global construction projects. The LEGOLAND park in Japan opened this year in April and the team worked closely with other LEGOLAND resorts in order to share best practice and secure a smooth opening and rigorous safety standards.
- Fire safety – this topic has always been one of Merlin's core priorities. Following the Grenfell Tower tragedy in June 2017, all Merlin's hotels have taken the opportunity to review their fire procedures and ensure they are robust.
- Food safety – we adopt the Hazard Analysis and Critical Control Point (HACCP) system; the globally recognised best practice approach. Merlin ensures full traceability and assurance over food products sourced via our supplier approval programmes.
- Communication – Merlin's dedicated communication programme 'Protecting the Magic' sustains HSS awareness, drives staff engagement and upholds a positive safety culture, focusing on our golden HSS rules called 'Six Spells for Safety'.
- Employee engagement – in May 2017, Merlin's attractions and offices joined forces around the world for a week to put the spotlight firmly on Health, Safety and Security. Attractions and corporate offices immersed themselves in 'Protecting the Magic' by engaging with activities and events directly promoting HSS – aligned with our 'Six Spells for Safety'.
- Security – international terrorism continues to be a major global concern and Merlin has responded by introducing a number of additional precautionary measures including bag/guest searches, upgraded covert security operations, hostile vehicle mitigation at our resorts and enhanced CCTV. All employees are trained to be vigilant and understand how to respond in emergency situations.
- Weather – in recent years, the world has witnessed a number of extreme weather events such as hurricanes and heatwaves. Merlin's approach to managing these events combines understanding contextual factors, strategic thinking, collaboration and good communication with effective response planning.

How we monitor HSS performance

HSS performance, including near-miss and incident reporting, is regularly reviewed by each attraction, each Operating Group's Senior Leadership Team and the HSS Committee, with best practice learning shared throughout the HSS management community. All attractions undergo three types of routine health and safety reviews (annual self-audits, independent internal audits and periodic independent external audits), in addition to pre-opening assessments and tactical ad-hoc audits. A comprehensive food safety audit programme is also undertaken by third party specialists.

We have two types of performance metric that we report on below:

- Leading indicators – these monitor the activities we undertake as part of our HSS governance and monitoring processes. Our approach includes arrangements by attractions for near-miss/unsafe condition reporting, trend analysis and corrective action management.
- Lagging indicators – these capture incident rates for both guests and employees.

Leading indicators	
Safety Inspection Certificates – Rides[1]	100%
Safe Operating Procedures – Rides[2]	100%
Food Safety Audits[3]	97%
Safety Culture Survey Results[4]	89%
HSS Committee Meetings[5]	100%
Lagging indicators	
Medical Treatment Case Rate (Guests)[6]	0.04
Medical Treatment Case Rate (Employees)[6]	0.09

(1) Safety Inspection Certificates are issued annually by independent ride examiners following the thorough inspection and testing of every theme park ride in Merlin. This % score indicates the percentage of rides that have Safety Inspection Certificates issued.

(2) Each theme park ride in operation in Merlin must have Safe Operating Procedures in place covering the ongoing use of the ride. These procedures must state what the necessary risk controls are for each ride. This % score indicates the percentage of rides that have Safe Operating Procedures in place.

(3) Merlin commissions an independent specialist to audit attractions for compliance with its Food Safety Manual. This % represents the average compliance score. The audit proforma was redeveloped for 2017 and additional examination lines included compared to prior years. Where opportunities for improvement to local practices have been identified (such as stock management or cleaning records), these are discussed with local management and plans implemented to address them.

(4) Merlin's annual 'The Wizard Wants to Know' staff survey features a series of questions relating to health and safety and this % represents the overall safety engagement score. The questions were developed in 2017 to examine new aspects of employee safety engagement. These greater insights are providing further opportunity for the refinement of the Company's safety management system, cultural practices and employee engagement activities.

(5) Through the HSS Committee the Board provides strategic direction and performance scrutiny of HSS matters within the business. Additionally, each Operating Group also has their own HSS Steering Committee. These forums are intended to meet quarterly and this % score indicates compliance with this expectation.

(6) A Medical Treatment Case (MTC) is defined as an injury which requires external medical treatment (i.e. ambulance attendance to site or hospital visit directly from the site). The rates referenced are the number of MTCs relative to either 10,000 guest visitations or 10,000 employee hours worked. The MTC rate for employees has risen marginally due to greater data accuracy in 2017 following the initial adoption of these new metrics during 2016 and accounting for the 12 month rolling data calculation.

SUSTAINABILITY AND THE ENVIRONMENT

Protecting the Magic

Merlin's innovative 'Protecting the Magic' website contains more information on how we manage HSS across the Group. It includes the comprehensive 'Guests' Guide to Safety' which covers all areas of HSS; our employee and contractor safety handbooks; and Merlin's 'Six Spells for Safety' aide-memoire.

See more: www.protectingthemagic.com

Strategy and governance

Merlin manages resources responsibly. We recognise that our operations impact upon the environment and effectively managing this is essential for sustainable business success.

We are committed to regular monitoring, auditing and review of our activities and identifying opportunities for sustainable environmental improvement, in line with our strategic business goals and in order to minimise the potentially harmful effects of such activity.

Ultimate responsibility for this strategy rests with the CEO, with management teams responsible for implementation at local and regional levels. More details can be found on the sustainability page on our website.

Environment and energy management

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

Specific budgets are made available each year to test and implement environmentally focused initiatives. Some examples in 2017 are the installation of LED lighting at Madame Tussauds Singapore, a 'chiller optimisation' project at SEA LIFE Blackpool and electricity efficiency initiatives at LEGOLAND Billund.

'We Care about our Planet'

Our attractions participated again in our annual 'We Care about our Planet' event to support Merlin's commitment to sustainability.

A wide range of activities were undertaken by our staff including beach cleans, collecting plastics and other waste; staff cycling, walking and even skateboarding to work and around our attractions.

Greenhouse gas (GHG) reporting

The Company is required to report each year on its carbon dioxide emissions, which are set out in the table below.

The reported emissions intensity is affected by the impact of foreign exchange movements on the revenue figure that forms the intensity baseline. This has contributed 4.2% to the reported reduction of 11.4% and accordingly the reduction on a constant currency basis would be 7.2%. In addition, carbon emission factors used in 2017 were lower compared to 2016 due to a reduction in the use of coal for energy generation. This contributes a further 5.2% to the reported reduction. Our underlying carbon emission intensity reduction was therefore 2.0%, in line with our annual target which is to reduce our carbon emission intensity by 2.0% year on year.

Report boundaries	Financial control – all facilities under the Group's direct financial control have been included.
Consistency with financial statements	This report covers the 12 month period from 1 December 2016 to 30 November 2017 in comparison to our financial year of January to December 2017.
Methodology	The WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) applying emissions factors from IEA CO_2 emissions from fuel combustion 2017 edition and emissions factors from DEFRA (2017).
Intensity ratio	Emissions per £1 million of revenue
Scope 1	25,560 tonnes of CO_2 equivalent *(2016: 19,270 tonnes)*
Scope 2 – Localised Based	111,911 tonnes of CO_2 equivalent *(2016: 116,814 tonnes)*
Scope 2 – Market Based	104,672 tonnes of CO_2 equivalent *(2016: 112,381 tonnes)*
Group gross emissions	130,232 tonnes of CO_2 equivalent *(2016: 131,651 tonnes)*
Intensity baseline (revenue)	£1,594 million *(2016: £1,428 million)*
Emissions intensity	82 tonnes of CO_2 equivalent per £1 million of revenue *(2016: 92 tonnes)*

Table notes:

- *Scope 1 refers to direct emissions (natural gas, LPG, heating oil, refrigerants, diesel, petrol).*
- *Scope 2 refers to indirect emissions (purchased electricity, purchased heat and steam).*
- *Scope 2 market based includes REGOs for our German Midway operations and Heide Park.*
- *Our annual carbon reduction target is measured based on market based emissions.*

RESPONSIBLE BUSINESS

THE HEART OF COMMUNITIES – BEING A FORCE FOR GOOD

Merlin's Magic Wand

In 2017 our children's charity Merlin's Magic Wand (MMW) has continued to grow, with Merlin teams across the world getting involved. MMW has continued to enable children faced with the challenges of serious illness, disability and adversity to experience the magic of Merlin.

We provided days out to over 100,000 children and their families, launched more Magic Spaces projects (totalling over 30 globally), and took the magic of Merlin 'on tour' to children in hospitals all over the world.

Find out more:
www.merlinsmagicwand.org

Marine and wildlife conservation

Merlin promotes the protection of wildlife across the globe by supporting projects and campaigns which make a real difference, leveraging our reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment.

SEA LIFE

Merlin was once again pleased to lend support in 2017 to its partner marine conservation charity, the SEA LIFE Trust, in its endeavours to combat three of the biggest threats to our oceans and ocean wildlife: plastic pollution, overfishing and habitat destruction. The Trust made the iconic sea turtle the focus of its actions, with a global 'Team Turtle' campaign raising awareness of the problems of plastic pollution and overfishing, also funding turtle conservation and research projects in both hemispheres.

More than 5,000 pledges to help protect sea turtles were collected, while a Trust-funded research project off the coast of Peru is gathering persuasive evidence that green LED lights affixed to fishing nets can significantly reduce by-catch. The Trust has committed AUD 150,000 over three years to fund a range of vital turtle conservation measures in Timor Leste, while other research has gathered data on the levels of plastic ingestion in young turtles. 'Team Turtle' is set to continue in 2018 with new initiatives already planned in the mission to safeguard sea turtles and our precious marine environment.

WILD LIFE

Chessington World of Adventures Resort in the UK, WILD LIFE Sydney Zoo and WILD LIFE Hamilton Island in Australia all maintained their long-standing commitment to animal breeding or managed species programmes.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Dear Shareholder

I am delighted to introduce Merlin's 2017 Corporate Governance Report.

Your Board believes that effective corporate governance is the foundation of a well run company. It is committed to maintaining the highest standards of governance throughout the Company in line with the five core principles set out in the UK Corporate Governance Code. The Board recognises that a strong governance framework is fundamental to the execution of Merlin's strategic objectives, underpinned by a clear purpose and well understood culture and values.

Merlin's overriding purpose is to create truly memorable experiences for visitors and value for shareholders. Our corporate governance framework is designed to safeguard these. The Board is committed to ensuring that the procedures, policies and practices of the business continue to be effective and compliant with the Code and I am pleased to confirm that during the period under review we complied with its provisions.

After four years of service, Ken Hydon has informed the Board that he will stand down as a Director and as Chairman of the Audit Committee at the 2018 AGM. On behalf of the Board, I would like to thank Ken for the significant contribution he has made to Merlin over the years. I am very pleased that Trudy Rautio, who has a wealth of relevant financial experience, will replace Ken as Chairman of the Audit Committee.

A STRONG GOVERNANCE FRAMEWORK IS FUNDAMENTAL TO THE EXECUTION OF MERLIN'S STRATEGIC OBJECTIVES, UNDERPINNED BY A CLEAR PURPOSE AND WELL UNDERSTOOD CULTURE AND VALUES

Governance priorities in 2017

It has been another busy year for the Board and its Committees and the key governance activities undertaken are explained in detail throughout the Corporate Governance Report.

The Board has focused on a number of key governance priorities in 2017 and these are summarised below.

Health, safety and security

Health, safety and security are the Board's number one priority. It is intrinsic to our corporate values and culture, and is reflected in the training our people receive and day-to-day safe working practices. Underpinning this are systems and procedures to assess and mitigate the risks which are overseen by the Health, Safety and Security Committee of the Board. In 2016, the Committee commissioned two independent reviews on ride safety and safety governance, respectively, and one of the Committee's priorities this year has been ensuring the recommendations from these reviews are being fully implemented throughout the organisation.

Reflecting the importance of food safety in Merlin, especially as our food and beverage offering grows, a new Group Safety Manager was appointed during the year, and the Committee commissioned an independent review of food safety across the Group. The results of the review were reassuring. A number of recommendations for further improvement are being implemented and this work has been overseen by the Committee during the year.

Acting on feedback from the Board evaluation review in 2016, we also appointed a new safety adviser to the Committee this year. He has held a number of senior safety roles in the airline industry and his insights into Merlin's approach to safety and best practice are proving invaluable to the Committee.

The need for robust attraction security has been underlined by the increase in terrorism in recent years in a number of cities where Merlin operates attractions, in particular London. As the nature of the threat has evolved, we have adapted and further strengthened attraction security and overseeing these arrangements has been an important part of the Committee's work this year.

Succession planning, talent and diversity

The Board recognises that it is Merlin's extraordinary employees around the world who deliver our results. As the Group continues to grow, it is increasingly important to ensure that we are developing the next generation of talented managers to deliver our growth strategy. Overseeing Merlin's talent management and succession planning processes has therefore been an important priority for the Board this year through the work of the Nomination Committee. The Committee also focused this year on both short and long term succession planning at Board level as well as on the size, composition and range of skills that the Board requires to discharge its responsibilities effectively. The Board evaluation process in 2016 identified a number of areas where the proceedings of the Nomination Committee would benefit from further formality and the Committee has implemented these improvements this year.

Your Board is committed to ensuring we have the best person for every role regardless of gender, race, disability, sexual orientation or any other factor. In terms of gender diversity, in 2017 the Nomination Committee has actively overseen the Women at Merlin (W@M) programme which aims to give women the support and opportunities they need to achieve their ambitions and develop into senior roles. It is worthy of note that in the Hampton Alexander Report, the Merlin Board ranked highly on gender diversity, with four women Directors out of nine. We welcome this year's McGregor Smith Report and Parker Review concerning ethnic diversity and the Board will be debating further how the ethnic diversity agenda can most effectively be advanced in Merlin in early 2018.

Risk and compliance

The Board reviewed the Group's principal risks as well as the risk management framework in place to mitigate these risks during 2017, concluding that the risk management framework remains fit for purpose. One emerging area of risk is cyber security and during the year the Board carefully considered the potential impact of this threat to Merlin. The Board is focused on ensuring that adequate security measures are in place to prevent data loss and damage to our IT systems. In 2017, we commissioned an external review of Merlin's cyber security readiness and recommendations to further strengthen our resilience to an attack are being implemented. The Audit Committee has also been monitoring the steps being taken within the Company to ensure compliance with the new EU GDPR when it comes into force in May 2018.

A number of the territories in which Merlin now operates have greater propensity for incidents of bribery, and corruption. Merlin has a well established culture of 'zero tolerance' to fraud and bribery and during the year the Board reviewed and approved improvements to the Group's anti-bribery and anti-corruption policies, procedures and training, all of which have now been rolled out across the Group.

Stakeholder engagement

The Merlin Board recognises that effective engagement with all our major stakeholders is a key component of long term success. These stakeholders include our investors, employees, suppliers and customers. We need to balance the interests of these various stakeholders when making decisions and have engagement processes in place with each. Our shareholder engagement processes include frequent roadshows and shareholder meetings with investors. The Company Secretary and I met with a number of our leading shareholders in 2017 to encourage constructive dialogue. We once again launched the annual 'The Wizard Wants to Know' employee survey this year and I am pleased to report that the engagement of our staff remains very high. Our customers around the world provide real time feedback on their experiences at our attractions. This information, as well as external indicators including TripAdvisor scores, were reviewed and debated by the Board during the year.

The UK Government has announced plans to strengthen engagement further: firstly, a requirement for companies to explain how their directors have regard to stakeholder interests; secondly, proposals for strengthening stakeholder voices at Board level; and thirdly, new disclosure requirements on the ratio of CEO pay to average employee pay. The Board will be following these developments closely in 2018 with a view to strengthening stakeholder engagement still further.

Productivity

At our trading and strategy update in October, we announced that Merlin would be investing approximately £30 million in our Productivity Agenda to drive operational and back office efficiencies. By investing in systems we will generate back office efficiencies and procurement savings as the Company continues to grow. Oversight of these transformational IT investment projects, in particular the upgrading of our finance systems, a project which we call 'Finance 21' has been a key Board governance activity in 2017 and will continue to be so next year as the programmes are rolled out across the Group.

I hope this report clearly sets out how your Company is run, and how we align governance and our Board agenda with the strategic direction of Merlin. As ever, the views of shareholders on the content of this report are most welcome.

Sir John Sunderland
Chairman
28 February 2018

GOVERNANCE

BOARD OF DIRECTORS – AN EXPERIENCED, DIVERSE TEAM

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

Sir John Sunderland
Chairman
Nom*, HSS*, Rem

Nationality: British

Length of tenure
4 years 5 months

Skills and experience
Sir John has over 40 years' experience in business and is an experienced Chairman, having held the same position at Cadbury Schweppes for five years until 2008.

Sir John was previously Chief Executive Officer at Cadbury Schweppes, President of the Confederation of British Industry, a Non-executive Director at Barclays Bank plc and AFC Energy plc, a Director of the Financial Reporting Council and Chairman of Cambridge Education Group.

Current external appointments
- Chancellor of Aston University
- Adviser – CVC Capital Partners

Nick Varney
Chief Executive Officer
HSS

Nationality: British

Length of tenure
4 years 5 months

Skills and experience
With over 25 years in the visitor attractions industry, Nick was appointed Chief Executive Officer of Merlin Entertainments in 1999. He led the management buy-out from Vardon Attractions to form Merlin and took the Company through rapid expansion until its successful 2013 Listing on the London Stock Exchange.

Prior to joining Vardon Attractions, Nick held senior management and marketing positions at The Tussauds Group (then a part of Pearson plc), Reckitt & Colman and Rowntree.

Current external appointments
- Chairman of the British Hospitality Association

Anne-Francoise Nesmes
Chief Financial Officer
HSS

Nationality: French

Length of tenure
1 year 7 months

Skills and experience
With over 24 years' experience in finance across international organisations, Anne-Francoise brings a strong focus on strategy execution, M&A, process improvement and governance.

Prior to joining Merlin, Anne-Francoise was Chief Financial Officer at Dechra Pharmaceuticals PLC, where she led the expansion of its international footprint and delivered significant efficiencies through modernising finance and R&D processes.

Current external appointments
- None

Charles Gurassa
Senior Independent Non-executive Director
Nom, HSS, Audit, Rem*

Nationality: British

Length of tenure
4 years 5 months

Skills and experience
Charles has over 30 years' experience in management roles with a primary focus on the travel and tourism industry.

Notably he has been Chairman of Virgin Mobile plc, LOVEFiLM, Phones4U and TUI Northern Europe, Chief Executive of Thomson Travel Group plc, and Non-executive Chairman of Genesis Housing Association and a Non-executive Director at Whitbread plc.

Current external appointments
- Non-executive Chairman at Channel 4
- Deputy Chairman of easyJet plc
- Trustee of English Heritage and the Migration Museum
- Director of English Heritage Trading Limited

Søren Thorup Sørensen
Non-executive Director

Nationality: Danish

Length of tenure
4 years 5 months

Skills and experience
Søren has over 25 years' experience in finance and has held several senior finance and executive positions, most notably Partner, Chief Financial Officer of A.P. Moller – Maersk Group and Managing Partner of KPMG Denmark.

Current external appointments
- Chief Executive Officer of KIRKBI A/S and KIRKBI Estates Limited
- Chairman of the Board of Boston Holding A/S
- Non-executive Director of LEGO A/S and Falck Holding A/S

Ken Hydon
Non-executive Director
Nom, Audit*, Rem

Nationality: British

Length of tenure
4 years 5 months

Skills and experience
Ken has over 40 years' experience working in the electronics, retail, consumer products and healthcare sectors and brings valuable finance and business experience to the Board.

Ken was formerly Chief Financial Officer of Vodafone Group plc until his retirement in 2005.

Current external appointments
- Non-executive Director of Reckitt Benckiser Group plc

Fru Hazlitt
Non-executive Director
Nom, HSS, Rem

Nationality: British

Length of tenure
3 years 11 months

Skills and experience
Fru brings a wealth of experience in sales and marketing with over 20 years within the media sector.

Fru was formerly Managing Director, Commercial, Online and Interactive at ITV, and previously Chief Executive Officer at GCap Media plc and Virgin Radio.

Current external appointments
- Deputy Chair of Downe House School
- Chair of Downe House Foundation
- Non-executive Director at Channel 4

Trudy Rautio
Non-executive Director
Audit, Rem

Nationality: American

Length of tenure
2 years 5 months

Skills and experience
Trudy has over 20 years' experience in the hospitality and travel industry.

Trudy held several senior executive positions with Carlson, having served as Executive Vice President, Chief Financial and Administrative Officer and finally Chief Executive Officer until her retirement in 2015.

Current external appointments
- Member of the Board of Directors for Cargill, The Donaldson Company, Inc., and Securian Holding Company

Rachel Chiang
Non-executive Director
HSS, Audit

Nationality: Chinese

Length of tenure
2 years 2 months

Skills and experience
Rachel has over 24 years of private equity investment experience in Asia with a focus on the retail and consumer sector.

Rachel brings significant knowledge and experience of the Asia Pacific market, a key area of focus in Merlin's future development.

Current external appointments
- Managing Partner and founding member of the private equity activities of Pacific Alliance Group (PAG)
- Non-executive positions with Sands China, Pacific Century Premium Developments (PCPD) and Goodbaby International Ltd

Diversity
Female representation

44%

Nationalities

5

Tenure – since IPO in November 2013

Committee memberships:

Nom – Nomination Committee

HSS – Health, Safety and Security Committee

Audit – Audit Committee

Rem – Remuneration Committee

* Chair of Committee

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Function of the Board

The Board has overall responsibility for overseeing the management of the Company in the following areas:

THE BOARD

- Overseeing strategy, management and approval of major policies
- Determining capital structure
- Maintaining the system of internal controls and risk management
- Approval of the annual capital expenditure budget, major capital projects and strategic transactions
- Effective communication with shareholders and managing investor relations
- Reviewing recommendations from Committees including:
  - Board membership
  - Board and senior management remuneration
  - Succession planning

BOARD COMMITTEES

Nomination Committee

Assists the Board in discharging its responsibilities in relation to the composition of the Board

Further details can be found on page 58

Health, Safety and Security Committee

Ensures that health, safety and security matters are managed effectively and proactively

Further details can be found on page 59

Audit Committee

Assists the Board in discharging its responsibilities in relation to financial reporting controls, risk management and external and internal audit

Further details can be found on page 61

Remuneration Committee

Assists the Board in discharging its responsibilities in relation to remuneration

Further details can be found on page 66

EXECUTIVE COMMITTEE

- Chaired by the Chief Executive Officer
- Responsible for day-to-day operations and the development of strategic plans for consideration by the Board
- Comprises the Chief Executive Officer and senior management

NON-BOARD OPERATIONAL COMMITTEES

COMMERCIAL AND STRATEGIC RISK MANAGEMENT COMMITTEE

Oversight and guidance on management of commercial and strategic risk

DEVELOPMENT BOARD

Appraisal of significant capital expenditure and development projects

	The Board	Nomination Committee	Health, Safety and Security Committee	Audit Committee	Remuneration Committee
Number of meetings held	**7**	**2**	**4**	**5**	**3**
Sir John Sunderland	7	2	4	N/A	3
Nick Varney	7	N/A	4	N/A	N/A
Anne-Francoise Nesmes	7	N/A	4	N/A	N/A
Charles Gurassa	7	2	4	5	3
Ken Hydon	7	2	N/A	5	3
Fru Hazlitt	7	2	3(1)	N/A	3
Trudy Rautio	7	N/A	N/A	5	3
Rachel Chiang	7	N/A	4	5	N/A
Søren Thorup Sørensen	7	N/A	N/A	N/A	N/A

(1) Adverse weather conditions prevented Fru Hazlitt from travelling to the UK to attend the December 2017 meeting and there was no opportunity for her to join the meeting by telephone.

Board composition and meeting attendance

During the year the Board membership remained unchanged, which enabled us to further consolidate best working practices, policies and procedures.

A full list of the Board and Committee Directors who served during the year and their attendance is set out in the table above. It also shows the number of meetings individual Directors could have attended and their actual attendance.

Directors are provided with all the papers and information relevant to the meeting even if they are unable to attend and are encouraged to discuss any issues directly with the Chairman and Executive Directors.

Board membership and the UK Corporate Governance Code

The Code recommends that a UK listed company's Chairman be independent on appointment. The Chairman was appointed in December 2009. The Board considers that the Chairman was independent on appointment and remains so. The Chairman's role is to ensure good corporate governance.

The Code recommends that at least half the members of the Board of Directors (excluding the Chairman) of a UK listed company should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Board has concluded that, for the purposes of the Code, Charles Gurassa, Ken Hydon, Fru Hazlitt, Trudy Rautio and Rachel Chiang should be regarded as independent Non-executive Directors. Although Mr Gurassa previously served on the board of Tragus Group Limited (formerly a portfolio company of Blackstone, which was a shareholder in the Company until March 2015), the other Directors have concluded that this relationship did not have any effect on the independence of Mr Gurassa. KIRKBI presently holds 29.72% of the issued share capital of the Company and accordingly the Non-executive Director representing KIRKBI (Søren Thorup Sørensen) is not regarded as independent for the purposes of the Code.

Accordingly, the Board considers that, throughout 2017, the Company was in full compliance with the recommendation of the Code concerning the balance of independent Non-executive Directors on the Board.

How we run the Board

The Board oversees the management of the Group's activities, including the implementation of the Group's commercial strategy and long term plans. In addition, the Board provides leadership to Merlin, setting the key values by which the Group operates. The Board has a formal schedule of matters reserved for its approval which includes major expenditure, investments and key policies. The schedule of reserved matters is reviewed regularly to ensure it is kept up to date.

The majority of meetings of the Board and its Committees are held in London, with the aim to hold one meeting each year at an operating location and one other at Merlin's head office in Poole. The Board meets a minimum of seven times a year and has a well-established programme of meetings.

The Company Secretary prepares the agenda for the Chairman's approval, in consultation with the Chief Executive Officer and the Chief Financial Officer. Papers to be presented to the Board for review are prepared by the appropriate member of the Executive Committee or other senior members of staff. Board members usually receive Board papers seven days prior to meetings in order to give them adequate time to study and consider the documents.

The Chief Executive Officer and Chief Financial Officer attend all of the Board meetings, and present the papers on operational and financial matters. At every meeting, the Board considers the following standing agenda items:

- Chief Executive's Report
- Financial Report (including budget and strategic plan once a year)
- Board Committee Reports
- Project approvals
- Risk
- General Counsel Report

In addition to the above, investor relations (quarterly) and post-investment appraisals (half-yearly) are considered by the Board. Updates by each of the divisional Managing Directors and heads of function are presented once a year. The Board also holds a strategy day once a year.

Between Board meetings, Directors are provided with information on important developments and issues such as:

- Reports on safety and serious incidents.
- Important developments regarding projects or transactions.

Directors have the right to raise concerns at Board meetings and can ask for those concerns to be recorded in the Board minutes. The advice and services of the Company Secretary (whose appointment and removal is a matter reserved for the Board) are also available to the Directors. The Group has also established a procedure which enables, in relevant circumstances, Directors to obtain independent professional advice at the Company's expense.

Board evaluations

During the year, externally facilitated evaluations were undertaken of the effectiveness of the Board, its Committees, the Chairman and individual Directors. These evaluations were facilitated by Prism Cosec, who are independent of the Company and also advise the Company from time to time on company secretarial compliance matters. The evaluations involved the completion of questionnaires by all Directors, the compilation of reports on the Board and each of its Committees by Prism Cosec and discussions between the Chairman and Company Secretary and the Chairman and individual Directors. The performance of the Chairman was evaluated by the Non-executive Directors, led by the Senior Independent Non-executive Director.

GOVERNANCE

CORPORATE GOVERNANCE REPORT (CONTINUED)

The outcome of the evaluations was very positive and no major concerns were identified. A number of minor areas were identified for further improvement, including:

- suggestions were made for improving the format of the annual strategy day;
- although the culture of the Board and in the business is strong, the Board might usefully monitor and assess the culture of the organisation more explicitly in 2018; and
- a refreshed training programme meeting the changing development needs of the Board should be rolled out in 2018.

In addition to the Board results, the outcomes of the individual Committee evaluations were also positive and no major areas of concern were raised. An action plan addressing these areas of feedback will be implemented during the year.

In 2017, the Board implemented an action plan to address the findings of the Board evaluation review conducted in 2016. This plan included a Board presentation on the industry and competitor landscape, more regular communications with the Board on key issues outside formal Board meetings, further formality being brought to the workings of the Nomination Committee and the appointment of an external health and safety expert as adviser to the Health, Safety and Security Committee.

Formal reviews of the internal audit function and external auditors, led by the Audit Committee, were also conducted during the year and these concluded that both internal audit and the external auditors remain effective.

Shareholders and share capital

Major shareholdings

As at 27 February 2018, the latest practicable date prior to the date of this Annual Report and Accounts, the Company had been notified pursuant to DTR5 of the following interests in the Company's total voting rights as shown in the table above.

Name of shareholder	Number of ordinary shares	% of issued share capital	Nature of holding (Direct/Indirect)
KIRKBI Invest A/S	302,971,529	29.72	Direct
BlackRock Inc	Not known	<5.00	Indirect
The Wellcome Trust	51,788,240	5.08	Direct
ValueAct Capital Management, L.P	54,700,000	5.40	Indirect
GIC Private Limited	Not known	<3.00	Indirect
Marathon Asset Management LLP	51,147,937	5.02	Indirect

KIRKBI/LEGO relationships

A Licence and Co-operation Agreement (LCA) 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.

A Relationship Agreement was entered into on 30 October 2013 with KIRKBI and remains in force. Under this agreement, KIRKBI is entitled to appoint one Director to the Board while KIRKBI (together with its respective affiliates) holds at least 10% of the Company's issued share capital. KIRKBI may appoint an observer (with the right to attend and speak but not vote) to the Board and each of the Audit Committee, Remuneration Committee and Nomination Committee.

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). During the year, in connection with the Company's employee share incentive plans, 3,763,183 ordinary shares of one pence each were issued.

Share capital and related matters

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

Directors

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, 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.

Significant contracts

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

Financial reporting and external auditors

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 to ensure 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 to identify matters for inclusion and a series of specific reviews undertaken by a dedicated Disclosure Committee of senior managers.

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 2018 Annual General Meeting. 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.

Contractual matters

Change of control

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.

Significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, are:

- The LCA, only in the circumstances described on page 56.
- A Multi-currency Facilities Agreement entered into by the Group dated 25 February 2015 which includes provisions in relation to a change of control or the sale of all or substantially all of the Group's assets, the occurrence of which will, after a negotiation period, give the lenders under the Agreement the right to accelerate outstanding loans and terminate commitments. The outstanding senior unsecured facilities comprise £250 million and $540 million in floating rate term debt and a £300 million revolving credit facility, both to mature in 2020.
- An Indenture dated as of 19 March 2015 in relation to an issue of €700 million 2.75% fixed rate notes due in 2022 (the notes) under which, in the event of a change of control of the Company and a ratings event, the holders of the notes may have the right to require that those notes be repurchased at 101% of their principal nominal amount plus any accrued and unpaid interest.

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

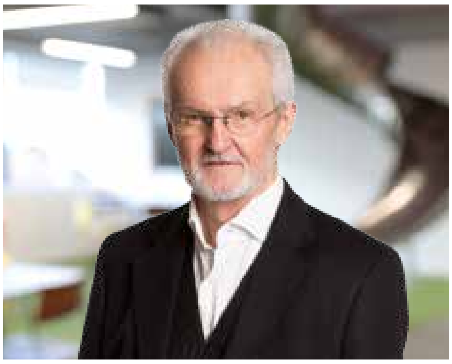
SHAREHOLDER ENGAGEMENT

The Company places considerable importance on communication with shareholders and has a dedicated investor relations team to facilitate the exchange of information and feedback between shareholders and shareholder representative bodies and the Company.

Website and shareholder communications	The Company's corporate website is regularly updated with news and information, including its Annual Report and Accounts, which set out our strategy, operating model and performance together with our plans for future growth. Our presentations to analysts and shareholders are also available on the Company website. Merlin's 2018 financial calendar is set out on page 154.
Roadshows, shareholder meetings and feedback	The investor relations team manages a programme of regular meetings in which existing and potential investors are provided with information on the financial and trading position of the Group. Views of investors are shared regularly with the Board, enabling the Non-executive Directors in particular to appreciate and discuss the views of shareholders.
Consultation and engagement	During the year the Chairman and the Company Secretary met with a number of our leading shareholders to encourage full and constructive dialogue. The Senior Independent Non-executive Director was available to meet with any major investors to discuss any concerns that could not be resolved through normal channels. The Chief Executive Officer and Chief Financial Officer also meet with analysts, hold conference calls after the production of reports and participate in roadshows after preliminary and half year results are announced.
Results and routine announcements	All our results and routine announcements are uploaded to the London Stock Exchange (via the Regulatory News Service system), and our corporate website.
Annual General Meeting	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.

GOVERNANCE

NOMINATION COMMITTEE REPORT



Dear Shareholder

I am pleased to present the Nomination Committee's report for the year ended 30 December 2017.

The main purpose of the Nomination Committee is to ensure Merlin has the right people in the right place at the right time across the Group. Not only is this important to each operating division, it is also applicable to the Board itself and its ability to deliver shareholder value and safeguard the interests of other stakeholders.

The Nomination Committee must satisfy itself whether the Board has the right balance of skills, knowledge and experience to support and challenge management. It is also important that the Board are sufficiently independent, demonstrate perspective and understand the governance issues which exist in the operation of a large international company.

The Nomination Committee continues to develop and propose recommendations to the Board regarding the policy on diversity. It is important that the Board sets the tone for the rest of the Group on matters of diversity and I am pleased to confirm that we have 44% female representation on the Board, which exceeds the 2020 target for FTSE 350 companies approved by the UK Government in 2015. The Nomination Committee's remit is also to ensure diversity is not only gender focused but also addresses ethnicity, country of origin and disability.

The Committee continues to review the composition of the Board and its Committees together with succession planning for the executive management team. The Committee also oversees the pipeline of emerging talent within the Company to ensure we are developing the next generation of managers to deliver our long term strategy.

During 2017, there were no changes to the composition of the Committee. The external effectiveness review confirmed the Committee remains effective.

Sir John Sunderland
Chairman of the Nomination Committee
28 February 2018

The role of the Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities in relation to the composition of the Board as set out below:

- 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.

Appointment and removal of Directors

The Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation, with regard to the appointment and replacement of Directors. Specific details relating to KIRKBI and their rights to appoint Directors are set out in the Corporate Governance Report on page 56.

Annual General Meeting (AGM) elections and re-elections

With the exception of Ken Hydon, who has confirmed his retirement and will not stand for re-election, all Directors will retire in accordance with the UK Corporate Governance Code and each will offer themselves for re-election in accordance with the Articles of Association at the 2018 AGM.

In proposing their re-election, the Chairman confirms that the Nomination Committee has considered the formal performance evaluation in respect of those Directors seeking re-election, and the contribution and commitment of the Directors that are required to offer themselves for re-election. He has confirmed to the Board that their performance and commitment is such that the Company should support their re-election.

HEALTH, SAFETY AND SECURITY COMMITTEE REPORT

Dear Shareholder

Merlin delivers millions of safe experiences to its guests every year, underpinned by a passion to deliver industry leading health, safety and security standards, a rigorous safety culture and complete commitment from management and staff. The Health, Safety and Security (HSS) Committee assists Merlin's Board of Directors govern the safe management of HSS risks across the Group. This report describes the work of the Committee during 2017 and how it discharged its obligations.

Strengthened HSS governance

In 2016, the Committee commissioned an independent review of the Company's corporate governance arrangements for HSS. Whilst governance arrangements at Board and Executive Committee level were considered to be sufficiently robust, the Committee felt that its function could be further strengthened and supported through the appointment of an independent adviser. In 2017, an HSS specialist, with experience in high-hazard industries, was therefore appointed to assist the Committee by providing independent oversight and challenge, as well as further advice and support.

Best practice benchmarking

The Committee believed it was important to look outside of the sector to understand how other leading organisations manage safety-critical and high-hazard/low-frequency accident risks. In 2017 the Company has therefore established partnerships with three leading organisations in their respective sectors: aviation, rail and health services. Initial benchmarking and best practice sharing has occurred on topics ranging from Behavioural Safety to Safety Critical Maintenance Management.

Industry safety standards

Merlin continues to support the development of international standards that are applicable to the sector – especially on ride safety. Our membership of Technical Committees, including those for ASTM (US/Global), EN (EU) and British Standards, allows for our knowledge and learnings to be incorporated in new or revised sector standards.

In 2017, Merlin has contributed to the authoring of a revised UK Standard (HSG175), the revision of the European Standard (EN 13814) and the production of a brand new International Standard (ISO 17842) pertaining to ride safety. Merlin now also sits on the ASTM F24 series Technical Committee governing ride design, maintenance and operation.

Applied learnings

Following the 2016 independent review of ride safety by the global risk management consultancy DNV GL, the Committee can report that good progress has been made in 2017 to complete the great majority of the suggested recommendations and thereby enhance the Company's internal processes. The remaining activities are scheduled to be closed out in 2018.

UK regulator audits

Following some high-profile theme park and fairground accidents in the UK over the past few years, the UK enforcement authority, the Health and Safety Executive (HSE), has embarked upon an enhanced programme of inspections and audits across the sector.

In 2017, THORPE PARK and Alton Towers Resort were both subject to a regulatory audit by the HSE. These comprehensive examinations scrutinised our safety and maintenance practices and procedures, specifically in relation to multi-car roller coasters. The Committee was pleased to learn that the HSE found no material issues and indeed commented positively on our safe systems of work.

Security and terrorism

2017 was a disturbing and challenging year due to multiple terrorist attacks in cities where Merlin operates. Whilst already adopting robust security arrangements prior to such incidents, the Company nevertheless has taken further action to enhance both our active and passive security protocols in order to maintain the integrity of our physical boundaries and our operations and assets within. As the types of threats and risks evolve, the Company will continue to work closely with local police and governmental security agencies to ensure appropriate intelligence is shared and attraction based security protocols remain suitable, proportional and robust.

Sir John Sunderland
Chairman of the HSS Committee
28 February 2018

GOVERNANCE

HEALTH, SAFETY AND SECURITY COMMITTEE REPORT (CONTINUED)

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

1. To oversee the Group's policies and procedures for ensuring the HSS of guests, employees, contractors and operating assets.
2. To monitor the Group's processes for identifying and managing risks.
3. To monitor the skills, effectiveness and levels of resource within the Group's HSS teams.

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

In December 2017, Committee members undertook a familiarisation site visit to one of the Company's UK theme parks. The Committee was particularly keen to learn more about engineering practices during the deep maintenance winter period and the associated independent inspections conducted by the Appointed Inspection Body. Committee members observed and scrutinised ride strip-down arrangements, in-service inspections and non-destructive testing, repair and replacement procedures, and the process for functional testing following the re-assembly of a ride.

Effectiveness review
During the year an external effectiveness review of the Committee took place, based on a questionnaire sent to Committee members, all other attendees and the Board. It covered a broad range of matters including the Committee's scope; organisation and meetings; the quality of debate at Committee meetings; and leadership. The results showed the Committee to be effective. A small number of improvement areas were noted which we will address in 2018.

Details of the Committee's membership, together with the frequency of and attendance at meetings, are outlined on pages 52 to 57.

Strategic HSS vision and initiatives
At the start of 2017 the Committee was pleased to endorse the Company's new Strategic HSS Vision and supporting strategic initiatives. The vision sets out the Company's philosophy with regard to ensuring the safety and well-being of our guests, employees and contractors. To support this vision the Company has also set out its core HSS strategic initiatives and how these must direct and focus all future efforts in a manner that is both systematic and progressive.

To help communicate these to our key internal and external stakeholders, the Committee advised on and subsequently endorsed a new informative brochure – 'Protecting the Magic – a Guide to Health, Safety and Security at Merlin Entertainments'. This document is available via our corporate website and the 'Protectingthemagic.com' website.

Action planning and HSS focus areas
To ensure a consistent HSS approach across the Group's global attraction portfolio, a structured and formulaic HSS action plan template was considered and endorsed by the Committee and subsequently cascaded out across the business.

The Company's global HSS team support the attractions in addressing the required actions and focus areas. The sufficiency of such HSS resource was monitored during the year by the Committee.

Hotel fire safety review
Following the tragic Grenfell Tower fire in the UK in the summer of 2017 the Committee asked for a due diligence review to be initiated into the suitability of fire safety practices, procedures and construction standards across the hotels operated by the Company.

This review was completed by internal HSS professionals together with specialist engineering support from third party consultancies. The Committee was pleased to learn that no significant issues were found. A number of opportunities for improvement were however identified, which are being implemented.

'Triple Lock' assurance
Following scrutiny and endorsement by the Committee, the Company introduced a new 'Triple Lock' HSS assurance programme from the start of 2017. The programme comprises annualised self-audits by each attraction, independent internal audits by a new and dedicated team of HSS auditors and periodic external audits by a specialist risk assurance organisation.

The Committee monitors findings and trends arising from the independent internal audit programme. In particular, the Committee has monitored the status of improvement actions identified in these audits to ensure they are addressed within the pre-set time periods.

Operational and use risk assessments
The Group rolled out updated processes and arrangements in 2017 to provide a more structured methodology for the completion of Operational and Use Risk Assessments.

The initial focus has been to adopt these enhanced practices for all new ride projects and the intention is that the same innovative processes will be applied to all new hotel and attraction projects in the future.

The Committee welcomed and endorsed these new arrangements in 2017. The Committee believes they will foster earlier assessment of safety risk in project timelines and greater collaboration between key multi-functional departments associated with each project.

Performance monitoring
The Committee regularly reviews HSS performance, including near-miss and incident reporting, focusing on performance against the Group's defined leading and lagging indicators. In addition, the Committee also examined qualitative information and data pertaining to incidents that occurred both within the Company and also those that have occurred across the wider sector.

The Company's HSS performance information for 2017 is reported on page 46.

Safety training and competency of staff
During 2017 the Company further enhanced its safety competency policies for staff involved in ride operations and ride engineering. These policies set clear and prescriptive minimum standards in relation to the recruitment and selection of staff in these two key functions, their induction and role-specific training needs, the triggers for refresher training, the ongoing assessment of competency and the monitoring of employee performance.

In 2017 the Company collaborated with third party associations and the UK Government to establish a new engineering apprenticeship scheme for the leisure and entertainment sector. The Committee oversaw this initiative, believing it is an important step in ensuring a pipeline of new engineering talent is attracted to working in UK theme parks and other leisure businesses.

Merlin Safety Week
The Committee encouraged and supported the creation of Merlin's inaugural Safety Week in May 2017. This initiative provided an excellent opportunity, just ahead of the peak trading season for many attractions, to enhance employee engagement and reinforce the Company's strong safety culture.

The week proved to be particularly popular, engaging and informative. Given the benefits created, Merlin Safety Week will now become an annual event across the Company.

AUDIT COMMITTEE REPORT

Dear Shareholder

On behalf of the Board, I am pleased to present the Audit Committee (the Committee) Report for the financial year ended 30 December 2017.

Our work is organised around a standing agenda of matters to be examined through the annual cycle supplemented by focused reviews on selected topics. During the year these reviews covered financial and IT risks, including the steps being taken with regard to EU GDPR, as well as discussions on certain operational areas highlighted through the work of internal audit.

In performing these reviews we considered the controls by which the related risks were managed to ensure they were appropriately addressed in the Group's processes. The Committee appreciated the open engagement of management.

The Committee concentrated on the following areas which are covered in more detail in this report.

Committee membership and effectiveness

The external effectiveness review confirmed that the Committee is effective, underpinned by the Committee's deep financial and international business experience, particularly in customer facing and consumer businesses.

Risk management and internal control

The Committee is satisfied that the Company has appropriate systems and procedures to identify, evaluate and manage material risks to the business. In reaching this conclusion the Committee has reviewed the Group's principal risks and uncertainties (as set out on pages 37 to 39) and is satisfied the Company is addressing them appropriately within its operating model, delivered through its three Committees: Health, Safety and Security; Commercial and Strategic Risk Management; and Audit.

Financial reporting

I can confirm that the Committee advised the Board that we were satisfied the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

Two elements of the financial statements are potentially complex or higher risk, so required the Committee's careful attention:

- Asset valuation and impairment testing: we reviewed management's estimates of future trading and the calculations performed, together with the disclosures in the financial statements, especially with regard to sensitivity analysis.
- Revenue recognition: we considered the Group's current accounting processes and the new accesso® ticketing system, bearing in mind the Group's predominantly 'cash-based' business model.

We also monitored the Company's preparations for new accounting standards:

- For many businesses, IFRS 15 'Revenue', which became effective at the start of 2018, will have a noticeable impact. At Merlin, the Group's relatively simple business model means this area is less complex, so we do not believe it will significantly change either our accounting processes or the way revenue is reported.
- IFRS 9 'Financial instruments' is also effective in 2018. Given the nature of the Group's financial instruments and having reviewed in particular its investments, we do not envisage significant change arising from implementing this new standard.
- IFRS 16 'Leases' becomes effective in 2019. Merlin's business model means the Group has numerous leases, renting substantially all of its Midway properties, as well as land, buildings and infrastructure at certain of its theme parks. The new standard therefore has a significant impact and accordingly a project to manage its implementation has been ongoing for some time. The conclusions drawn are that, given the lease portfolio is relatively 'low volume, high value', we would expect the 'fully retrospective' approach to be adopted.

When providing the Board with reassurance on the financial statements, the Audit Committee also reviews the going concern and Viability Statements, including how the Group assesses its longer term solvency and liquidity within its business plans. For the Viability Statement, we agreed the stress testing parameters together with the period over which the assessment was made. The Viability Statement can be found on page 39. The going concern statement is on page 88.

We noted that the FRC's Corporate Reporting Review team raised no significant issues in their compliance review of our 2016 Annual Report and Accounts. Their specific comments were in relation to certain technical disclosures within the financial statements section which the Group has considered when completing this year's Annual Report and Accounts.

Internal and external audit

Independent and effective auditors are key elements of our internal control framework. We assessed both the internal and external audit functions in the year and found both to be effective.

- The internal audit plan is risk based and provides appropriate coverage of the Group's operations. We are satisfied with the content and quality of both reporting by the team and management responses.
- We are satisfied with KPMG's ongoing performance and their approach to the audit. Their work makes an important contribution to the integrity of the Group's reporting and again this year we have received a clean audit opinion. Given the requirement to retender the audit no later than for the 2023 financial year, the Committee is mindful that the next regular KPMG partner rotation is after the 2019 audit.

Looking forward

I have decided to retire from the Board so will not be standing for re-election; therefore this is my final report as your Audit Committee Chairman. I have enjoyed my time at Merlin and as Chair of the Audit Committee, and am grateful for the enthusiastic and diligent support of the Committee.

I am delighted Trudy Rautio has agreed to take over from me as Trudy has brought a lot to the Committee since joining it two years ago, and I wish her well.

Ken Hydon
Chairman of the Audit Committee
28 February 2018

GOVERNANCE

AUDIT COMMITTEE REPORT (CONTINUED)

The role of the Audit Committee

In 2017
An external effectiveness review confirmed the Committee continues to be effective.

The Committee's responsibilities are as set out in its terms of reference, available on the Company's website and summarised below.

Risk management and internal control

- To review and report on the effectiveness of the Company's internal financial controls and the overall risk management framework.
- To review the Company's arrangements for its employees to raise concerns through its whistleblowing and fraud policies.

Financial reporting

- To monitor the integrity of the financial statements of the Company and report to the Board on significant financial reporting issues and judgements.
- To consider whether the Company's financial statements are 'fair, balanced and understandable'.
- To consider the processes supporting the assessments that underpin the Viability Statement.

Internal and external audit

- To monitor and review the effectiveness of the Company's internal audit function.
- To propose and select the external auditors and then to oversee their performance and independence.

These responsibilities form the basis of an annual programme of work. Whilst performing their work, the Committee is kept abreast of any changes in governance, legislation and guidance.

Membership and meetings

Details of the Committee's membership and meetings are outlined on pages 52 to 57. Of the current Committee members, Ken Hydon and Trudy Rautio both have recent and relevant financial experience. All of the Committee members have relevant experience in relation to the sector or markets the Group operates in and all bring a variety of commercial experience. The CFO and other key members of management routinely attend meetings, as do other members of senior management depending on the matter under discussion. The Chairman and the CEO attended most of the meetings in the year. Private meetings are routinely held with internal audit and KPMG. The Committee also meets privately after each meeting. Committee meetings usually take place ahead of Board meetings with a summary of matters discussed provided to the Board at the following meeting.

Effectiveness review

During the year an external effectiveness review of the Committee took place. 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. The results showed the Committee to be effective, with a small number of procedural improvements that could be made which the Committee will address in 2018.

Risk management and internal control

In 2017
The Committee concluded that Merlin operates appropriate processes to assess the internal control environment and that controls are in place to mitigate financial process risk.

The Board retains overall responsibility for the Company's internal controls and has delegated responsibility to the Committee in two specific areas.

1. **Monitoring the management of financial process risk**

   The internal control and risk management section on pages 34 and 35 shows how Merlin separates its oversight of risk management into three risk areas: health, safety and security; commercial and strategic; and financial process.

   For financial process risks, management remain responsible for establishing and maintaining adequate internal controls that are designed to manage, rather than eliminate, such risks. Management, the Audit Committee and the Board monitor the outcomes of the three levels of risk management activity and assurance as set out below.

   - Level 1 – documented delegated authority limits and purchasing and sale price approval levels in place across the Company.
   - Level 2 – frequent and regular review processes of trading performance together with detailed capital investment and strategic planning processes.
   - Level 3 – self-assessment including quarterly self-certification by business unit finance heads.

2. **Overseeing the overall risk management process**

   During the year the Committee reviewed Merlin's overall risk management framework. At the end of the year the Company's risk management structure and processes, together with the methodology by which risk matters raised are brought to the attention of the Board, were examined and it was concluded that risks were being appropriately addressed. The Group's risk management structure and principal risks are shown on pages 34 to 39.

Internal audit reviews the Group's risk management and internal controls with the support of specialist experts as appropriate. The annual risk based internal audit plan is developed in conjunction with management, and approved by the Committee. Internal audit results and management responses are then discussed and challenged at each Committee meeting. The Committee reviews management actions in response to significant findings and looks at the root cause of consistent themes emerging across the Company. 'Deep dive' assessments are performed where necessary and in 2017 these related to future finance systems, tax and treasury matters.

External audit reviews the control environment and financial statements. KPMG present their view of Merlin's control environment at the December meeting, following their audit of such processes in the fourth quarter. KPMG contribute to all the regular Audit Committee meetings.

Whistleblowing systems and fraud/bribery mitigation

The Company has a good culture of encouraging its staff to report incidents of poor practice. This is reinforced through the work of internal audit and local profit protection teams, a summary of whose work is reviewed by the Committee.

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

Financial reporting

In 2017

We concluded that the financial statements appropriately address amounts reported and disclosures, together with any significant judgements and estimates.

The two significant areas for review, asset valuation and revenue, were appropriately scrutinised by the Committee throughout the reporting cycle.

The Committee considered and approved the Group's going concern review and viability assessment.

We reviewed the Group's impact assessments and implementation plans for forthcoming new accounting standards, notably those for revenue accounting, leasing, and financial instruments.

2017 significant focus areas

The two significant areas for review, asset valuation and revenue, were appropriately scrutinised by the Committee throughout the reporting cycle.

1. The valuation of assets and impairment

The Committee is satisfied that no impairment is required and that the presentation and disclosures in the financial statements are appropriate and adequate. This follows detailed reviews of the basis of management's calculations and the findings of the external audit.

Merlin operates in geographically and politically diverse areas, and the Group's acquisitions have resulted in significant balances of goodwill and intangible assets. In addition, the Group's ongoing strategy includes opening attractions under both existing and new brands, often in locations that are new to the Group and therefore, to some degree, unproven. While the Group has accumulated experience of opening many attractions around the world, the performance of additional attractions, particularly in new markets, can be difficult to predict.

As set out in note 3.3 to the financial statements, valuations are performed based on forward looking discounted cash flow forecasts and other market data which are inherently judgemental in nature. Management's detailed papers to the Committee set out the methodology, judgements and estimations adopted to test the value of assets, and the disclosures proposed for the Annual Report and Accounts.

The papers considered the valuation of goodwill at an Operating Group level, individual brands and specific property, plant and equipment. For each item, 'value in use' and 'fair value' calculations (using an appropriate EBITDA multiple) were provided. Specific focus was given to Resort Theme Parks Operating Group goodwill, where the risk is significant. For this asset, the Committee focused on how the 'value in use' of assets is calculated, which involves judgements of forecast cash flows, discount rates used and the calculation of an asset's terminal value.

In reviewing these valuations we considered the range of potential future trading outcomes, taking into account management's growth forecasts together with appropriate sensitivity analysis which reflect the risks inherent in these forecasts. In appraising the sensitivity analysis performed, the Committee considered recent trading results which have particularly been affected by adverse weather and terrorism and the reflection of the possible continuation of these factors in the downside sensitivities and related mitigations presented.

2. Revenue recognition

The Committee has considered the roll out of the accesso® admissions system together with existing revenue recording systems. In both areas the Committee considered the internal controls in place and concluded that they remain effective.

Revenue is generated by high volumes of low value transactions in numerous jurisdictions across the world. Although Merlin's revenue accounting policies require limited judgement compared to some other sectors, the accuracy of financial reporting relies on robust internal controls over cash reconciliations and accurate cut-off at the reporting date in respect of advanced sales or payments in arrears by trade customers.

During the year the Company continued its roll out of the accesso® admissions system across the Group under the guidance of a senior steering group. This group is chaired by the Group's Chief Information Officer, and includes the CFO and other members of the Group's senior finance team. The project roll out team includes finance resource that is responsible for designing and implementing appropriate financial processes and controls.

The new system is being used to transact an increasing proportion of the Group's admissions revenues with completion targeted for 2018. During the year the Committee received regular updates on the progress of the project together with the identification and subsequent resolution of issues that arose.

Going concern and viability review

In reviewing and approving the going concern and Viability Statements (see pages 88 and 39 respectively), we focused especially on the appropriateness of the key judgements, assumptions and estimates underlying the Company's plans together with a review of compliance with key financial covenants.

For the viability assessment we considered the outlook period in the context of the Group's business plan, its planned capital investment cycles, new business development plans and potential uncommitted capital projects and acquisitions. Accordingly we concluded that the four year outlook period adopted in our strategic planning processes is appropriate.

We considered the key risks identified by the Group (as set out in the Principal Risks section on pages 34 to 39) and any mitigating controls. This process enabled the Committee to assess whether any material residual risks remained that could pose a significant threat to the viability of the business as a whole. The risks identified were those relating to safety incidents and the impact of acts of terrorism or sabotage. The Committee then reviewed appropriate sensitivity analyses in severe yet plausible scenarios that were performed to assess the possible impact of these risks and the Group's resilience to them through controls and mitigating actions that could be taken.

New accounting standards

The Committee reviewed the impact and disclosures in the Annual Report of new accounting standards that are yet to become effective. The most significant of these are as follows:

- IFRS 15 'Revenue from contracts with customers' is effective from the 2018 accounting period. The Committee has considered the potential impact in the context of the Company's primarily 'cash-based' business model and the nature of the Company's revenue transactions and has concluded that the impact of IFRS 15 on the Group's financial results will be low.

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AUDIT COMMITTEE REPORT (CONTINUED)

- IFRS 9 'Financial instruments' is effective from the 2018 accounting period. The new standard is not expected to materially change reported balances due to the nature and quantum of the balances held by the Group.
- IFRS 16, the new standard on leasing, is effective from 2019. This will bring on balance sheet substantially all of the Group's property leases and will have a significant impact on the Group's financial procedures and reporting. Accordingly, a specific transition project is in progress. The initial focus has been to consider the Group's approach to transition and we expect to adopt the 'fully retrospective' approach allowed by the standard. Substantially all of Merlin's lease commitments are in respect of property and infrastructure at its attractions and the lease portfolio is therefore of a relatively 'high value, small volume' nature. This means that the more onerous historical analysis required by this transition approach is manageable.

FRC review

During the year the FRC's Corporate Reporting Review team reviewed the 2016 Annual Report, noting certain technical disclosure areas within the financial statements section. The Committee discussed the findings with KPMG and concluded that they were not significant. The Group has considered these findings when completing this year's Annual Report.

The FRC's review provides no assurance that the report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Other matters

The Committee also reviewed other matters in relation to the Company's financial statements. In doing so they took into account recent developments in corporate reporting and particular topical matters. The reviews covered:

- The half year and full year financial statements.
- Disclosures in the Annual Report and Accounts in relation to internal control, the risk management process and the work of the Committee.
- The Group's use and description of alternative performance measures within its financial reporting.
- Those areas of the Group's financial reporting considered to have required most judgement or the use of estimates, where the disclosures in this year's financial statements have been expanded in line with the FRC's recent guidance.
- The tax position of the Group, in particular the effective tax rate and the recognition of deferred tax assets.
- Key assumptions in relation to defined benefit pension schemes.
- Technical updates, in particular in relation to the requirements of and changes to the Code.
- The Audit Committee's report in the context of the Code's requirement for 'fair, balanced and understandable' reporting.
- Recoverability of the parent Company's investment in and inter-group receivable balances with subsidiaries.

Internal and external audit

In 2017
Following extensive review processes, the Committee considered that the internal and external audit functions were both effective.

The internal and external audit functions are important parts of the 'third line of defence' in terms of maintaining an effective internal control environment within the Company. The Committee oversees both functions to ensure they are independent and effective.

Internal audit

The Company's internal audit function, which has dual reporting lines to both the Chairman of the Audit Committee and the CFO, comprises in-house auditors and is led by an appropriately qualified Group Internal Audit and Risk Management Director. When necessary, external support is used in specialist areas. In 2017 PricewaterhouseCoopers (PwC) provided specialist support to the audit of treasury activities and cyber risks, as well as providing in-territory support to Merlin's internal audit function for certain overseas audits.

The Committee approved the internal audit plan before the start of the year which included an assessment of the risk approach taken in formulating audit priorities. Factors such as size and location of business, history of audit findings, competence and stability of local management, material changes to a business and relevance to the Group's strategy were factored into this assessment.

During the year, audits were undertaken to obtain an appropriate level of coverage across the business which we measure on a rolling two year basis. In line with the plan approved by the Committee, internal audits conducted over the last two years have been at operations representing approximately 95% of the Group's annual revenue streams.

In addition to revenue generating locations, work was performed over other areas including retail buying, Merlin's UK customer call centre, cyber risk and treasury.

A review of the effectiveness of internal audit was undertaken during the year. Members and attendees of the Audit Committee meetings, along with the senior finance community of the Company, were questioned on a range of subjects including the governance and organisation of the internal audit function, their audit approach and the effectiveness of their reports and conclusions. The results showed that the internal audit function is considered to remain effective.

External audit

The Company's external auditors are KPMG LLP. As set out in more detail below, the Committee has considered their appointment, governance, fees and independence, together with the work performed.

Appointment and governance

In recommending the reappointment of external auditors at the AGM, the Committee has taken into account EU guidance and the Competition and Markets Authority (CMA) Order on mandatory audit tendering. Merlin will be required to retender its audit no later than for the 2023 financial year. The Committee will bear in mind the next regular KPMG partner rotation after the 2019 audit.

The Committee considered whether a retender during 2017 would be appropriate as part of its annual recommendation on the appointment of the external auditors. The Committee decided to recommend retaining KPMG for 2018.

Remuneration and independence of external auditors

Non-audit services are subject to market tenders or tests and are awarded to the most appropriate provider. The external auditors may provide non-audit services only when their skills and experience make them a competitive and most appropriate supplier of these services. 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 requires a detailed understanding of the Group. In 2017 the more significant matters were:

- The review of the Group's half year published results.
- Assurance procedures required for the debt issuance.
- Other routine statutory services required under local regulatory legislation.

The external 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 has adopted the guidance and related definitions from the Department for Business, Energy and Industrial Strategy and determined that 'non-audit fees' should be no higher than 70% of 'audit fees' from 2019 onwards. We will continue to monitor this ratio. In 2017 fees for non-audit services were £0.3 million *(2016: £0.7 million)*; a ratio of 19% *(2016: 48%)*. Details of KPMG fees can be found in note 2.1 to the financial statements.

All non-audit services are approved by the Committee, although they have granted the CFO authority to pre-approve the following non-audit services:

- Work which a third party requires to be carried out by the Company's auditors.
- Any other work up to a value of £50,000 where the external auditors are best placed to undertake the work.

In accordance with the FRC's recent Ethical Standard for the audit profession, KPMG resigned from their tax appointments and completed a review of their non-audit services. To ensure ongoing compliance with these rules and to ensure that auditor objectivity and independence is not impaired, the Committee regularly reviews reports on audit, audit-related and non-audit expenditure, together with proposals of any material non-audit related assignments.

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

Assessment of the performance of the external auditors

The Committee has evaluated the performance, independence and objectivity of KPMG. This included an internally facilitated, questionnaire-based, effectiveness assessment with feedback provided by Audit Committee members, other attendees, and senior finance personnel both at Merlin's attractions and at its head office. The survey covered KPMG's mindset and culture, skills and knowledge, judgement and quality control of the audit.

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

The effectiveness of KPMG's 2017 audit was assessed over the year by reference to the following factors, in line with the FRC's Practice Aid on Audit Quality:

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

GOVERNANCE

DIRECTORS' REMUNERATION REPORT

Dear Shareholder

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

- **Statement from the Chairman of the Remuneration Committee** contains details of our remuneration principles and of the key decisions reached by the Committee.
- **Policy Report.** The Remuneration Report contains the Directors' Remuneration Policy (Policy) that was approved by a binding shareholder vote at the 2017 AGM. This Policy remains effective for the coming year.
- **Annual Report on Remuneration** contains details of pay received by Directors in 2017 and full details of how we intend to implement our pay policy during 2018. The Annual Report on Remuneration will be subject to an advisory vote at the 2018 AGM.

Remuneration principles

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

Performance orientated

- Rewarding performance is a core part of our ethos. About 77% of our permanent employees participate in a bonus plan and over 400 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 from 2018 are subject to the achievement of challenging EPS, ROCE and strategic performance targets. EPS and ROCE are key performance indicators aligned to the Company's strategic priorities and the creation of value to shareholders. Strategic performance targets are linked to improvements in our productivity, new business development and customer satisfaction, which are central to our current strategic plan.
- 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.

Consistent with best practice

- Salaries are intended to be 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.

Performance in 2017

The financial and operating performance of Merlin in 2017 is set out on pages 6 to 49 in the Strategic Report.

The Group delivered a solid performance, albeit held back by the significant decline in our London attractions due to ongoing security concerns, and extreme weather at peak trading periods at our Gardaland theme park. Good progress was made with our new business development, with the new LEGOLAND park in Japan and six Midway attractions. Taking this together with our focus on costs and productivity, the Group reported revenue of £1,594 million and generated an underlying operating profit of £323 million for the 52 weeks ended 30 December 2017.

As a result of financial performance falling below the threshold for payment of profit related bonus, no bonus will be paid to the CEO or CFO in relation to 2017 performance.

The Performance Share Plan awards granted in April 2015 will partially vest on 2 April 2018. Details of the awards are set out on page 84 of this report.

Pay decisions for 2018

The proposed pay structure for the Executive Directors for 2018 is outlined on pages 77 to 79. Key decisions made by the Committee in relation to 2018 include:

- The Committee considered the competitiveness of the Executive Directors' total remuneration packages during the year and concluded that they were positioned conservatively against pay levels in companies of comparable size and complexity. Executive Director salaries will be increased in line with the wider UK employee population. The Executive Directors' remuneration packages will be reviewed by the Committee in 2018.
- The Committee has agreed the same basic structure to the central bonus plan as 2017, with individual objectives for the Executive Directors appropriately reflecting Company priorities. For the Executive Directors, 100% of bonus award depends on profit performance and of that 20% also depends on achievement against specific personal objectives.
- The Committee has introduced a strategic performance condition into the PSP for the 2018 awards. This condition will govern 20% of the 2018 PSP awards' vesting and will operate alongside EPS and ROCE performance conditions which will each govern 40% of the awards' vesting. The range of financial targets have been set to reflect the current plan and performance expectations for the Company and current economic conditions. In addition, for awards from April 2017 onwards a health and safety underpin, enabling the Committee to reduce the numbers of shares on vesting, is attached to all PSP awards. Further details are set out on pages 78 to 79.

Review of Remuneration Policy for 2018

The Committee has reviewed the application of the Remuneration Policy and concluded that the structure of the current approach to salary, short term and long term incentives for the Executive Directors remains aligned to our remuneration principles. In light of this, no amendments are proposed.

The Committee intends to review the current policy during 2018.

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
28 February 2018

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

POLICY REPORT

This part of the Remuneration Report sets out our Directors' Remuneration Policy (Policy) adopted in 2017 and applicable to payments made from 13 June 2017. This policy was approved in 2017 by a vote in favour of 95.8%. The information provided in this section of the Remuneration Report is not subject to audit.

Policy table

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

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions[1]
Fixed pay			
Base salary To appropriately recognise responsibilities and attract and retain talent by ensuring salaries are market competitive.	Generally reviewed annually with any increase normally taking effect from 1 April 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): • The individual Director's role, experience and performance. • Business performance. • Market data for comparable roles in appropriate pay comparators. • Pay and conditions elsewhere in the Group.	No absolute maximum has been set for Executive Director base salaries. Current Executive Director salaries are set out in the Annual Report on Remuneration section of this Remuneration Report. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: • Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent UK employees. • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of Group). • Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.	None
Benefits To provide market competitive benefits.	Benefits are role specific and take into account local market practice. Benefits currently include 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 appropriate 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
Pension To provide market competitive retirement benefits.	Current policy is for the Company to either contribute to the Group Pension Plan and/or to provide a cash allowance in lieu of pension.	Executive Directors receive a contribution of up to 25% of base salary to the Group Pension Plan and/or as a cash allowance in lieu of pension.	None

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions[1]
Variable pay			
Annual bonus[2], [3] To link reward to key business targets for the forthcoming year and to individual contribution. Additional alignment with shareholders' interests through the operation of bonus deferral.	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. 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. • Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). • Deferred awards usually vest three years after award although may vest early on leaving employment or on a change of control (see later sections). • An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). • Bonus payments and deferred share awards will be subject to withholding or clawback at the Remuneration Committee's discretion during the three year period following the award of the bonus 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 or any other error in calculation which has led to an overpayment of bonus. The Committee has wide-ranging discretion on the award and vesting of bonuses. In particular the Committee has discretion to amend the payout should any formulaic output not reflect the Committee's assessment of overall business performance, including health and safety issues.	The maximum award that can be made under the central bonus plan is 150% of base salary. Each year the Remuneration Committee determines the maximum bonus opportunity for individual Executive Directors within this limit.	The bonus is based on performance assessed over one year using appropriate financial, strategic and individual performance measures. The majority of the bonus will be determined by measure(s) of Group financial performance. The selected measure(s) for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report. 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. The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director. The selected measures for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report. Any bonus payout is ultimately at the discretion of the Committee.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions[1]
Performance Share Plan (PSP)[3], [4] To link reward to key business targets for the longer term and to retain executives and the creation of value for shareholders by rewarding long term objectives.	Awards are usually granted annually under the PSP to Executive Directors and other selected senior executives. Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Remuneration Committee. Awards may be granted as conditional awards of shares, nil-cost options or forfeitable share awards (or, if appropriate, as cash-settled equivalents). 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). 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). PSP awards will be subject to potential withholding or clawback during the five year period following the date of award in exceptional circumstances of evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts or an error in the calculation of the extent of payment or vesting of an incentive. In the event of a material health and safety breach by the Group during the period between grant and vesting of an award, the Remuneration Committee may reduce the number of shares which would otherwise vest as a result of the EPS and ROCE performance conditions to ensure that the vesting outcome is appropriate.	The maximum annual award permitted under the PSP is shares with a market value (as determined by the Committee) of 350% of salary. Each year the Remuneration Committee determines the actual award level for individual Executive Directors within this limit.	Vesting of PSP awards is usually dependent on, but not limited to, 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. 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.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions(1)
All Employee Share Plan (UK Sharesave Scheme)(3), (5) To create staff alignment with the Group and promote a sense of ownership.	Tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees. Executive Directors are eligible to participate on the same basis as other employees.	Monthly saving limit of £500 (or such other limit as may be approved from time to time by HMRC) under all savings contracts held by an individual.	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.
Company Share Option Plan (CSOP)(3) Executive Directors will only receive CSOP awards in exceptional circumstances. Individuals who are promoted to the Board may have outstanding awards under this plan.	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. 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). Options that are HMRC unapproved may, if appropriate, be settled in cash or be net-settled.	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).	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. An individual promoted to the Board may have outstanding CSOP awards (granted prior to their promotion) that have no performance conditions attached to them.

Notes to the table:

(1) The Committee may vary or waive any performance condition(s) if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). The Committee may also adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. 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.

(2) Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year in addition to key strategic or operational goals relevant to an individual. Precise targets for bonus measures are set at the start of each year by the Remuneration Committee based on relevant reference points, including, for Group financial targets, the Company's budget and are designed to be appropriately stretching.

(3) The Committee may: (a) in the event of a variation of the Company's share capital and (with the exception of HMRC approved options) demerger, super dividend or dividend in specie or any other corporate event which it reasonably determines justifies such an adjustment, adjust; and (b) amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans (which were summarised for shareholders in the Company's IPO Prospectus). Share awards may be settled by the issue of new shares or by the transfer of existing shares. In line with prevailing best practice at the time this Policy Report is approved, any issuance of new shares is limited to 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.

(4) Performance measures – PSP. The PSP performance measures are chosen to provide alignment with our longer term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. In particular, our use of earnings and return on total investment measures is designed to reward management for delivery of key financial measures of Company success that should result in sustainable value creation. Targets are considered ahead of each PSP grant by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.

(5) Broadly equivalent versions of the UK Sharesave Scheme operate for USA employees (US Employee Stock Purchase Plan) and overseas employees (Overseas Sharesave Scheme). An Executive Director based in the USA or overseas may be eligible to participate in one of these schemes instead of the UK Sharesave Scheme. The monthly contribution limit for the US Employee Stock Purchase Plan would be specified by the Remuneration Committee before each grant.

(6) The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the 2014 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

(7) The Committee may make minor amendments to the policy set out in this Policy Report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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 Remuneration Committee Chairman's Statement, common principles underlie the pay policy throughout 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, which includes the ability to grant Restricted Share Awards to employees below the plc Board, CSOP or the All Employee Share Plan).

Non-executive Directors

Purpose and link to strategy	Operation	Opportunity
Non-executive Director (NED) fees To appropriately recognise responsibilities by ensuring fees are market competitive.	NED fees (other than NEDs whose appointment is in respect of their position as representatives of the pre-IPO major shareholders) comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior Independent Director. • Audit Committee Chairman. • Remuneration Committee Chairman. The Chairman of the Board receives an all-inclusive fee. No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than: • where travel to the Company's registered office is recognised as a taxable benefit, in which case a NED may receive the grossed-up costs of travel as a benefit; • where a NED lives outside the UK, in which case a travel allowance may be paid. Fees are generally reviewed annually. NEDs whose appointment is in respect of their position as shareholder representatives do not receive a fee.	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. No absolute maximum has been set for individual NED fees/allowances. Current fee levels are set out in the Annual Report on Remuneration section of this Remuneration Report. The Company's Articles of Association provide that the total aggregate fees paid to the Chairman and NEDs will not exceed £1,000,000.

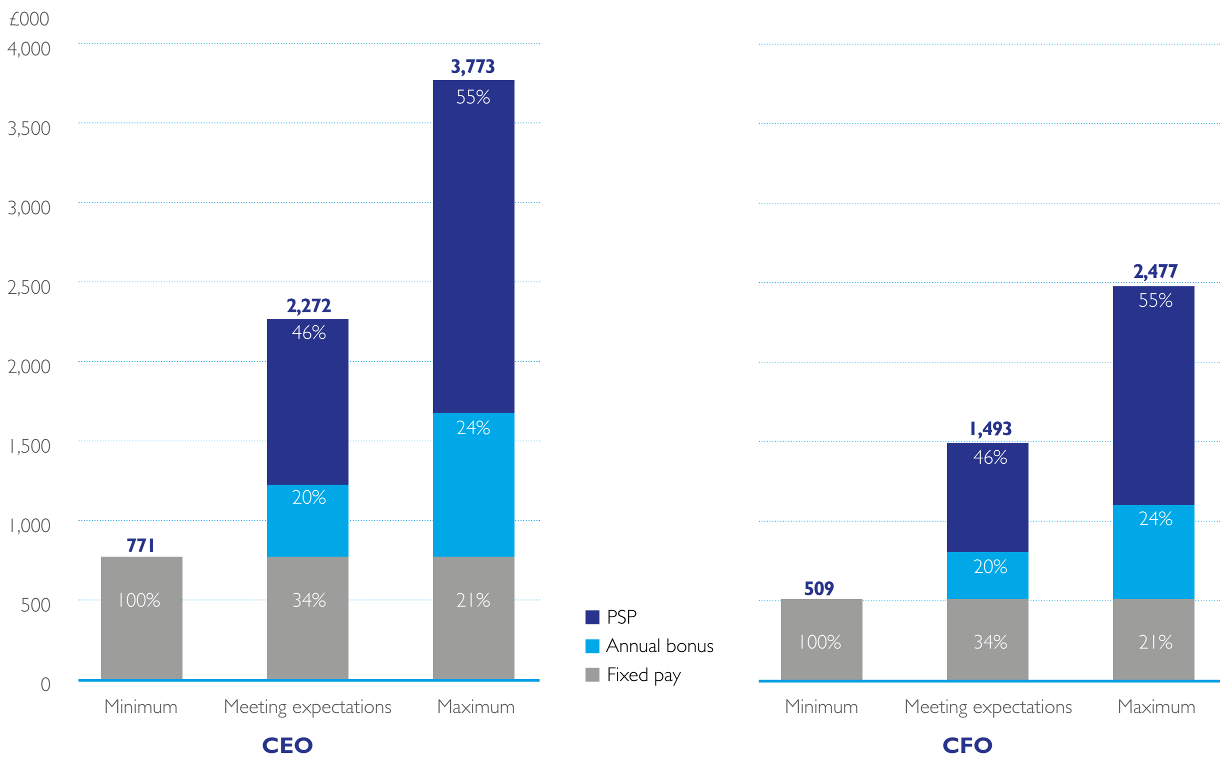
Illustrations of application of remuneration policy

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 opposite 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 those shown.

Assumed performance	Assumptions used
All performance scenarios (Fixed pay)	• Consists of total fixed pay, including base salary, benefits and pension. • Base salary – salary effective as at 1 January 2018. • Benefits – benefits for 2017. • Pension – amount expected to be received in 2018 (25% of base salary).
Minimum performance (Variable pay)	• No payout under the annual bonus. • No vesting under the PSP.
Performance in line with expectations (Variable pay)(1)	• 50% of the maximum payout under the annual bonus. • 50% vesting under the PSP.
Maximum performance (Variable pay)(1)	• 100% of the maximum payout under the annual bonus. • 100% vesting under the PSP.

(1) 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. Details of the application of the Remuneration Policy in 2018 are set out in the Annual Report on Remuneration.



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.
- The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment when:
  - an interim appointment is made to fill an Executive Director role on a short term basis; or
  - exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short term basis.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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 incentives in their year of joining.

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

Recruitment of Non-executive Directors

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

Service contracts

Key terms of the current Executive Directors' service agreements and Non-executive Directors' letters of appointment (other than the Non-executive Director whose appointment is in respect of their position as representative of KIRKBI) 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 – 12 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 12 month notice periods so have no fixed expiry date. All Non-executive Directors have rolling three month notice periods so have no fixed expiry date.

Søren Thorup Sørensen, as the Non-executive Director nominated by KIRKBI, is appointed pursuant to the Relationship Agreement with his nominating shareholder and does not have an individual letter of appointment with the Company. The Relationship Agreement provides for KIRKBI 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 this Director should the relevant shareholding fall below 10% and no fees or termination payments are payable. All Executive Directors' service agreements and Non-executive Directors' letters of appointment are available for inspection at the Company's registered office at Link House, 25 West Street, Poole BH15 1LD.

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 based on appropriate performance measures as determined by the Committee.
- The treatment of outstanding share awards is governed by the relevant share plan rules.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

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.

The Committee has considered both the UK Government's proposals on strengthening the voice of stakeholders in companies (in particular the employee voice) and the subsequent December 2017 Financial Reporting Council Consultation on the 2018 UK Corporate Governance Code. The Committee will continue to review the alternative approaches to meet the new obligations pending the publication of the final 2018 UK Corporate Governance Code.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Consideration of shareholders' views

The Company's largest shareholder (KIRKBI) has an observer at the Committee. In addition we have sought the views of our largest institutional shareholders (for instance through discussion with the Chairman of the Board and/or the Remuneration Committee Chair) and leading advisory bodies.

Leavers and change of control

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.

<table>
<tr><th>Plan</th><th>Good leaver categories</th><th>Treatment for good leaver</th><th>Treatment for any other leaver</th><th>Treatment on a change of control/voluntary winding-up</th></tr>
<tr><td>Deferred Bonus Plan</td><td rowspan="3">• Death.
• Injury.
• Disability.
• Ill-health.
• Retirement.
• Redundancy.
• Transfer of employing company or business to which an individual's employment relates out of the Group.
• Any other scenario in which the Remuneration Committee determines that good leaver treatment is appropriate (other than circumstances justifying summary dismissal).</td><td>Deferred bonus awards vest on cessation of employment/death.</td><td>Deferred bonus awards lapse.</td><td>Deferred bonus awards vest in full.</td></tr>
<tr><td>Performance Share Plan</td><td>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.

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.

The Committee has the discretion, acting fairly and reasonably, to dis-apply time apportionment.</td><td>Awards lapse.</td><td>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.</td></tr>
<tr><td>Company Share Option Plan
Executive Directors will only receive CSOP awards in exceptional circumstances.

Individuals who are promoted to the Board may have outstanding awards under this plan.</td><td>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 12 months in the event of death).

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.</td><td>Options lapse.</td><td>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.</td></tr>
<tr><td>UK Sharesave Scheme/ Overseas Sharesave Scheme</td><td colspan="4">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.</td></tr>
<tr><td>US Employee Stock Purchase Plan</td><td colspan="4">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,</td></tr>
</table>

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2018 Annual General Meeting.

UNAUDITED INFORMATION

Implementation of remuneration policy in 2018

This section provides an overview of how the Committee is proposing to implement our remuneration policy, as set out in the Policy Report, in 2018 for the current Executive Directors.

Base salary

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

	Salary 1 October 2016	Salary from 1 April 2018	Annualised % increase
Nick Varney (CEO)	£587,214	£609,432	2.50%
Anne-Francoise Nesmes (CFO)	£385,000	£399,567	2.50%

Following consideration of the timing of the Group annual pay review, the date was moved from 1 October to 1 April each year (with effect from 1 April 2017). To effect a smooth transition, the annualised rate of increase applied to the wider UK workforce over the relevant periods (2.25% from 1 October 2016 to 1 October 2017 and 1.5% from 1 October 2017 to 1 April 2018) was applied to the Executive Directors so that salaries were increased at an annualised rate of 2.5%. The increase for Anne-Francoise Nesmes was inclusive of a contractually agreed 2.25% of salary increase with effect from 1 October 2017.

The average salary increase for the Merlin UK workforce effective from 1 April 2018 is 1.5% and both the CEO and CFO will receive this increase, as noted in the Chairman's Statement.

Pension and benefits

As in 2017, the current Executive Directors will receive a Company pension contribution worth 25% of salary. Nick Varney will receive this contribution as a cash allowance and Anne-Francoise Nesmes will receive a contribution to the Group Pension Plan of no more than the minimum annual allowance for pensions of £10,000 and a cash allowance in respect of the balance. To the extent that a cash allowance is paid, this is reduced by the corresponding amount of employer National Insurance Contributions. They will also receive a standard package of other benefits consistent with those received in 2017.

Annual bonus

The structure of the annual bonus plan for 2018 remains broadly consistent with the 2017 plan. Key features are as follows:

- The maximum annual bonus potential will be 150% of salary for the CEO and 135% for the CFO.
- One-third of any bonus earned will be deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.
- Bonus payments and deferred share awards will be subject to potential withholding or clawback during the three year period following the award of the bonus in exceptional circumstances of evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts or an error in the calculation of the extent of payment or vesting of an incentive.
- The Committee's discretion includes the ability to adjust bonus awards to ensure they reflect underlying business performance, including health and safety issues.

The annual bonus for 2018 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 the personal element of the bonus irrespective of performance against the aforementioned individual measures. The targets themselves, as they relate to the 2018 financial year, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Directors' Remuneration Report to the extent that they do not remain commercially sensitive at that time.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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. In addition, for awards from April 2017 onwards, a health and safety underpin is attached to all PSP awards. This affords the Committee the ability to scale back or cancel awards in the case of a major health and safety incident if it decides it is appropriate to do so.

As in prior years, it is expected that awards will be granted at up to a maximum of 250% of salary. The CEO and CFO will be amongst the participants in the PSP award expected to be granted in March 2018. At the date of the grant the award to the CEO will be 250% of salary. The CFO grant will be within policy and is currently under review given the new strategic plan and her specific responsibilities. It is intended that a recommendation will be advised to shareholders no later than the end of March.

However, to ensure that the targets to be set for our 2018 PSP awards are closely aligned with Merlin's strategy, amendments to both the metrics and the range of targets are being made.

The key changes vis-a-vis 2017 include granting awards (i) 80% subject to financial targets and 20% subject to strategic targets (as opposed to 100% financial targets) and (ii) recalibrating the range of financial targets to take account of the current plan, the market's expectations for our performance and wider economic developments.

The revised targets are set out below and, having regard to each of the factors noted, the Committee is satisfied that the targets, overall, are no less challenging than the targets set in 2017 allowing for current circumstances.

In light of the above, the targets we expect to apply to the awards are:

EPS performance condition (40% of award)

	Adjusted EPS growth	% of award vesting
Below threshold	<3% p.a. cumulative growth	0%
Threshold	3% p.a. cumulative growth	8%
Between threshold and maximum	3% – 10% p.a. cumulative growth	8% to 40% on sliding scale
Maximum	10% p.a. cumulative growth	40%

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2020 financial year with Adjusted EPS for the 2017 financial year.

ROCE performance condition (40% of award)

	Average ROCE	% of award vesting
Below threshold	<8%	0%
Threshold	8%	10%
Between threshold and maximum	8% – 10%	10% to 40% on sliding scale
Maximum	10%	40%

Average ROCE will be calculated as an average of ROCE for the 2018, 2019 and 2020 financial years.

The above targets have been set to exclude the impact of LEGOLAND New York since this is not expected to open until Spring 2020 and so to ensure a consistent basis of testing underlying performance, the above targets will exclude its impact in terms of the forecast part year earnings and capital expenditure associated with its development. It is expected that the PSP targets for any grants to be made in 2019 will include LEGOLAND New York as this award's performance period will include the first full year of its anticipated trading.

The Committee had previously intended to include LEGOLAND New York in the 2018 PSP award targets (as noted in last year's Directors' Remuneration Report) but since it will not operate for a full year in 2020, its inclusion in the range of targets has been postponed until the 2019 awards.

Strategic performance condition (20% of award)
With regard to the strategic targets to apply to the 2018 awards, these reflect the Group's current areas of focus and encompass:

- **Productivity:** a range of targets will be set for improving productivity. The targets will measure the benefits from business simplification projects and efficiency improvements from investments in systems and processes.
- **New business development:** the targets will be set for the delivery of new attractions and their subsequent performance. This will include new Midway attractions, new accommodation and new LEGOLAND parks.
- **Customer satisfaction:** customers are at the heart of our business. We will set customer satisfaction targets and measure performance based on survey data.

Each of the above categories will carry one-third weighting. Achieving threshold performance will generate 25% vesting with 100% achieved for delivering the maximum target.

The targets are considered commercially sensitive and will be disclosed in full, along with actual performance at the time of vesting, in the 2020 Directors' Remuneration Report.

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

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

Invitations for the next award under each of these plans commence in March 2018.

Non-executive Director remuneration
The table below shows the current fee structure for Independent Non-executive Directors. 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.

Fees as at January 2018	2018
Basic fee for UK-based Non-executive	£50,000
Basic fee for overseas-based Non-executive	£50,000 plus a travel allowance of £1,000 per Board meeting attended in person
Senior Independent Director additional fee	£10,000
Audit Committee Chairman additional fee	£10,000
Remuneration Committee Chairman additional fee	£10,000
Chairman of the Board all-inclusive fee	£250,000

As from 1 April 2018 the basic fee for Non-executive Directors and the Chairman will increase by 1.5% and the additional fee for the Audit Committee Chairman will increase by £1,000 to better reflect the time commitments of the position.

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

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

AUDITED INFORMATION

The information provided in this section of the Directors' Remuneration Report up until the 'Unaudited information' heading on page 85 is subject to audit.

Single total figure of remuneration in 2017

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for 2017 with prior year comparatives for 2016.

	2017						
All figures shown in £000	**Salary and fees(1)**	**Benefits(2)**	**Annual bonus(3)**	**Long term incentives(4)**	**Other(5)**	**Pension(6)**	**Total**
Executive Directors							
Nick Varney	597	21	–	185	–	131	934
Anne-Francoise Nesmes	387	17	–	–	4	85	493
Non-executive Directors							
Sir John Sunderland	250	–	–	–	–	–	250
Charles Gurassa	70	–	–	–	–	–	70
Ken Hydon	60	–	–	–	–	–	60
Fru Hazlitt	50	–	–	–	–	–	50
Trudy Rautio	59	–	–	–	–	–	59
Rachel Chiang	59	–	–	–	–	–	59
Søren Thorup Sørensen	–	–	–	–	–	–	–

	2016						
All figures shown in £000	**Salary and fees(1)**	**Benefits(2)**	**Annual bonus(3)**	**Long term incentives(4)**	**Other(5)**	**Pension(6)**	**Total**
Executive Directors							
Nick Varney	583	21	–	1,296	–	128	2,028
Anne-Francoise Nesmes	160	8	–	–	–	36	204
Former Executive Director							
Andrew Carr(7)	205	10	–	622	–	45	882
Non-executive Directors							
Sir John Sunderland	250	–	–	–	–	–	250
Charles Gurassa	70	–	–	–	–	–	70
Ken Hydon	60	–	–	–	–	–	60
Fru Hazlitt	50	–	–	–	–	–	50
Trudy Rautio	57	–	–	–	–	–	57
Rachel Chiang(8)	57	–	–	–	–	–	57
Søren Thorup Sørensen	–	–	–	–	–	–	–

Notes to the table – methodology:

(1) Salary and fees – this represents the cash paid or receivable in respect of the period. For Non-executive Directors based outside the UK this includes any travel allowance payable.

(2) 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. The most significant of these benefits is the car benefit which was £14,355 for the CEO and £12,300 for the CFO.

(3) 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 2017 bonus are disclosed below.

(4) Long term incentives – this column relates to the value of long term awards, the performance period for which ends in the year under review. The first long term incentive award granted post Listing had a performance period that ended in 2016. The figure for 2016 has been updated to reflect the vesting of the award based on the share price on the date of vesting (£4.796). The second long term incentive award had a performance period that ended in 2017. The figure for 2017 reflects the vesting of the award based on the average closing share price for the final quarter of 2017 (£3.833). Further details are given in the 'Outstanding awards under the PSP' note on page 84.

Notes to the table – methodology (continued):

(5) Other – this column relates to the value of the grant of options under the UK Sharesave Plan. The grant has been valued for the 2017 grant at 20.6% of the market value of shares under option which is the IFRS 2 valuation for this award. At the date of grant the face value was £4.9503 and the exercise price was £3.9603, being a 20% discount under the UK Sharesave Plan rules. None of the Executive Directors participated in the 2016 UK Sharesave Plan.

(6) Pension – Executive Directors receive a Company contribution worth 25% of salary. Nick Varney receives this contribution as a cash allowance and Anne-Francoise Nesmes receives this as a contribution to the Group Personal Pension Plan up to the annual allowance and, in respect of the balance, as a cash allowance. This figure represents the benefit received by the Directors in respect of the period.

(7) Details shown for Andrew Carr for 2016 are his salary, pension and benefits from 27 December 2015 to 31 July 2016 plus the vesting value of his 2013 PSP award, the performance period for which ended in 2016. Andrew continued to work for the Company until 31 October 2016 and details of his pay for that period are set out on page 82. Andrew Carr retired on 31 October 2016, at which date his salary was £351,900.

(8) Rachel Chiang joined the Board on 1 January 2016. Fees shown in the table are from that date to 31 December 2016.

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 2017 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 2017 performance was determined by underlying operating profit performance with targets set by reference to the Group budget. 20% of that potential bonus was additionally subject to satisfaction of individual objectives. Performance measures and targets applying to the 2017 annual bonus are set out below.

In 2017 no bonus was payable to employees under the central bonus plan, including the Executive Directors, since the financial threshold for payment of bonus was not achieved.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Underlying operating profit	80%	£327.1 million (0% of bonus payable)	£348 million (40% of bonus payable)	£368.9 million (80% of bonus payable)	£323 million(2)	0%
Individual objectives	20%(1)	Following the year end, the Committee assessed performance against the individual objectives for each Director for 2017. CEO: The CEO met the majority of his personal objectives which comprised development of the pipeline in support of the new business targets for new LEGOLAND parks, accommodation and Midway openings, health and safety, talent management and visitor satisfaction. CFO: The CFO met the majority of her personal objectives which comprised simplifying business plan processes, assessing the future finance organisation model to support Merlin's international growth, delivering a successful bond issue, productivity savings and talent management.				0% as threshold profit target was not achieved
					TOTAL	0% (CEO) 0% (CFO)

(1) The maximum annual bonus payout that can be received as a result of individual objectives is scaled back to the extent that the actual underlying operating profit falls short of the maximum payout.
(2) As reported on a statutory 52 week basis.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Scheme interests awarded during the financial year

Performance Share Plan awards

An award was granted under the PSP to selected senior executives, including Nick Varney and Anne-Francoise Nesmes, on 30 March 2017. These awards are subject to the performance conditions described below and will vest on 30 March 2020.

	Type of award	Maximum number of shares[(1)]	Face value (£)	Face value (% of base salary)	Threshold vesting (% of award)	End of performance period
Nick Varney	Performance shares	315,947	£1,501,064	250%	For EPS element 10% of award (max 50%)	28 December 2019
Anne-Francoise Nesmes	Performance shares	182,330	£866,250	225%	For ROCE element 12.5% of award (max 50%)	

(1) The maximum number of shares that could be awarded has been calculated using the closing share price on 29 March 2017 of £4.751 and is stated before the impact of reinvestment of the dividends paid since grant.

EPS performance condition (50% of award)

	Adjusted EPS growth	% of award vesting
Below threshold	<7% p.a. cumulative growth	0%
Threshold	7% p.a. cumulative growth	10%
Between threshold and maximum	7% – 14% p.a. cumulative growth	10% to 50% on sliding scale
Maximum	14% p.a. cumulative growth	50%

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2019 financial year with Adjusted EPS for the 2016 financial year. Adjusted EPS is defined on page 152.

ROCE performance condition (50% of award)

	Average ROCE	% of award vesting
Below threshold	<9%	0%
Threshold	9%	12.5%
Between threshold and maximum	9% – 13%	12.5% to 50% on sliding scale
Maximum	13%	50%

Average ROCE will be calculated as an average of ROCE for the 2017, 2018 and 2019 financial years. ROCE is defined on page 153.

Payments to past Directors

As disclosed in last year's Annual Report on Remuneration, Andrew Carr stepped down from the Board on 31 July 2016 and ceased employment on 31 October 2016. He was treated as a good leaver for the purposes of his outstanding PSP awards. Following the application of the relevant performance targets and a reduction to his outstanding awards to reflect the proportion of the relevant vesting periods for which he was employed, 129,703 shares relating to the 2013 PSP award vested on 3 April 2017 (disclosure of actual performance against the targets set was disclosed in last year's Annual Report on Remuneration) and 99,167 shares will vest on 3 April 2018 in connection with his 2015 PSP award (see disclosure of actual performance against the 2015 PSP award targets on page 84). There are no further payments to be made in connection with his cessation of employment.

Payments for loss of office

There were no payments for loss of office to Directors during 2017.

Statement of Directors' shareholding and share interests

A shareholding requirement of 200% of base salary by the fifth anniversary of appointment applies to the Executive Directors. The CEO had a shareholding that exceeded that requirement at 30 December 2017. The CFO joined in August 2016 and is in the process of building up her shareholding to meet the requirement by her fifth anniversary.

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.

		Number of shares			
			Interests in share incentive schemes, awarded without performance conditions at 30 December 2017		Interests in share incentive schemes, awarded subject to performance conditions at 30 December 2017[2]
Director	Value of shareholding at 30 December 2017 as a % of salary (shareholding requirement target)	Shares owned outright at 30 December 2017	Sharesave	Deferred Bonus[1]	PSP
Nick Varney[3, 6]	4,003% (200%)	6,622,936	2,780	67,327	987,925
Anne-Francoise Nesmes[3, 5]	9% (200%)	10,000	4,545	–	368,339
Sir John Sunderland[4]	–	531,044	–	–	–
Charles Gurassa	–	31,746	–	–	–
Ken Hydon	–	62,233	–	–	–
Fru Hazlitt	–	31,746	–	–	–
Trudy Rautio	–	11,250	–	–	–
Rachel Chiang	–	–	–	–	–
Søren Thorup Sørensen	–	–	–	–	–

Notes to the table:

(1) In accordance with the Deferred Bonus Plan rules, the Committee has determined that an additional award of shares will be made in respect of shares which vest under Deferred Bonus Plan awards to reflect the value of dividends which would have been paid on those shares during the deferral period (calculated on the assumption that dividends are reinvested in Company shares on a cumulative basis). The total number of shares shown in this table includes 1,241 shares for Nick Varney which relate to assumed reinvestment of the dividends paid since grant on Deferred Bonus Plan awards.

(2) Further details relating to the PSP grants are summarised in the table overleaf.

(3) For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 29 December 2017 has been used (£3.629).

(4) Of the total shares held by Sir John Sunderland, 1,644 shares are held by a connected person and 33,428 shares are held by trusts of which Sir John is a trustee and which members of his family are beneficiaries.

(5) Of the total shares held by Anne-Francoise Nesmes, 5,500 are held by a connected person.

(6) Nick Varney exercised 3,036 options in the year under the UK Employee Sharesave Plan.

Between 30 December 2017 and the date of this report there were no changes in the shareholdings outlined in the above table except that Trudy Rautio acquired 19,000 shares which are held in a trust of which she is a Trustee.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Outstanding awards under the PSP

	Date of grant	Date of vesting	Maximum number of shares	Dividend equivalent shares(1)	Performance period	Performance condition(2)
Nick Varney	2 April 2015	2 April 2018	328,846	15,157	2015-2017	EPS: 10% vests for 7% p.a. cumulative growth, increasing to 50% vesting for 14% p.a. cumulative growth
	1 April 2016	1 April 2019	313,592	9,525	2016-2018	ROCE: 12.5% vests for average ROCE of 9%, increasing to 50% vesting for average ROCE of 13%
	30 March 2017	30 March 2020	315,947	4,858	2017-2019	
Anne-Francoise Nesmes	1 September 2016	2 September 2019	180,431	2,774	2016-2018	
	30 March 2017	30 March 2020	182,330	2,804	2017-2019	

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

(2) Full details of performance conditions can be found in the Directors' Remuneration Reports for the year in which the grants were made.

As disclosed in the 2015 Annual Report and Accounts, the performance period for the 2 April 2015 awards was the three financial years to 30 December 2017. The calculation of the performance conditions is as follows:

- Adjusted EPS growth – by comparing EPS for the financial year ending 30 December 2017 with EPS for the financial year ending 27 December 2014. The Adjusted EPS for the financial year ended 27 December 2014 was 17.7 pence.
- Average ROCE – an average of ROCE for the three individual financial years ending 26 December 2015, 31 December 2016 (53 weeks) and 30 December 2017.

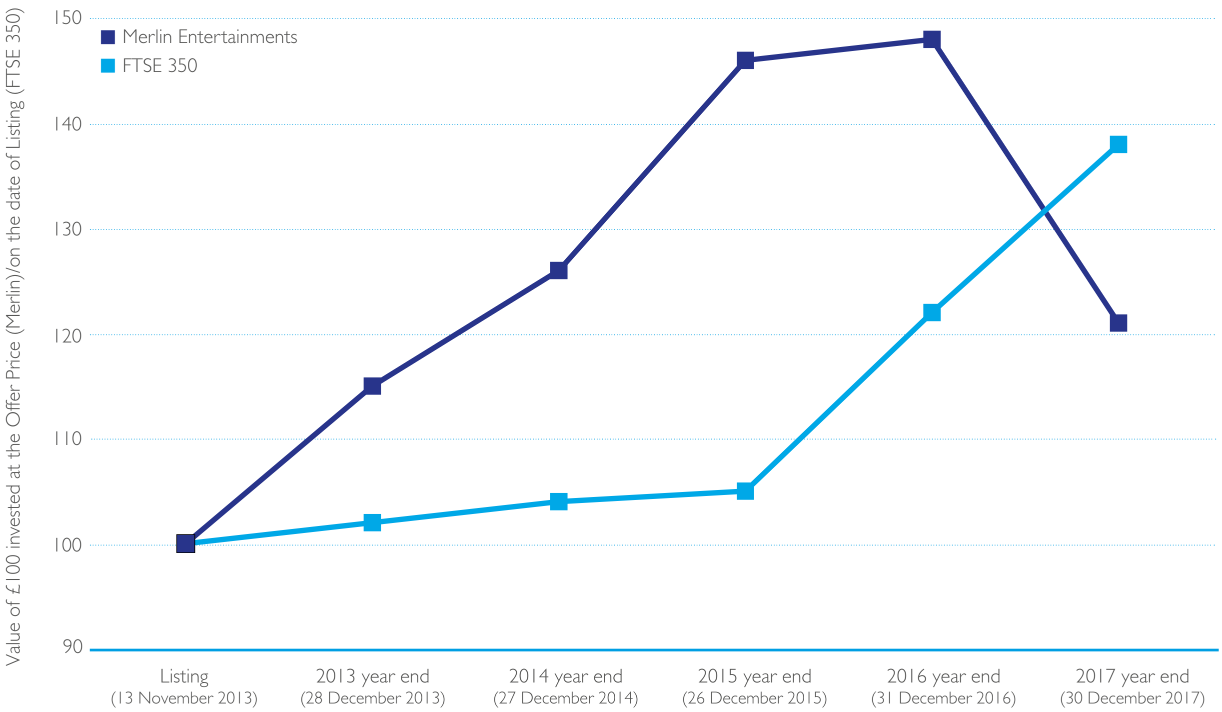
The compound annual growth rate of Adjusted EPS over the performance period was 5.1% and the average Return on Capital Employed was 9.2%. The performance conditions set out above yield a vesting of 14.0% of maximum.

UNAUDITED INFORMATION

The information provided in this section of the Directors' 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 30 December 2017 to the performance of the FTSE 350 Index. This index has been chosen because it is a recognised equity market index of which Merlin is a member. The base point in the chart for Merlin equates to the Offer Price of 315 pence.



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[1]	2014	2015	2016	2017
Salary and benefits[2] £000	75	596	605	604	618
Pension £000	18	127	128	128	131
Bonus £000	58	859	–	–	–
Sub total £000	151	1,582	733	732	749
PSP Long Term Incentive Plan[3] £000	n/a	–	–	1,296	185
CEO single figure of remuneration £000	**151**	**1,582**	**733**	**2,028**	**934**
Annual bonus payout (as a % of maximum opportunity)	n/a (no maximum limit applied in 2013)	100%	0%	0%	0%
PSP vesting outturn (as a % of maximum opportunity)	n/a (no award vested in 2013)	n/a (no award vested in 2014)	n/a (no award vested in 2015)	46.5%	14.0%

(1) From Listing on 13 November 2013 to 28 December 2013.
(2) Includes value of options under UK Sharesave Plan.
(3) Relates to performance from 28 December 2013.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Percentage change in remuneration of the CEO

The table below indicates the change in the CEO's remuneration between 2016 and 2017 and the change in average remuneration for other UK permanent employees between 2016 and 2017. The Remuneration Committee believes that the UK workforce is the most appropriate comparator for this analysis for the UK based CEO.

	Salary increase(1)	Benefits increase/ decrease(2)	Annual bonus increase/ decrease(3)
CEO	2.25%	0%	0%
Average for all UK permanent employees	2.25%	0%	0%

(1) As noted on page 77, due to the change of the annual pay review date, Nick Varney received an increase of 1.0% in October 2016 and an increase of 2.25% in April 2017. Both of these increases were in line with the average increase for all UK permanent employees. In accordance with her contract Anne-Francoise Nesmes received a first review of her salary in October 2017, reflecting a 2.25% increase.
(2) The CEO's benefits remained at the same level as the previous year.
(3) For comparative purposes, the annual bonus % for the CEO is compared to the average for the participants in the central bonus plan.

Relative importance of the spend on pay

This table 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.

	2016 £m	2017 £m	Increase/ (decrease)
Employee costs	382	420	10.0%
Distribution to shareholders	67	74	11.0%
Underlying operating profit	320	323	0.9%

Consideration by the Directors of matters relating to Directors' remuneration

The Committee has been chaired throughout the year by Charles Gurassa. The Committee has comprised the Chairman of the Board, the Chairman of the Committee, Ken Hydon, Fru Hazlitt and Trudy Rautio.

The Committee met three times during 2017. The CEO, CFO, Group HR Director, Group Compensation and Benefits Director, Søren Thorup Sørensen and the Group General Counsel and Company Secretary (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 £30,450 in fees during 2017 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided indirect tax advice to the Company during the year.

Following a review of executive remuneration advisers, Korn Ferry were appointed after a competitive tender by the Remuneration Committee on 7 November 2017 to replace Deloitte LLP and were paid £16,800 in fees during the remainder of 2017 (charged on a time plus expenses basis). Korn Ferry is also a member of the Remuneration Consultants Group and operates under its code of conduct in relation to executive remuneration consulting in the UK. Korn Ferry has not provided any other services to the Company during the year.

Shareholder voting on the Remuneration Report

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

	Votes for	Votes against	Votes withheld
Approval of the Policy Report (2017)	866.1 million (95.8%)	38.2 million (4.2%)	0.1 million
Approval of the Annual Report on Remuneration (2017)	874.2 million (97.5%)	22.6 million (2.5%)	7.6 million

External Board appointments

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

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

Annual General Meeting

The Annual Report on Remuneration section of this Remuneration Report will be submitted for an advisory shareholder vote at our Annual General Meeting to be held on 27 April 2018.

On behalf of the Board

Charles Gurassa
Chairman of the Remuneration Committee
28 February 2018

GOVERNANCE

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 30 December 2017. Comparative figures relate to the 53 weeks ended 31 December 2016.

In order to make our Annual Report and Accounts more accessible, a number of the sections usually included in this report can now be found in other areas of this document.

Page references for the sections that can be found elsewhere are detailed below:

Strategic Report

- Business review and future developments – this can be found on pages 6 to 49.
- Research and development – details about Merlin Magic Making and New Openings are located on pages 24 to 25.
- Employees – employee and gender diversity statistics can be found on pages 40 to 43.
- Employee engagement – details of how we engage and develop our employees are detailed on pages 40 to 43.
- Disabled persons – information regarding visitor accessibility and employment practices is located on pages 44 to 45.
- Greenhouse gas reporting – details of the Group's carbon dioxide emissions can be found on page 47.

Alignment with the UK Corporate Governance Code

More detail on the Board's approach to governance and the Group's alignment with the five core principles in the Code can be found elsewhere in the Annual Report as follows:

- Leadership – for more information on how clear divisions of responsibilities are maintained at the head of the Company see pages 50 to 57.
- Effectiveness – for more information on how the Board ensures it remains effective see pages 54 to 57.
- Accountability – for more information on how the Board presents a fair, balanced and understandable assessment of Merlin's position and prospects see pages 61 to 65.
- Remuneration – for more information on Directors' remuneration and how it is designed to promote the long term success of the Group see pages 66 to 87.
- Relations with shareholders – for more information on how the Board maintains a dialogue with its shareholders based on the mutual understanding of objectives see page 57.

The Code can be viewed on the website of the Financial Reporting Council (www.frc.org.uk). The DTRs and the Listing Rules can be viewed on the website of the Financial Conduct Authority (www.fshandbook.info).

Corporate Governance Report

- Corporate Governance Statement – pages 50 to 51.
- Directors during the year – pages 52 to 53.
- Directors' indemnities and insurance – page 56.
- Corporate Governance Report – pages 54 to 57.
- Relationship agreements – details of the agreements with KIRKBI are located on page 56.
- Related parties and significant contracts – information on contractual matters is on pages 56 to 57.
- Share capital, substantial holdings and related matters – details about these are located on page 56.
- Audit information – page 57.
- Directors – information with regard to the appointment and replacement of Directors can be found on page 58.
- Internal controls and risk management systems in relation to the preparation of accounts – pages 61 to 65.

Financial statements

- Capitalised interest – note 2.3
- Financial instruments – note 4.3
- Financial risk management – note 4.3

The Directors' Report itself contains the sections detailed below.

Branches outside the UK

Merlin Entertainments plc has no branches outside the UK.

Dividend

An interim dividend of 2.4 pence per share was paid on 25 September 2017 to shareholders on the Register on 18 August 2017. A final dividend for the year ended 30 December 2017 of 5.0 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.

Going concern

The Directors consider that the Group has adequate financial resources to continue operating for the next 12 months and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. The Directors have satisfied themselves that the Group is in a sound financial position and that it has access to sufficient cash funds and borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

The Viability Statement is set out in the Principal Risks section on page 39.

Political donations

No political donations were made during the year.

Approval of Annual Report

The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 28 February 2018.

For and on behalf of the Board

Matthew Jowett
General Counsel and Company Secretary
28 February 2018

Merlin Entertainments plc
Registered number 08700412

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards including FRS 101 'Reduced Disclosure Framework'.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable, relevant, reliable and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- For the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements.
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Directors' Report and the other sections of this report referred to therein include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Nick Varney
Chief Executive Officer
28 February 2018

Anne-Francoise Nesmes
Chief Financial Officer
28 February 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC

KPMG

1 Our opinion is unmodified

We have audited the financial statements of Merlin Entertainments plc (the Company) for the 52 week period ended 30 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity and the related notes, including the accounting policies in note 1.1.

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 30 December 2017 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the Directors on 30 September 2013. The period of total uninterrupted engagement to date is for the five financial periods ended 30 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole		£14.5 million *(2016: £14.5 million)* 5.4% *(2016: 5.2%)* of Group profit before tax
Coverage: by full scope audit procedures		82% *(2016: 79%)* of total profits and losses(1)
Risks of material misstatement		**vs 2016**
Recurring risks	Carrying value of Resort Theme Parks goodwill	◀▶
	Revenue recognition	◀▶
	Recoverability of parent Company's investment in and inter-group balances with subsidiaries	◀▶

(1) Total profits and losses coverage is calculated by considering absolute profits and losses before tax, after eliminating inter-group interest income and expense, foreign exchange movements on inter-group loans, and inter-group dividends.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. The matters and results were addressed based on procedures solely undertaken for the purpose of forming our opinion on the financial statements as a whole, and are consequently incidental to that opinion. We therefore do not provide a separate opinion on these matters.

	The risk	Our response
Carrying value of Resort Theme Parks goodwill £209 million *(2016: £202 million)* Refer to pages 61 to 65 (Audit Committee Report) and pages 114 to 116 (accounting policy and financial disclosures). Risk vs 2016: ◀▶	**Forecast based valuation:** A history of business combinations results in significant goodwill balances. The Resort Theme Parks (RTP) Operating Group is capital intensive and unlike the other Operating Groups has not generated headroom via growth from new site openings. As RTP has been impaired in the past and has a small amount of headroom there is a risk that its goodwill will not be supportable by its continuing operations. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting future cash flows and determining the most appropriate rate to discount them. In particular, the recovery rate of the UK theme parks, especially Alton Towers, following the accident on 'The Smiler' ride in 2015, is a materially sensitive assumption supporting the RTP goodwill valuation.	Our procedures included: **Extrapolating past forecasting accuracy:** assessing five years' historical accuracy of the Group's forecasting and building comparable variations in forecasting accuracy into our own models that were used to re-perform the valuation; **Historical accuracy:** comparing expected changes in cash flows (from activities such as new promotions and customer experience improvements) and the planned cost base, against the past results of similar activities carried out by the Group; **Benchmarking assumptions:** benchmarking Group earnings multiple and discount rates (including the underlying assumptions used) against market data, including publicly available analysts' reports and peer comparison using our own valuation experts; **Sensitivity analysis:** assessing the reasonableness of management's sensitivity analysis, which included calculating the impact of changes in key assumptions, performing breakeven analysis of the earnings multiple, discount rates, forecast cash flows, and modelling the cash flows of a base case scenario; **Comparing valuations:** comparing the sum of the discounted cash flows across the Group to the Group's market capitalisation to assess the reasonableness of the future cash flows, discount rate and long term growth rate; and **Assessing transparency:** assessing whether the Group's sensitivity disclosures regarding the impairment testing adequately reflect the risks inherent in the valuation of goodwill. **Our results** • We found the resulting estimate of the recoverable amount of Resort Theme Parks goodwill to be acceptable *(2016: acceptable).*

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC

	The risk	Our response
Revenue recognition £1,594 million *(2016: £1,457 million)* Refer to pages 61 to 65 (Audit Committee Report) and page 103 (accounting policy). Risk vs 2016: ◀▶	**Accurate recording:** Merlin's revenues come from a number of different channels, locations and systems, sometimes featuring manual processes to match past purchases to redemptions or to transfer data to the finance systems. The low value of individual transactions means individual errors would be insignificant, however they would be difficult to detect and the high volume of transactions mean systemic failure could lead to errors that aggregate into material balances.	Our procedures included: **Control design:** testing of the general IT control environment of the systems used to record revenue and evaluating controls over the revenue process including their operating effectiveness; **Control operation:** testing the design, implementation and operating effectiveness of manual controls supporting revenue recognition, including reconciliations of till records to cash banked and to revenue journal entries in the accounting records; **Expectation vs outcome:** forming an expectation for revenue by analysing total cash received per bank statements as adjusted for non-revenue transactions, sales taxes collected and balance sheet movements and comparing this expectation to revenue recognised; and **Tests of detail:** agreeing a sample of revenue transactions to bank statements or other supporting information. Testing of deferred and accrued revenue balances through agreeing back to ticketing system records and re-computing any manual calculations. **Our results** • We found the recording of the revenue to be acceptable *(2016: acceptable)*.

	The risk	Our response
Recoverability of the parent Company's investment in and inter-group receivable balances with subsidiaries *£4,581 million (2016: £4,344 million)* Refer to pages 61 to 65 (Audit Committee Report) and pages 145 to 149 (accounting policy and financial disclosures). Risk vs 2016: ◀▶	**Low risk, high value:** The carrying amount of the parent Company's investment in and inter-group receivable balances from subsidiaries represents 99.8% *(2016: 100%)* of the parent Company's total assets. Their recoverability does not lead to a high risk of significant misstatement, nor is it subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: **Tests of detail:** for the investment and inter-group balances where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment and inter-group receivable balances with the expected value of the business based on the Group's market capitalisation as adjusted by monetary assets and liabilities held by the parent Company. **Our results** • We found the Group's assessment of the recoverability of the investment in and inter-group receivable balances from subsidiaries to be acceptable *(2016: acceptable)*.

We continue to perform procedures over the valuation of the Group's other non-current assets. However, as we have concluded there are less significant judgements made and a low risk of misstatement, we have not assessed this area as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at £14,500,000 *(2016: £14,500,000)*, determined with reference to a benchmark of profit before tax, of which it represents 5.4% *(2016: 5.2%)*.

Materiality for the parent Company financial statements was set at £4,500,000 *(2016: £4,500,000)* by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.1% of the parent Company's total assets *(2016: 0.1%)*.

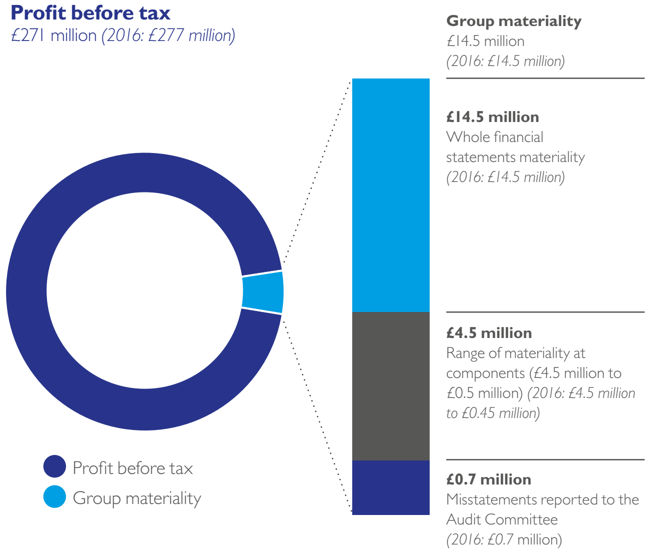
We reported to the Audit Committee any corrected or uncorrected identified misstatements affecting profit exceeding £700,000 *(2016: £700,000)* or otherwise exceeding £2,000,000 *(2016: £2,000,000)*, in addition to other audit misstatements that warranted reporting on qualitative grounds.

The scope of our work included the audit of 82% *(2016: 79%)* of the total profits and losses that made up Group profit before tax, 75% *(2016: 74%)* of total Group revenue and 75% *(2016: 70%)* of total Group property, plant and equipment. This included the audit, for Group reporting purposes, of the financial information of certain components. It also included procedures on finance costs and assets established on consolidation; the total of these balances were audited at Group level. Audits for Group reporting purposes, including those performed by the Group audit team, were performed at components in the following countries: Australia, China (including Hong Kong), Denmark, Germany, Italy, Japan, UK and USA. The components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work and provided further coverage over the Group's results of 7% *(2016: 8%)* of total profits or losses that made up Group profit before tax. We select these components on a rotational basis, setting a financial threshold on each of the Group profit before tax, Group revenue and Group property, plant and equipment and using our assessment of risk to select a sample of sites from those that meet at least one of these thresholds.

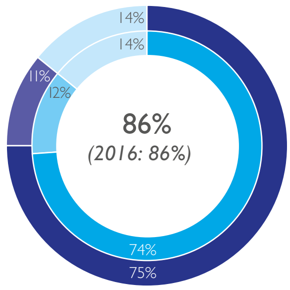
The remaining 11% *(2016: 13%)* of total profits and losses that made up Group profit before tax, 14% *(2016: 14%)* of total Group revenue and 16% *(2016: 16%)* of total Group property, plant and equipment were represented by a large number of smaller reporting components. None of these components individually represent more than 1.2% *(2016: 1.8%)* of any of the total profits or losses that made up Group profit before tax, total Group revenue or total Group property, plant and equipment.

For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these components.

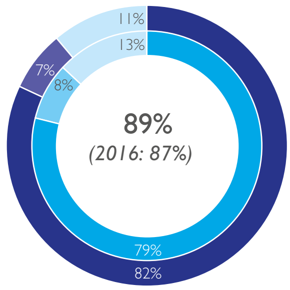
Profit before tax
£271 million *(2016: £277 million)*



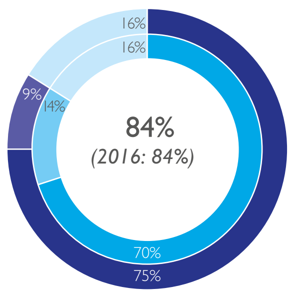
Revenue



Total profits and losses



Property, plant and equipment



Key:

- Full scope for Group audit purposes 2017
- Specified risk-focused procedures 2017
- Full scope for Group audit purposes 2016
- Specified risk-focused procedures 2016
- Analysis at an aggregated Group level

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC

The Group team approved the component materialities, which ranged from £500,000 to £4,500,000 *(2016: £450,000 to £4,500,000)* having regard to the mix of size and risk profile across components, and where applicable, giving consideration to the local statutory materiality set by the component teams where this was lower.

The Group audit team carried out audits for Group reporting purposes of the financial information of components covering 33% *(2016: 34%)* of the total profits and losses that made up Group profit before tax, including the audit of the parent Company. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, covering a further 4% *(2016: 3%)* of the total profits and losses that made up Group profit before tax.

Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas required to 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 key component locations in Germany and Japan. Additionally we performed inspection of the work covering the key audit matters at all component audit teams performing audits for Group reporting purposes. Teleconferences were held with all component auditors. During these meetings, the Group team provided further input to audit risk and strategy, and the findings reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditor.

4 We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 88 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion, the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate Governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 89, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific area of health and safety, recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Green
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Chandlers Ford
Southampton
SO53 3TG

28 February 2018

PRIMARY STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

	Note	2017 £m	2016 £m
Revenue	2.1	1,594	1,457
Cost of sales	2.1	(255)	(227)
Gross profit		1,339	1,230
Staff expenses	2.1	(420)	(382)
Marketing		(85)	(75)
Rent		(104)	(93)
Other operating expenses		(256)	(229)
EBITDA(1)	2.1	474	451
Depreciation and amortisation	3.1, 3.2	(151)	(131)
Operating profit		323	320
Finance income	2.3	3	3
Finance costs	2.3	(55)	(46)
Profit before tax		271	277
Taxation	2.4	(62)	(66)
Profit for the year(2)		**209**	**211**
Earnings per share			
Basic earnings per share (p)	2.5	20.5	20.8
Diluted earnings per share (p)	2.5	20.5	20.7
Dividend per share(3) (p)	4.5	7.4	7.1

(1) 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.
(2) Profit for the year for 2017 and 2016 is wholly attributable to the owners of the Company.
(3) Dividend per share represents the interim paid and final proposed dividend for the year.

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

	Note	2017 £m	2016 £m
Profit for the year		209	211
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Defined benefit plan remeasurement gains and losses	5.2	2	(6)
Income tax on items relating to components of other comprehensive income	2.4	–	1
		2	(5)
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		3	176
Exchange differences relating to the net investment in foreign operations		(15)	(45)
Cash flow hedges – effective portion of changes in fair value		4	(3)
Income tax on items relating to components of other comprehensive income	2.4	(1)	(1)
		(9)	127
Other comprehensive income for the year net of income tax		(7)	122
Total comprehensive income for the year[1]		**202**	**333**

(1) Total comprehensive income for 2017 and 2016 is wholly attributable to the owners of the Company.

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 December 2017 *(2016: 31 December 2016)*

	Note	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	3.1	2,092	1,841
Goodwill and intangible assets	3.2	1,018	1,017
Investments	5.1	59	49
Other receivables	3.4	11	13
Deferred tax assets	2.4	33	38
		3,213	2,958
Current assets			
Inventories	3.4	37	36
Trade and other receivables	3.4	100	86
Derivative financial assets		5	3
Cash and cash equivalents	4.1	309	215
		451	340
Total assets		3,664	3,298
Current liabilities			
Interest-bearing loans and borrowings	4.2	7	5
Finance leases	4.4	1	–
Derivative financial liabilities		3	5
Trade and other payables	3.4	306	300
Tax payable		37	39
Provisions	3.5	5	3
		359	352
Non-current liabilities			
Interest-bearing loans and borrowings	4.2	1,271	1,147
Finance leases	4.4	190	88
Other payables	3.4	28	28
Provisions	3.5	72	65
Employee benefits	5.2	6	11
Deferred tax liabilities	2.4	171	179
		1,738	1,518
Total liabilities		2,097	1,870
Net assets		**1,567**	**1,428**
Issued capital and reserves attributable to owners of the Company		1,563	1,424
Non-controlling interest		4	4
Total equity	4.5	**1,567**	**1,428**

The financial statements were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 27 December 2015		10	–	(135)	–	1,270	1,145	4	1,149
Profit for the year		–	–	–	–	211	211	–	211
Other comprehensive income for the year net of income tax		–	–	130	(3)	(5)	122	–	122
Total comprehensive income for the year		–	–	130	(3)	206	333	–	333
Shares issued		–	2	–	–	–	2	–	2
Equity dividends	4.5	–	–	–	–	(67)	(67)	–	(67)
Equity-settled share-based payments	4.6	–	–	–	–	11	11	–	11
At 31 December 2016		**10**	**2**	**(5)**	**(3)**	**1,420**	**1,424**	**4**	**1,428**
Profit for the year		–	–	–	–	209	209	–	209
Other comprehensive income for the year net of income tax		–	–	(13)	4	2	(7)	–	(7)
Total comprehensive income for the year		–	–	(13)	4	211	202	–	202
Shares issued	4.5	–	8	–	–	–	8	–	8
Equity dividends	4.5	–	–	–	–	(74)	(74)	–	(74)
Equity-settled share-based payments	4.6	–	–	–	–	3	3	–	3
At 30 December 2017	4.5	**10**	**10**	**(18)**	**1**	**1,560**	**1,563**	**4**	**1,567**

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		209	211
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	151	131
Finance income	2.3	(3)	(3)
Finance costs	2.3	55	46
Taxation	2.4	62	66
		474	451
Profit on sale of property, plant and equipment		(3)	(1)
Working capital changes		1	23
Changes in provisions and other non-current liabilities		5	10
		477	483
Tax paid		(64)	(50)
Net cash inflow from operating activities		413	433
Cash flows from investing activities			
Interest received		1	1
Acquisition of remaining share of joint venture		–	(1)
Acquisition of investments	5.1	(12)	(32)
Purchase of property, plant and equipment		(336)	(259)
Disposal of property, plant and equipment		4	4
Net cash outflow from investing activities		(343)	(287)
Cash flows from financing activities			
Proceeds from issue of share capital	4.5	8	2
Equity dividends paid	4.5	(74)	(67)
Proceeds from borrowings	4.2	178	–
Repayment of borrowings	4.2	(43)	–
Capital repayments of finance leases		(1)	–
Interest paid		(46)	(41)
Financing costs		(2)	–
Net cash inflow/(outflow) from financing activities		20	(106)
Net increase in cash and cash equivalents		90	40
Cash and cash equivalents at beginning of year	4.1	215	152
Effect of movements in foreign exchange		4	23
Cash and cash equivalents at end of year	4.1	**309**	**215**

NOTES TO THE ACCOUNTS

SECTION 1 BASIS OF PREPARATION

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

1.1 BASIS OF PREPARATION

Merlin Entertainments plc (the Company) is a public company limited by shares which is incorporated in the United Kingdom and its registered office is Link House, 25 West Street, Poole, Dorset BH15 1LD.

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 continues to prepare its parent Company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The accounting policies 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 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*. The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

The consolidated financial statements are presented in Sterling.

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

Going concern

The Group reported a profit for the year of £209 million *(2016: £211 million)* and generated operating cash inflows of £413 million *(2016: £433 million)*. The Group is funded by senior unsecured bank facilities due for repayment in 2020 and senior unsecured notes due for repayment in 2022. During the year an additional €200 million of the Group's notes were issued at 103.5% of their nominal value (£178 million) with the proceeds partly used to repay €50 million (£43 million) of the term debt. It is likely in the next 18 months that the Group will look to refinance the bank facilities due for repayment in 2020. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.2.

After reviewing the Group's and Company's statement of financial position, available facilities, cash flow forecasts and trading budgets, including various downside sensitivities, the Directors believe the Group to be operationally and financially sound and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc and its subsidiaries 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.

Foreign currency

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

The results and financial position of those Group companies that do not have a Sterling functional currency are translated into Sterling as follows:
- Assets and liabilities are translated at the closing rate at the end of the reporting period.
- Income and expenses are translated at average exchange rates during the period.
- All resulting exchange differences are recognised in equity in the translation reserve.

The reporting date foreign exchange rates by major currency are provided in note 4.3.

NOTES TO THE ACCOUNTS

SECTION I BASIS OF PREPARATION (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

1.1 BASIS OF PREPARATION (CONTINUED)

Classification of financial instruments issued by the Group

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

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and 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.

Judgements

Management consider the following areas to be the judgements that have the most significant effect on the amounts recognised in the financial statements. They are explained in more detail in the related notes:

- Useful life of brands (note 3.2) – where a brand has been recognised as part of an acquisition they have been assessed as having indefinite useful lives.
- Goodwill impairment reviews (note 3.3) – the level at which goodwill is initially allocated and thereafter monitored.

Estimates

Management consider the following area to involve a significant degree of estimation uncertainty:

- Valuation of Resort Theme Parks Operating Group (RTP) assets and impairment (note 3.3) – estimation of discounted cash flows when calculating the value in use of assets.

Other non-significant areas that include a degree of estimation uncertainty are:

- Valuation of assets and impairment, excluding RTP (note 3.3) – estimation of discounted cash flows when calculating the value in use of assets.
- Taxation (note 2.4) – recognition of deferred tax balances and accounting for tax risks.
- Provisions (note 3.5) – estimated outflow to settle the obligation and, where relevant, the appropriate discount and inflation rates to apply.
- Interest-bearing loans and borrowings (note 4.2) – expected period of borrowings when calculating the effective interest rate on those borrowings.
- Share-based payment transactions (note 4.6) – estimation of future performance when estimating vesting rates on share schemes.
- Investments (note 5.1) – expected period of and eventual return on investments when calculating the effective interest rate.
- Employee benefits (note 5.2) – assumed discount rate, inflation rate and mortality when valuing defined benefit liabilities.

While these areas do not present a significant risk resulting in a material adjustment, they are areas of focus for management.

New standards and interpretations

A full list of new accounting standards and interpretations can be found in note 5.5. This includes standards that have been implemented in the year, which have had no significant impact. It also includes those standards that will be implemented next year or in future years, including our assessment of the potential impacts of IFRS 9 'Financial instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases'.

SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

2.1 PROFIT BEFORE TAX

Segmental information

An operating segment, as defined by IFRS 8 'Operating segments', 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, and the Board. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items[1] £m	Total £m
2017						
Segment revenue	656	609	329	1,594	–	1,594
Segment profit, being segment EBITDA	220	230	72	522	(48)	474
Segment depreciation and amortisation	(68)	(39)	(36)	(143)	(8)	(151)
Segment operating profit	152	191	36	379	(56)	323
2016						
Segment revenue	638	495	322	1,455	2	1,457
Segment profit, being segment EBITDA	236	193	70	499	(48)	451
Segment depreciation and amortisation	(64)	(28)	(32)	(124)	(7)	(131)
Segment operating profit	172	165	38	375	(55)	320

(1) Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

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 2017 £m	Non-current assets 2017 £m	Revenues 2016 £m	Non-current assets 2016 £m
United Kingdom	486	921	486	881
Continental Europe	389	986	367	919
North America	438	620	404	628
Asia Pacific	281	594	200	443
	1,594	3,121	1,457	2,871
Deferred tax (note 2.4)		33		38
Investments (note 5.1)		59		49
		3,213		2,958

Revenue accounting policy

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts received from customers (excluding VAT and similar taxes) for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship.

Ticket revenue is recognised at point of entry. Revenue from the sale of annual passes is deferred and then recognised evenly over the period that the pass is valid. Retail and food and beverage sales revenues are recognised at the point of sale. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation. Sponsorship revenue is recognised over the relevant contract term. 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 2017 and 2016 is not material.

NOTES TO THE ACCOUNTS

SECTION 2 RESULTS FOR THE YEAR (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

2.1 PROFIT BEFORE TAX (CONTINUED)

Cost of sales

Cost of sales of £255 million *(2016: £227 million)* represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activities. Retail inventory, food and beverage consumables and costs associated with the delivery of accommodation are the principal expenses included within 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:

	2017	2016
Operations	17,834	17,422
Attraction management and central administration	2,037	2,067
	19,871	19,489

The aggregate payroll costs of these persons were as follows:

	2017 £m	2016 £m
Wages and salaries	360	321
Share-based payments (note 4.6)	3	11
Social security costs	44	39
Other pension costs	13	11
	420	382

Related party transactions with key management personnel

Key management comprises the Executive and Non-executive Directors of the Board and the members of the Executive Committee. Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 66 to 87.

The remuneration of key management was as follows:

	2017 £m	2016 £m
Key management emoluments including social security costs	4.8	4.8
Contributions to money purchase pension schemes	0.1	0.2
Share-based payments and other related payments	1.5	2.8
	6.4	7.8

Auditor's remuneration

	2017 £m	2016 £m
Audit of these financial statements	1.4	1.3
Audit of financial statements of subsidiaries	0.4	0.3
Other assurance services	0.2	0.3
Other services relating to taxation compliance	–	0.4
Services relating to corporate finance transactions	0.1	–
	2.1	2.3

2.2 EXCEPTIONAL ITEMS

Accounting policy

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

There were no exceptional items in 2017 or 2016.

2.3 FINANCE INCOME AND COSTS

Accounting policies

Income and costs

Finance income comprises interest income from financial assets and investments, 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

Where assets take a substantial time to complete, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of those assets.

Finance income

	2017 £m	2016 £m
In respect of assets not held at fair value		
Interest income	3	2
Other		
Net foreign exchange gain	–	1
	3	3

Finance costs

	2017 £m	2016 £m
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	47	43
Re-measurement of financial liabilities measured at amortised cost (note 4.2)	4	–
Other interest expense	2	3
Other		
Net foreign exchange loss	2	–
	55	46

Capitalised borrowing costs amounted to £3 million in 2017 *(2016: £2 million)*, with a capitalisation rate of 2.9% *(2016: 2.9%)*. Tax relief on capitalised borrowing costs amounted to £1 million in 2017 *(2016: £1 million)*.

NOTES TO THE ACCOUNTS

SECTION 2 RESULTS FOR THE YEAR (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

2.4 TAXATION

Accounting policies

The tax charge for the year is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised. This assessment is made after considering a number of factors, including the Group's future trading expectations.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Tax provisions are based on management's estimate of the amount of tax payable and the likelihood of settlement in relation to matters which have yet to be concluded. These include matters arising from ongoing audits, as well as other uncertain positions. A combination of in-house tax experts, previous experience and professional firms is used when assessing tax risks. Current provisions represent a number of different matters arising across the various jurisdictions in which the Group operates. It is currently unclear when these matters will be settled, but certain matters have been open for several years and may not be resolved in the coming year.

Recognised in the income statement

	2017 £m	2016 £m
Current tax expense		
Current year	65	63
Adjustment for prior periods	(3)	2
Total current income tax	62	65
Deferred tax expense		
Origination and reversal of temporary differences	24	7
Changes in tax rate	(25)	(5)
Adjustment for prior periods	1	(1)
Total deferred tax	–	1
Total tax expense in income statement	62	66

Reconciliation of effective tax rate

	2017 %	2017 £m	2016 %	2016 £m
Profit before tax		271		277
Income tax using the UK domestic corporation tax rate	19.3%	52	20.0%	56
Non-deductible expenses		8		9
Income not subject to tax		(14)		(12)
Effect of tax rates in foreign jurisdictions		22		19
Effect of changes in tax rate		–		(5)
Unrecognised temporary differences		4		(1)
Effect of recognising deferred tax assets previously unrecognised		(1)		(1)
Effect of USA tax reform		(7)		–
Adjustment for prior periods		(2)		1
Total tax expense in income statement	22.9%	62	23.8%	66

The effective tax rate (ETR) reflects updates to the headline UK rate, including the effect on the measurement of deferred tax.

The difference between the reported ETR of 22.9% and the UK standard tax rate of 19.3% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, particularly the USA, in relation to the current and prior year. In addition, the reported rate is increased by non-deductible expenses which primarily arise as a result of depreciation on capital expenditure from continued investment in our attractions. These factors are offset by the Group's internal financing arrangements, which have been put in place to support development and ongoing funding needs in overseas territories, and the impact of the package of measures enacted in the Tax Cuts and Jobs Act (USA tax reform) in the USA on 22 December 2017.

The Group's ETR has fallen from 23.8% to 22.9%. This is driven by the USA tax reform. The net £7 million (2.4%) reduction in current year ETR comprises:
(i) the effect of changes in tax rates (£25 million) as deferred tax liabilities have been revalued due to the federal tax rate reducing from 35% to 21% effective 1 January 2018; offset by
(ii) an increase in unrecognised temporary differences (£9 million) resulting from new restrictions on interest deductibility; and
(iii) other tax charges and deductions (£9 million) originating from revisions to the USA taxation of foreign investments.

Significant factors impacting on the Group's future ETR include the USA tax reform, the ability to continue current financing arrangements and changes to local or international tax laws. With regard to the latter, the European Commission's preliminary findings relating to the UK's Controlled Foreign Company rules are further detailed in note 5.4.

Otherwise, the Group's future ETR will primarily be affected by the geographic mix of profits.

Recognised directly in equity through the statement of other comprehensive income

	2017 £m	2016 £m
Foreign exchange translation differences relating to the net investment in foreign operations	1	1
Remeasurement gains and losses on defined benefit plans	–	(1)
Total tax expense in statement of other comprehensive income	1	–

NOTES TO THE ACCOUNTS

SECTION 2 RESULTS FOR THE YEAR (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

2.4 TAXATION (CONTINUED)

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Property, plant and equipment	19	20	(130)	(148)	(111)	(128)
Other short term temporary differences	29	42	(8)	(6)	21	36
Intangible assets	–	–	(50)	(50)	(50)	(50)
Tax value of loss carry-forwards	2	1	–	–	2	1
Tax assets/(liabilities)	50	63	(188)	(204)	(138)	(141)
Set-off tax	(17)	(25)	17	25	–	–
Net tax assets/(liabilities)	33	38	(171)	(179)	(138)	(141)

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

	1 January 2017 £m	Recognised in income – USA tax reform £m	Recognised in income – other £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	30 December 2017 £m
Property, plant and equipment	(128)	28	(17)	–	6	(111)
Other short term temporary differences	36	(12)	–	(1)	(2)	21
Intangible assets	(50)	–	–	–	–	(50)
Tax value of loss carry-forwards	1	–	1	–	–	2
Net tax assets/(liabilities)	(141)	16	(16)	(1)	4	(138)

In 2017 movements recognised in the income statement in respect of property, plant and equipment were principally due to the revaluation of deferred tax liabilities in the USA partially offset by allowances utilised in the UK. Movements in other short term temporary differences were mainly due to the impact of the USA tax reforms described previously and the provision for future deductions in respect of employee share options.

Movement in deferred tax during the previous year

	27 December 2015 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	31 December 2016 £m
Property, plant and equipment	(102)	(5)	–	(21)	(128)
Other short term temporary differences	26	4	1	5	36
Intangible assets	(47)	2	–	(5)	(50)
Tax value of loss carry-forwards	3	(2)	–	–	1
Net tax assets/(liabilities)	(120)	(1)	1	(21)	(141)

In 2016 movements recognised in the income statement in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA offset by the impact of rate reductions in Italy. Movements in other short term temporary differences were mainly due to providing for future deductions in respect of employee share options.

Unrecognised deferred tax assets

	2017 £m	2016 £m
Property, plant and equipment	–	2
Other short term temporary differences	22	16
Tax value of loss carry-forwards	61	57
Net unrecognised tax assets	83	75

The unrecognised deferred tax assets relating to loss carry-forwards include £2 million *(2016: £2 million)* expiring in 0-5 years and £6 million *(2016: £2 million)* expiring in 6-10 years. The remaining losses and other timing differences do not expire under current tax legislation.

The nature and location of the tax losses carried forward are such that there is currently no expectation that the losses will be utilised.

2.5 EARNINGS PER SHARE

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2017 £m	2016 £m
Profit attributable to ordinary shareholders	209	211

	2017	2016
Basic weighted average number of shares	1,018,610,976	1,014,358,232
Dilutive potential ordinary shares	2,083,168	3,785,770
Diluted weighted average number of shares	1,020,694,144	1,018,144,002

Share incentive plans (see note 4.6) are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2017 and 2016, the PSP has a marginal dilutive effect as the performance measures have been partially achieved. The DBP, CSOP and AESP are marginally dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2017 Pence	2016 Pence
Basic earnings per share on profit for the year[1]	20.5	20.8
Diluted earnings per share on profit for the year[1]	20.5	20.7

(1) Earnings per share is calculated based on figures before rounding and is then rounded to one decimal place.

NOTES TO THE ACCOUNTS

SECTION 3 OPERATING ASSETS AND LIABILITIES

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

3.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

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

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

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

Assets acquired through business combinations

At the time of a business combination PPE is separately recognised and valued. Given the specialised nature of the PPE acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out below. Residual values are based on industry specific indices.

New sites

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

On inception of a lease for a new site, where required, the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

Existing sites

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction or which extends the operational life of, or enhances existing items of, PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and usable 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

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. Depreciation is then charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Asset lives for plant and equipment vary depending on the nature of the asset, from short life assets such as IT assets, up to long term infrastructure assets. No residual values are typically considered.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold/long leasehold buildings	50 years
Leasehold buildings	20–50 years (dependent on life of lease)
Plant and equipment	5–30 years

Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
Balance at 27 December 2015	977	1,058	100	2,135
Acquisition of remaining share of joint venture	–	1	–	1
Additions – owned assets	13	55	205	273
Movements in asset retirement provisions	5	1	–	6
Disposals	(5)	(8)	–	(13)
Transfers	39	86	(125)	–
Effect of movements in foreign exchange	157	116	10	283
Balance at 31 December 2016	1,186	1,309	190	2,685
Additions – owned assets	10	41	278	329
Additions – leased assets	98	13	–	111
Movements in asset retirement provisions (note 3.5)	2	1	–	3
Disposals	(2)	(7)	–	(9)
Transfers	70	188	(258)	–
Effect of movements in foreign exchange	(29)	(23)	(5)	(57)
Balance at 30 December 2017	1,335	1,522	205	3,062
Depreciation				
Balance at 27 December 2015	210	430	–	640
Depreciation for the year – owned assets	38	87	–	125
Depreciation for the year – leased assets	1	3	–	4
Disposals	(3)	(7)	–	(10)
Effect of movements in foreign exchange	35	50	–	85
Balance at 31 December 2016	281	563	–	844
Depreciation for year – owned assets	36	105	–	141
Depreciation for year – leased assets	4	4	–	8
Disposals	(1)	(7)	–	(8)
Effect of movements in foreign exchange	(9)	(6)	–	(15)
Balance at 30 December 2017	311	659	–	970
Carrying amounts				
At 27 December 2015	767	628	100	1,495
At 31 December 2016	905	746	190	1,841
At 30 December 2017	1,024	863	205	2,092

NOTES TO THE ACCOUNTS

SECTION 3 OPERATING ASSETS AND LIABILITIES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

3.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is calculated in line with the policy stated previously. During the year the Group reviews useful economic lives and tests PPE for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result no material adjustments were made in either 2016 or 2017.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. Additions of leased assets in the period of £111 million are in respect of the LEGOLAND Japan finance lease entered into on the opening of the park in April 2017 (note 4.4).

At 30 December 2017 the net carrying amount of leased buildings was £103 million *(2016: £16 million)* and the net carrying amount of leased plant and equipment was £38 million *(2016: £29 million)*. Further details in respect of leases and lease obligations are provided in note 4.4.

Capital commitments

At the year end the Group had a number of outstanding capital commitments in respect of capital expenditure at its existing attractions, including accommodation, and for Midway attractions that are under construction. These are expected to be settled within two financial years of the reporting date. These amount to £104 million *(2016: £82 million)* for which no provision has been made.

At year end foreign exchange rates, the Group is expecting to invest a further £39 million *(2016: £62 million)* in the LEGOLAND Japan Resort in relation to the hotel and SEA LIFE Centre due to open in 2018. In addition, at year end foreign exchange rates, the Group is intending to invest £73 million *(2016: £72 million)* in LEGOLAND Korea and £250 million in LEGOLAND New York.

3.2 GOODWILL AND INTANGIBLE ASSETS

Accounting policies

Goodwill represents the difference between the cost of an acquisition and the fair value of the identifiable net assets acquired less any contingent liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands have been valued based on discounted future cash flows using the relief from royalty method, including amounts into perpetuity. Currently all such brands held are assessed as having indefinite useful economic lives. This assessment is based upon the strong historical performance of the brands over a number of economic cycles, the ability to roll out our brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a finite life on the brands. The brands are tested annually for impairment.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets comprise software licences, sponsorship rights and other contract based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

Goodwill and intangible assets

		Intangible assets		
	Goodwill £m	Brands £m	Other £m	Total £m
Cost				
Balance at 27 December 2015	906	182	28	1,116
Additions	–	–	1	1
Effect of movements in foreign exchange	87	14	4	105
Balance at 31 December 2016	993	196	33	1,222
Additions	–	–	3	3
Effect of movements in foreign exchange	(1)	2	–	1
Balance at 30 December 2017	992	198	36	1,226
Amortisation				
Balance at 27 December 2015	169	12	12	193
Amortisation for the year	–	–	2	2
Effects of movements in foreign exchange	8	1	1	10
Balance at 31 December 2016	177	13	15	205
Amortisation for the year	–	–	2	2
Effect of movements in foreign exchange	1	–	–	1
Balance at 30 December 2017	178	13	17	208
Carrying amounts				
At 27 December 2015	737	170	16	923
At 31 December 2016	816	183	18	1,017
At 30 December 2017	814	185	19	1,018

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result of these tests, no impairment charges have been made in the year *(2016: £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 foreign exchange rates.

	2017 £m	2016 £m
Midway Attractions	563	572
LEGOLAND Parks	42	42
Resort Theme Parks	209	202
	814	816

NOTES TO THE ACCOUNTS

SECTION 3 OPERATING ASSETS AND LIABILITIES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Brands

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2017 £m	2016 £m
Midway Attractions		
Madame Tussauds	28	29
SEA LIFE	17	16
London Eye	10	10
Other	8	8
	63	63
Resort Theme Parks		
Gardaland Resort	51	49
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	12	12
Other	12	12
	122	120
	185	183

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. The London Eye, Gardaland Resort, Alton Towers Resort, THORPE PARK and Heide Park brands all arise from those specific visitor attractions.

3.3 IMPAIRMENT TESTING

Accounting policies

The carrying amounts of the Group's goodwill, intangible assets and PPE are reviewed at the end of each reporting period 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 at an individual CGU level.
PPE	PPE is reviewed at an individual CGU level, being the Group's individual attractions.

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

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

Calculation of recoverable amount

In accordance with accounting standards, the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. The Group uses a multiple of EBITDA to estimate fair value which is based on the Group's average market capitalisation as a multiple of the Group's underlying EBITDA.

Where recoverable amount was based upon value in use, testing was performed by reference to the forward looking consolidated guidance communicated externally in October 2017, as well as subsequent scenario planning. This guidance was based on the Group's internally approved five year business plan, being the current year and four future years, adjusted to reflect the potential for a continuation in the near term of the unforeseeable and uncontrollable events experienced in 2017, such as global terrorism continuing to impact our largest locations and extreme weather during peak trading periods.

Whilst it is possible that similar events may occur in the future, these events are such that their nature, timing and extent cannot be precisely forecast, nor can management reliably estimate which site or Operating Group they may affect.

In preparing the impairment calculations for the Resort Theme Parks Operating Group (RTP), where headroom is most limited, management have therefore reviewed the growth expectations for each of the parks, forming their best estimate based on a balanced assessment of what risks might crystallise for each site in the short to medium term; key to this was the pace of recovery of RTP in the UK, the potential for disruptive terrorist activities and historical weather patterns in Southern Europe. Reference was also made to current trading information, such as sales of annual passes and pre-booked accommodation.

On the basis of these forecasts no impairment has been indicated.

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

Estimate	
Future cash flows	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure. The Group uses EBITDA less an allocation of central costs, in line with other recharges which occur in the business, as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
Growth in EBITDA	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.
Timing and quantum of future capital and maintenance expenditure	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
Long term growth rate	A growth rate of 2.5% *(2016: 2.5%)* was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.
Discount rates to reflect the risks involved	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Net present values are calculated using pre-tax discount rates derived from the Group's post-tax weighted average cost of capital.

	Pre-tax discount rates		Post-tax discount rates	
	2017	**2016**	**2017**	**2016**
Midway Attractions	9.8%	10.5%	7.8%	8.1%
LEGOLAND Parks	10.2%	10.8%	7.6%	7.7%
Resort Theme Parks	10.2%	11.0%	8.3%	8.7%

NOTES TO THE ACCOUNTS

SECTION 3 OPERATING ASSETS AND LIABILITIES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

3.3 IMPAIRMENT TESTING (CONTINUED)

Sensitivity analysis

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions.

When reviewing the outputs of the impairment testing and performing sensitivity analysis, particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £32 million *(2016: £26 million)*. The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

In undertaking sensitivity analysis for RTP, consideration has been given to movements in forecast EBITDA, increases in discount rates and reductions in long term growth rates.

At the year end the Directors consider that the forecasts used reflect the current best estimate of future trading in RTP. It is noted, however, that the calculations are inherently sensitive to the pace of the recovery at Alton Towers, weather patterns and the wider economic trading environment. While in the short term a slower recovery would be highly unlikely to affect valuations by a substantial amount, longer term shortfalls that affect the outlook for the fourth year of the plan (which drives the terminal value) would have a more significant impact. If EBITDA for RTP as a whole was forecast to be 3% *(2016: 3%)* lower than currently anticipated for 2022 *(2016: that anticipated for 2021)*, headroom would be absorbed in full.

Furthermore, the Directors considered a scenario with the continued manifestation of the risks described in the October 2017 strategic update, being headwinds from global terrorism, extreme weather and a slower pace of recovery at Alton Towers. Management's view is that were the negative impacts suffered in 2017 to continue, aligned with its core discipline around prudent capital allocation and consistent with other attractions in the estate with a slower rate of growth, capital investment would be further tempered to reflect the reduction in incremental returns which could be generated. In this scenario the headroom would be reduced from £32 million to £11 million.

While it is not impossible for either shortfall to occur, the Directors do not consider it to be probable based on the strength of the product development, diversity across the businesses in RTP and our proven track record in scaling our cost base and capital plan to respond to changing demand.

Discount rates have been derived from market data. As these rates are intended to be long term in nature, they are expected to be reasonably stable in the short term, however market discount rates could increase in the future. If the discount rate used across RTP had been higher by a factor of 3% to 10.5% *(2016: 3% to 11.3%)*, headroom would have been absorbed in full. The Directors have formed their best estimate of the discount rate and do not consider that such a move in the rate is appropriate, but it is not impossible that a different view of discount rates could be required in the future.

The long term growth rate, which is applied to the cash flows of the final year in the business plan, was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth. The Directors do not consider it probable that this rate will prove to be inappropriate in the future, but note that if circumstances caused the rate to lower to 2.1% *(2016: 2.1%)*, headroom would be absorbed in full.

3.4 WORKING CAPITAL

Accounting policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

Inventories

	2017 £m	2016 £m
Maintenance inventory	9	9
Goods for resale	28	27
	37	36

Trade and other receivables

	Current assets		Non-current assets	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	24	20	–	–
Other receivables	36	29	–	–
Prepayments and accrued income	40	37	11	13
	100	86	11	13

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for non-recoverable amounts, is as follows:

	2017 £m	2016 £m
Neither past due nor impaired	18	13
Up to 30 days overdue	5	4
Between 30 and 60 days overdue	1	1
Over 60 days overdue	–	2
	24	20

Trade and other payables

	Current liabilities		Non-current liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade payables	44	63	–	–
Accruals	149	139	1	1
Deferred income	99	84	–	–
Other payables	14	14	27	27
	306	300	28	28

Accruals

Accruals comprise balances in relation to both operating and capital costs incurred at the reporting date but for which an invoice has not been received and payment has not yet been made.

Deferred income

Deferred income comprises revenues received or invoiced at the reporting date which relate to future periods. The main components of deferred income relate to advanced ticket revenues in respect of online bookings and annual pass purchases; pre-booked accommodation; and certain sponsorship and similar arrangements.

NOTES TO THE ACCOUNTS

SECTION 3 OPERATING ASSETS AND LIABILITIES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

3.5 PROVISIONS

Accounting policy

Provisions are recognised when the Group has legal or constructive obligations as a result of past events and it is probable that expenditure will be required to settle those obligations. They are measured at the Directors' best estimates, after taking account of information available and different possible outcomes.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions

	Asset retirement provisions £m	Other £m	Total £m
Balance at 1 January 2017	52	16	68
Provisions made during the year	3	8	11
Utilised during the year	–	(2)	(2)
Unused amounts reversed	–	(1)	(1)
Unwinding of discount	1	–	1
Balance at 30 December 2017	56	21	77
2017			
Current	–	5	5
Non-current	56	16	72
	56	21	77
2016			
Current	–	3	3
Non-current	52	13	65
	52	16	68

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 10 and 60 years.

They are established on inception and reviewed annually. The provisions are discounted back to present value with the discount then being unwound through the income statement as part of finance costs. The cost of establishing these provisions is capitalised within the cost of the related asset.

Other

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

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.1 NET DEBT

Analysis of net debt

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	1 January 2017 £m	Net cash flows[(1)] £m	Interest charge and amortisation of finance costs[(2)] £m	Assets acquired under finance lease £m	Effect of movements in foreign exchange[(3)] £m	30 December 2017 £m
Cash and cash equivalents	215	90	–	–	4	309
Interest-bearing loans and borrowings (note 4.2)	(1,152)	(98)	(42)	–	14	(1,278)
	(937)	(8)	(42)	–	18	(969)
Finance leases (note 4.4)	(88)	9	(8)	(111)	7	(191)
Net debt	(1,025)	1	(50)	(111)	25	(1,160)

(1) Net cash flows include the net drawdown of loans and borrowings and cash interest paid relating to loans and borrowings; and exclude cash interest paid relating to interest rate swaps of £3 million.
(2) Interest charge and amortisation of finance costs include the finance costs relating to loans and borrowings from the income statement; and exclude the finance costs relating to interest rate swaps of £3 million.
(3) As disclosed in notes 4.2 and 4.4 a substantial proportion of the Group's borrowings are denominated in Euros, US Dollars and Japanese Yen.

4.2 INTEREST-BEARING LOANS AND BORROWINGS

Accounting policy

Interest-bearing loans and borrowings are initially recognised at fair value less attributable fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate). If the Group's estimate of the expected life based on repayment subsequently changes, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement, in accordance with IAS 39.

Interest-bearing loans and borrowings

	2017 £m	2016 £m
Non-current		
Floating rate bank facilities due 2020	649	723
£300 million floating rate revolving credit facility due 2020	–	–
€700 million *(2016: €500 million)* fixed rate notes due 2022	622	424
	1,271	1,147
Current		
Interest payable	7	5
	1,278	1,152

NOTES TO THE ACCOUNTS

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.2 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

During the year an additional €200 million of the Group's March 2022 2.75% coupon notes were issued at 103.5% of their nominal value to yield 2.01% (£178 million). The proceeds were partly used to repay €50 million (£43 million) of the floating rate term debt due to mature in March 2020.

The Group's facilities at the year end are:
- Bank facilities comprising £250 million and $540 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.51% *(2016: 0.37%)* and 1.61% *(2016: 0.99%)* respectively at 30 December 2017. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 30 December 2017 was 2.0% *(2016: 2.0%)*.
- A £300 million multi-currency revolving credit facility of which £nil had been drawn down at 30 December 2017 *(2016: £nil)*. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 30 December 2017 was at a margin of 1.75% *(2016: 1.75%)* over the same floating interest rates when drawn.
- €700 million *(2016: €500 million)* notes with a coupon rate of 2.75% to mature in March 2022.

The Group has estimated that a refinancing of the bank facilities and multi-currency revolving credit facility is likely within the next 18 months, which is earlier than that previously assumed for accounting purposes. As a result the Group has accelerated the amortisation of financing costs in respect of these facilities and the resulting adjustment has been recognised as a loss on re-measurement and presented in the income statement as a charge of £4 million (see note 2.3). The fees related to the fixed rate notes are being amortised to the maturity of the notes as the notes are currently expected to be held to their full term.

The borrowings (including the revolving credit facility) and the €700 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €700 million notes. All covenant requirements were satisfied throughout the year.

4.3 FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury Department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or other short term liquid investments such as money market funds. In some countries bank cash pooling arrangements are in place to optimise the use of cash.

As at the reporting date the Group had £309 million of cash and cash equivalents *(2016: £215 million)* and a £300 million revolving credit facility, of which £nil was drawn down *(2016: £300 million of which £nil drawn down)*, in order to meet its obligations and commitments that will fall due.

The following table sets out the contractual maturities of financial liabilities, including interest payments. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 years £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2017					
Floating rate bank facilities due 2020	(21)	(21)	(654)	–	(696)
€700 million fixed rate notes due 2022	(17)	(17)	(665)	–	(699)
Finance lease liabilities	(10)	(10)	(30)	(304)	(354)
Derivatives	1	1	1	–	3
Trade payables	(44)	–	–	–	(44)
	(91)	(47)	(1,348)	(304)	(1,790)

	0 to <1 years £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2016					
Floating rate bank facilities due 2020	(20)	(20)	(754)	–	(794)
€500 million fixed rate notes due 2022	(12)	(12)	(24)	(444)	(492)
Finance lease liabilities	(7)	(7)	(20)	(170)	(204)
Derivatives	(3)	(3)	(4)	–	(10)
Trade payables	(63)	–	–	–	(63)
	(105)	(42)	(802)	(614)	(1,563)

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt and interest rate swaps.

At 30 December 2017 the Group had €700 million of fixed rate debt *(2016: €500 million)*. Taken together with the floating rate bank facilities and interest rate swaps (the accounting for which is set out below), in aggregate 79% *(2016: 74%)* of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 3.4 years *(2016: 4.2 years)*.

Interest rate swaps are recognised at fair value which is determined by reference to market rates. The fair value is the estimated amount that the Group would receive or pay to exit the swap, taking into account current interest rates, credit risks and bid/ask spreads. Following initial recognition, changes in fair value are recognised immediately in profit or loss, except where the Group adopts hedge accounting.

When hedge accounting, the Group formally documents the relationship between the hedging instruments and hedged items. It makes an assessment, at inception and on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the life of the hedge.

Changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value is recognised immediately in profit or loss. Cumulative gains and losses remain in equity until either the hedged transaction is no longer expected to occur, or until the hedged transaction occurs, at which point they will be reclassified to profit or loss.

Changes in the fair value of interest rate swaps that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value adjustment to the carrying value of the hedged item arising from the hedged risk is amortised to profit and loss from that date. At 30 December 2017 the Group had €40 million of fair value interest rates swaps with a value of less than £1 million; a 100 basis points fall or rise in the Euro interest rate with a similar duration as the swap would lead to a change in value of £1 million.

All interest rate swaps held by the Group are hedge accounted.

Sensitivity analysis

Based on the net debt position as at 30 December 2017, taking into account interest rate swaps, each 100 basis points fall or rise in market interest rates would result in an increase or decrease in net interest paid of less than £1 million *(2016: £1 million)*. This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

Foreign currency risk

As the Group operates internationally the performance of the business is sensitive to movements in foreign exchange rates. The Group's potential currency exposures comprise transaction and translation exposures.

The Group ensures that its net exposure to foreign currency balances is kept to a minimal level by using foreign currency swaps to exchange balances back into Sterling or by buying and selling foreign currencies at spot rates when necessary. The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates. At 30 December 2017 the fair value of foreign currency swap assets was £2 million *(2016: £3 million)* and of foreign currency swap liabilities was £1 million *(2016: £2 million)*.

NOTES TO THE ACCOUNTS

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Transaction exposures

The revenue and costs of the Group's operations are denominated primarily in the currencies of the relevant local territories. Any significant cross-border trading exposures would be hedged by the use of forward foreign exchange contracts.

Translation exposures

The Group's results, as presented in Sterling, are subject to fluctuations as a result of exchange rate movements. The Group does not hedge this translation exposure to its earnings but, where material, may carry out net asset hedging by borrowing in the same currencies as the currencies of its operating units or by using forward foreign exchange contracts. The Group's debt (excluding finance leases) is therefore denominated in Euros, US Dollars and Sterling and at 30 December 2017 consisted of €700 million, $540 million and £250 million and there are forward foreign exchange contracts in place in respect of JPY 12,128 million.

Gains or losses arise on the retranslation of the net assets of foreign operations at different reporting dates and are recognised within the consolidated statement of comprehensive income. They will predominantly relate to the retranslation of opening net assets at closing foreign exchange rates, together with the retranslation of retained foreign profits for the year (that have been accounted for in the consolidated income statement at average rates) at closing rates. Exchange rates for major currencies are set out below.

Gains or losses also arise on the retranslation of foreign currency denominated borrowings designated as effective net investment hedges of overseas net assets. These are offset in equity by corresponding gains or losses arising on the retranslation of the related hedged foreign currency net assets. The Group also treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

The following exchange rates have been used in the translation of the results of foreign operations:

	Closing rate for 2015	Weighted average rate for 2016	Closing rate for 2016	Weighted average rate for 2017	Closing rate for 2017
US Dollar	1.49	1.37	1.24	1.29	1.35
Euro	1.36	1.23	1.17	1.14	1.13

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies were:

	Carrying value				
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
2017					
Cash and cash equivalents	199	13	20	77	309
Floating rate bank facilities due 2020	(250)	–	(399)	–	(649)
€700 million fixed rate notes due 2022	–	(622)	–	–	(622)
Finance lease liabilities	(53)	(36)	–	(102)	(191)
	(104)	(645)	(379)	(25)	(1,153)
2016					
Cash and cash equivalents	117	10	27	61	215
Floating rate bank facilities due 2020	(248)	(42)	(433)	–	(723)
€500 million fixed rate notes due 2022	–	(424)	–	–	(424)
Finance lease liabilities	(54)	(34)	–	–	(88)
	(185)	(490)	(406)	61	(1,020)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £105 million *(2016: £83 million)*. As described above, gains or losses in the income statement and equity are offset by the retranslation of the related foreign currency net assets or specific intercompany loan balances.

A 10% strengthening of all currencies against Sterling would reduce the fair value of foreign exchange contracts and result in a charge to the income statement of £6 million *(2016: £5 million)*.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit. There are credit policies in place with regard to its trade receivables with credit evaluations performed on customers requiring credit over a certain amount.

The Group manages credit exposures in connection with financing and treasury activities including exposures arising from bank deposits, cash held at banks and derivative transactions, by appraisal, formal approval and ongoing monitoring of the credit position of counterparties. Counterparty exposures are measured against a formal transaction limit appropriate to that counterparty's credit position.

The Group robustly appraises investments before they are made to ensure the associated credit risk is acceptable. Performance of investments are closely monitored, in some cases through Board participation, to ensure returns are in line with expectations and credit risk remains acceptable. There were no overdue amounts in respect of investments and no impairments have been recorded *(2016: £nil)*. The Group has no collateral in respect of its investments.

Fair values

Fair value hierarchy

The Group analyses financial instruments in the following ways:

- Level 1: uses unadjusted quoted prices in active markets.
- Level 2: uses inputs that are derived directly or indirectly from observable prices (other than quoted prices).
- Level 3: uses inputs that are not based on observable market data.

Fair value versus carrying amounts

The fair values of financial assets and liabilities are presented in the table below, together with the carrying amounts shown in the statement of financial position. Short term receivables, payables and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

		2017		2016	
	Fair value hierarchy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at amortised cost					
Floating rate bank facilities due 2020	Level 2	(649)	(649)	(723)	(724)
€700 million *(2016: €500 million)* fixed rate notes due 2022	Level 1	(622)	(652)	(424)	(445)
Finance lease liabilities	Level 3	(191)	(191)	(88)	(88)
Investments (note 5.1)	Level 3	–	–	37	37
Held at fair value					
Derivative financial instruments	Level 2	2	2	(2)	(2)
Investments (note 5.1)	Level 3	59	59	12	12
		(1,401)	(1,431)	(1,188)	(1,210)

The fair values shown above for the bank facilities and fixed rate notes have been calculated using market values. The fair values of the finance leases are determined by reference to similar lease agreements. There is no difference between the carrying value and the fair value of investments that has been estimated by reference to discounted cash flows.

There have been no transfers between levels in 2017 or 2016.

NOTES TO THE ACCOUNTS

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.4 LEASE OBLIGATIONS

Accounting policies

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term. This therefore excludes the potential impact of future performance or rent increases based on inflationary indices.

Lease arrangements

The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the PPE of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction.

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

LEGOLAND Japan was opened during the year. The park was developed under the Group's 'operated and leased' model whereby the Group's local operating company leases the site and park infrastructure from a development partner. The development partners are related parties, being KIRKBI Invest A/S and LLJ Investco K.K, a subsidiary of KIRKBI A/S; with KIRKBI A/S being a shareholder of the Group and a related party (note 5.3).

The lease is for a period of 50 years and is accounted for partly as a finance lease and partly as an operating lease depending on the nature of the underlying assets concerned. Land and longer life assets, for example core elements of the park's infrastructure, are accounted for as operating leases. Finance lease assets are those elements that will be substantially or entirely consumed over the lease term. This accounting judgement is underpinned by a review of the cost of construction by asset type together with estimates of the lives of the assets concerned. The liability when the finance lease was entered into on the opening of the park in April 2017 was £111 million.

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 10 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 2017 £106 million *(2016: £96 million)* was recognised as an expense in the income statement in respect of operating leases. Of this £18 million *(2016: £13 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.

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 2017 £m	Interest 2017 £m	Present value of minimum lease payments 2017 £m	Future minimum lease payments 2016 £m	Interest 2016 £m	Present value of minimum lease payments 2016 £m
Less than one year	10	9	1	7	7	–
Between one and five years	40	34	6	27	27	–
More than five years	385	201	184	258	170	88
	435	244	191	292	204	88

	Currency	Nominal interest rate	Year of maturity	2017 £m	2016 £m
Finance lease liabilities	GBP	5.64%	2042	53	54
Finance lease liabilities	EUR	9.11%	2042	36	34
Finance lease liabilities	JPY	1.65%	2067	102	–
				191	88

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:

	2017 £m	2016 £m
Less than one year	88	83
Between one and five years	353	329
More than five years	1,456	1,325
	1,897	1,737

The Group has also entered into a lease agreement as part of the development of LEGOLAND Korea. Under the terms of the lease the Group would lease the site and park infrastructure from the development partner for a period of 50 years. The lease would be accounted for as a finance or operating lease from the date the park starts operating, depending on the specific circumstances of the lease and the nature of the assets at the attraction.

NOTES TO THE ACCOUNTS

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.5 EQUITY AND CAPITAL MANAGEMENT

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 4.2), cash and cash equivalents and equity attributable to equity holders of the parent Company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to ensure investor and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Directors monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and the requirements of the Group's debt covenants are met.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance to fund significant acquisitions or developments intended to increase the overall value of the Group.

Share plans have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market.

Share capital and reserves

Share capital

	2017 Number	2017 £m	2016 Number	2016 £m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,015,809,266	10	1,013,746,032	10
Issued in the year	3,763,183	–	2,063,234	–
On issue and fully paid at end of year	1,019,572,449	10	1,015,809,266	10

Issue of new shares

During the year the Company issued 3,763,183 ordinary shares for consideration of £nil in connection with the Group's employee share incentive schemes (note 4.6).

The Company also received £8 million in relation to the exercise of options under the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP). This was taken to the share premium account.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

The Company has entered into a Relationship Agreement with its major shareholder, KIRKBI, in connection with the exercise of its rights as a major shareholder in the Company and the right to appoint Directors to the Board.

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

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

	2017 £m	2016 £m
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	–	45
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	–	22
Final dividend for the 53 weeks ended 31 December 2016 of 4.9 pence per share	50	–
Interim dividend for the 52 weeks ended 30 December 2017 of 2.4 pence per share	24	–
Total dividends paid	74	67

The Directors of the Company propose a final dividend of 5.0 pence per share for the year ended 30 December 2017 *(2016: 4.9 pence per share)*, amounting to £51 million *(2016: £50 million)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.4 pence per share *(2016: 7.1 pence per share)*.

Translation reserve

The translation reserve of £(18) million *(2016: £(5) million)* comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, primarily relating to the statement of position at reporting dates. The reporting date foreign exchange rates by major currency are provided in note 4.3.

Hedging reserve

The hedging reserve of £1 million *(2016: £(3) million)* comprises the effective portion of the cumulative net change in interest rate swaps related to hedged transactions that have not yet occurred.

4.6 SHARE-BASED PAYMENT TRANSACTIONS

Accounting policy

The fair value of the share plans is recognised as an expense over the expected vesting period with a corresponding entry to retained earnings, net of deferred tax. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest, which is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive plans for employees in certain territories. The issues and resulting charges of these plans are not material to the financial statements.

Equity-settled plans

The Group operates four employee share incentive plans: the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP) as set out in the Directors' Remuneration Report and the tables below. A summary of the rules for the plans and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

Analysis of share-based payment charge

	2017 £m	2016 £m
PSP	–	7
DBP	–	1
CSOP	1	1
AESP	2	2
	3	11

NOTES TO THE ACCOUNTS

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

4.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2017	Number of shares 2016
PSP	November 2013 – September 2017	–	2018 – 2020	1.3	6,547,590	7,430,215
DBP	March 2015 – March 2017	–	2018 – 2020	0.4	315,461	308,272
CSOP	November 2013 – September 2017	3.15 – 4.81	2018 – 2027	7.8	4,305,685	3,893,704
AESP	January 2014 – April 2017	2.96 – 4.10	2018 – 2020	1.8	5,385,690	6,311,715
Total					16,554,426	17,943,906

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

	PSP(1) Number	DBP(1) Number	CSOP Number	CSOP WAEP £	AESP Number	AESP WAEP £
At 27 December 2015	5,633,093	361,734	3,192,347	3.58	5,502,199	3.10
Granted during the year	2,300,004	27,519	1,337,925	4.61	1,692,389	3.19
Forfeited during the year	(502,882)	(5,518)	(382,014)	3.89	(530,897)	3.13
Exercised during the year	–	(75,463)	(239,561)	3.19	(235,360)	3.13
Expired during the year	–	–	(14,993)	3.61	(116,616)	3.10
At 31 December 2016	7,430,215	308,272	3,893,704	3.93	6,311,715	3.12
Granted during the year	2,545,871	18,792	1,431,475	4.73	2,125,664	3.97
Forfeited during the year	(191,817)	(6,436)	(378,328)	4.43	(684,369)	3.32
Exercised during the year	(1,501,445)	(5,167)	(632,749)	3.21	(2,264,027)	2.98
Lapsed during the year	(1,735,234)	–	–	–	–	–
Expired during the year	–	–	(8,417)	4.47	(103,293)	2.96
At 30 December 2017	6,547,590	315,461	4,305,685	4.25	5,385,690	3.49
Exercisable at end of year						
At 31 December 2016	–	–	1,584,579	3.15	–	–
At 30 December 2017	–	–	1,055,910	3.19	18,898	3.11

(1) Nil cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2016 and 2017 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	1 April 2016	–	4.65	4.65	n/a	n/a	3.0	n/a
PSP	30 March 2017	–	4.72	4.72	n/a	n/a	3.0	n/a
DBP	24 March 2016	–	4.54	4.54	n/a	n/a	3.0	n/a
CSOP	1 April 2016	4.60	4.65	0.91	1.4%	21%	4.6	0.7%
CSOP	30 March 2017	4.74	4.72	0.85	1.5%	21%	4.6	0.4%
AESP	16 February 2016	3.53	4.15	0.77	1.6%	21%	2.2	0.4%
AESP	16 March 2016	3.15	4.62	1.46	1.4%	21%	3.3	0.7%
AESP	2 March 2017	4.10	4.82	0.88	1.5%	21%	2.2	0.1%
AESP	3 April 2017	3.96	4.76	0.98	1.5%	21%	3.2	0.2%

The key assumptions used in calculating the share-based payments were as follows:

- The binomial valuation methodology is used for the PSP, CSOP and DBP. The Black-Scholes model is used to value the AESP.
- The expected volatility is based on the historical volatility of the Company's shares.
- 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 taken into account in estimating the award life of the CSOP.
- The charge is spread over the vesting period on a straight-line basis.

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.1 INVESTMENTS

Accounting policy

The Group holds investments in two forms.

Minority equity investments are accounted for as 'available for sale' financial assets at fair value. They are not consolidated. As no observable market data is available for these minority equity holdings, fair value is determined by reference to discounted future cash flows, with movements recorded in other comprehensive income. No fair value movements have been recorded and there is no material sensitivity to the assumptions used. Previously, investments in loan notes were accounted for as financial assets at historic cost with interest accrued on an effective interest rate basis. This calculation required estimation of the expected period over which the investment will be held together with the value of the investment at the end of that period. Interest was recognised within finance income (see note 2.3). During 2017, these notes were modified such that they were derecognised and a minority equity investment recognised in their place.

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

	LEGOLAND Malaysia £m	LEGOLAND Korea £m	Big Bus Tours £m	LEGOLAND Dubai Hotel £m	Total £m
Balance at 1 January 2017	9	3	37	–	49
Interest income receivable	–	–	2	–	2
Effects of movement in foreign exchange	–	–	(4)	–	(4)
Derecognition of historic cost investment	–	–	(35)	–	(35)
Additions	–	–	35	12	47
At 30 December 2017	9	3	35	12	59

LEGOLAND Malaysia

The Group has a minority equity investment in IDR Resorts Sdn. Bhd. (IDR). IDR and its subsidiaries are deemed to be related parties as together they own LEGOLAND Malaysia (see note 5.3).

LEGOLAND Korea

The Group has a minority equity investment in the consortium company developing LEGOLAND Korea.

Big Bus Tours Group Holdings Limited

In 2016 the Group invested $44 million (£32 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The investment was substantially all in the form of loan notes. In calculating the effective interest rate for the loan notes, the Group considered its latest best estimate of future performance. The transaction also provided Merlin with a minority equity investment valued at £nil *(2016: £nil)*. During 2017, the loan notes were modified, resulting in the financial asset held at historic cost being derecognised and a minority equity investment measured at fair value being recognised instead. No gain or loss arose as a result. This was due to changes made to the rights of the issuer of the loan notes that resulted in them having the characteristics of an equity instrument rather than of debt.

Investments in associates and joint ventures

LEGOLAND Dubai Hotel

On 14 February 2017 the Group invested £12 million in LL Dubai Hotel LLC, which is the company developing the hotel at LEGOLAND Dubai. The Group holds a 40% equity interest.

Pirate Adventure Golf Limited

On 12 September 2017 the Group acquired the remaining 50% of the Pirate Adventure Golf Limited joint venture *(2016: carrying value of £nil)*. The consideration was £0.2 million, settled in cash, and the fair value of the net assets acquired was £0.2 million. Pirate Adventure Golf was accounted for as a wholly controlled subsidiary from 12 September 2017. Pirate Adventure Golf Limited is a UK entity that forms part of the Midway Attractions Operating Group.

5.2 EMPLOYEE BENEFITS

Accounting policies

Defined contribution pension schemes

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

Defined benefit pension schemes

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

Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £13 million *(2016: £11 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 31 December 2015. As a result, the Group agreed to pay annual deficit reduction contributions of £455,500, increasing at 3% per annum until 2021, together with an additional one-off payment of £2,260,000 which was paid in 2017.

The Group expects £1 million in ongoing contributions to be paid to its defined benefit schemes in 2018. The weighted average duration of the defined benefit obligation at 30 December 2017 was 21 years *(2016: 21 years)*.

The assets and liabilities of the schemes are:

	2017 £m	2016 £m
Equities	25	22
Corporate bonds and cash	7	6
Property	5	4
Fair value of scheme assets	37	32
Present value of defined benefit obligations	(43)	(43)
Net pension liability	(6)	(11)

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.2 EMPLOYEE BENEFITS (CONTINUED)

Movement in the net pension liability

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 27 December 2015	28	(33)	(5)
Net interest	1	(1)	–
Contributions by employer	1	–	1
Benefits paid	(1)	1	–
Remeasurement gain/(loss)	3	(9)	(6)
Effect of movement in foreign exchange	–	(1)	(1)
At 31 December 2016	32	(43)	(11)
Net interest	1	(1)	–
Contributions by employer	3	–	3
Benefits paid	(1)	1	–
Remeasurement gain	2	–	2
At 30 December 2017	37	(43)	(6)

The amount recognised in the income statement was £nil *(2016: £nil)*. The amount recognised in the statement of other comprehensive income was a profit of £2 million *(2016: loss of £6 million)*. In 2016 the loss primarily resulted from changes in actuarial estimates in respect of discount rates.

Actuarial assumptions

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

	2017	2016
Discount rate	2.5%	2.7%
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 S2PxA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 87 and a female would have a life expectancy to age 89.

5.3 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with a major shareholder, key management personnel, joint ventures and IDR Resorts Sdn. Bhd. All dealings with related parties are conducted on an arm's length basis.

Transactions with shareholders

During the year the Group entered into transactions with a major shareholder, KIRKBI Invest A/S; the LEGO Group, a related party of KIRKBI Invest A/S; and LLJ Investco K.K., a subsidiary of KIRKBI A/S.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 30 December 2017 and 31 December 2016, were as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases, royalties and rent £m	Amounts owed to related party £m
2017				
KIRKBI Invest A/S	–	–	12	3
LEGO Group	1	1	61	2
LLJ Investco K.K.	–	4	10	–
	1	5	83	5
2016				
KIRKBI Invest A/S	1	2	11	5
LEGO Group	1	1	51	3
LLJ Investco K.K.	–	–	–	–
	2	3	62	8

As set out in note 4.4 the Group has entered into a 50 year lease with LLJ Investco K.K.. The Group's obligations come in the form of fixed rental payments of £6 million per year in addition to turnover rent and ongoing repair obligations under the terms of the lease. The amount in the table above represents the rental payment incurred during the period.

During the year the Group entered into an agreement with KIRKBI Invest A/S to exchange small parcels of land in Billund, Denmark. This was conducted on an arm's length basis. The value of the land sold to KIRKBI was £2 million and the cost of the land purchased was £4 million.

Transactions with key management personnel

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.2% *(2016: 1.2%)* of the voting shares of the Company.

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 66 to 87. The remuneration of key management is disclosed in note 2.1.

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park (see note 5.1). On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 30 December 2017 and 31 December 2016, are as follows:

	2017 £m	2016 £m
Sales to related party	5	6
Amounts owed by related party	3	2

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.4 CONTINGENT LIABILITIES

The European Commission (EC) published its preliminary decision in November 2017, finding that certain elements of the UK's Controlled Foreign Company rules amount to unlawful State Aid. The impact of a negative decision could result in a significant increase in the Group's future effective tax rate. A final decision from the EC is expected in late 2018 but is subject to possible appeal.

5.5 NEW STANDARDS AND INTERPRETATIONS

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

- IAS 7 'Statement of cash flows' – disclosure initiative.
- IAS 12 'Income taxes' – recognition of deferred tax assets for unrealised losses.

EU endorsed IFRS and interpretations with effective dates after 31 December 2017 relevant to the Group will be implemented in the financial year when the standards become effective.

IFRS 9

IFRS 9 'Financial instruments' is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The new standard sets out requirements for recognising and measuring financial assets and financial liabilities. The Group has assessed the impact of the adoption of this new standard on its consolidated financial statements and plans to apply the new requirements retrospectively, taking advantage of the exemption to not restate comparative information with respect to classification and measurement changes.

The Group does not anticipate any material changes to the statement of financial position as a result of its adoption of IFRS 9 and the expected impact on the Group's equity at the start of the 2018 financial year is not material. The actual impact of adopting the standard at the start of the 2018 financial year may change until the Group presents its first financial statements including the impact of the new standard.

Further details of each aspect of the new standard have been provided below:

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Under IFRS 9 the number of classification categories has reduced, resulting in all financial assets being measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

- The Group does not believe that the new classification requirements will have a material impact on its accounting for trade and other receivables.
- At 30 December 2017, the Group held equity investments classified as available-for-sale of £59 million. The election available under IFRS 9 will be taken, allowing the minority equity investments to continue to be held at fair value with changes going through other comprehensive income (FVOCI). All fair value gains and losses will be reported through OCI, no impairment losses will be recognised in profit or loss and any gains or losses realised on disposal of these investments will no longer be reclassified to profit or loss.

IFRS 9 largely retains the existing requirements for classification of financial liabilities under IAS 39. The Group's assessment did not identify any changes to classification and measurement of financial liabilities at the start of the 2018 financial year.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. This will apply to all financial assets measured at amortised cost or FVOCI, except equity investments, and will be measured in respect of default events that will occur in 12 months from the reporting date or over the lifetime of the financial asset, depending on certain criteria. A review of each category of financial assets has been performed to assess the level of credit risk and the appropriate ECL to use. The Group has assessed that this only applies to its accounting for trade and other receivables and cash and cash equivalents, as detailed below:

- The Group has limited credit risk in respect of trade and other receivables with its customers as the majority pay in advance or at the time of their visit. The estimated ECLs were calculated using both actual credit loss experience and forward looking projections and do not anticipate material changes to the impairment of trade and other receivables.
- Cash and cash equivalents are held with banks and financial institutions. The estimated ECLs were calculated based on the 12 month expected loss basis and reflect the short term nature of the exposures. The Group considers that its cash and cash equivalents have a low credit risk based on the external credit ratings of the counterparties. Based on this, the Group has estimated that the ECL is not material for cash and cash equivalents.

At each reporting date the expected credit losses will be reviewed to reflect changes in credit risk and adjustments made accordingly.

Hedging

As allowed when initially applying IFRS 9, the Group has chosen to apply its hedge accounting policy under IFRS 9 rather than continuing to apply IAS 39. The new standard introduces a more principles based approach with the intention of aligning the accounting for hedging instruments more closely with the Group's risk management strategies and to apply a more qualitative and forward looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

The Group anticipates that all existing hedge relationships that are currently designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9 and are aligned to the Group's risk management strategy and objective.

IFRS 9 includes additional disclosure requirements, particularly around hedge accounting, credit risk and ECLs. The Group will assess required changes in presentation in advance of the next reporting period end.

IFRS 15

IFRS 15 'Revenue from contracts with customers' is effective for annual periods beginning on or after 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity as at the beginning of the 2018 financial year is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standard at the beginning of the 2018 financial year may change because relevant accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction contracts', IFRIC 13 'Customer loyalty programmes' as well as SIC 31 'Barter transactions involving advertising services'.

Admission tickets, annual passes, accommodation and commercial offerings

Revenue from admission tickets, accommodation and commercial offerings is recognised at the time of the visit. For annual passes, revenue is recognised evenly over the validity period. Under IFRS 15 the timing of revenue recognition by the Group is expected to be unchanged, with a £nil estimated impact on retained earnings and non-controlling interest at the beginning of the 2018 financial year.

The majority of Merlin's revenue comes directly from the visiting customer, either in advance or at the time of the visit, and simply represents the amounts received from the visiting customer (excluding VAT and similar taxes). This is unaffected by IFRS 15.

- Trade partners – Merlin engages with trade partners (such as online travel agents), in selling admission tickets and accommodation to the end customer. Under IFRS 15, the Group has reassessed these arrangements under the control model required by the new standard (in contrast to the risk and reward model under IAS 18). In some instances this leads to trade partners being considered agents for Merlin rather than customers themselves. This is expected to result in an increase to the value of revenue with a corresponding change to cost of sales (but no impact on EBITDA).
- Commercial offerings – in a small number of contracts, Merlin engages with third parties to assist in the operation of commercial offerings within theme park resorts and Midway attractions. The Group currently determines who acts as the agent or principal on a case-by-case basis. Under IFRS 15, the Group has reassessed these arrangements under the control model required by the new standard (in contrast to the risk and reward model under IAS 18). In some cases, this leads to a different determination of who acts as the agent or principal. This is expected to result in a change to the value of revenue with a corresponding change to cost of sales (but no impact on EBITDA).

The impact on the value of revenue in the Group's consolidated financial statements is expected to be low.

Sponsorship agreements and service contracts for attraction development

Currently, the Group recognises revenue on sponsorship agreements and service contracts for attraction development over the period of the contract. Under IFRS 15 the timing of revenue recognition by the Group is expected to be unchanged, with a £nil estimated impact on retained earnings and non-controlling interest at the beginning of the 2018 financial year.

Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised on the date of initial application, being the first day of the 2018 financial year. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period.

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.5 NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

IFRS 16

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low value items.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements and is in the process of refining this assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the composition of the Group's lease portfolio at that date, any significant events or significant changes in circumstances that affect whether it is reasonably certain to exercise options and the extent to which the Group chooses to use recognition exemptions.

The Group has considered its entire lease portfolio and substantially it all relates to land, buildings and infrastructure assets. As such, the most significant impact identified is that the Group will recognise new assets and liabilities for these leases. As at 30 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to £1,897 million on an undiscounted basis (see note 4.4). The Group's future minimum lease payments under finance leases amounted to £435 million on an undiscounted basis.

In addition, the nature of expenses will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group's rental expenses linked to turnover, which totalled £18 million during 2017, will continue to be recorded as a rent charge within operating expenses. The effect of this will be an increase in reported EBITDA. Due to the Group's most significant leases being in their earlier stages, the 'front loading' impact of the finance costs will result in an initial reduction in reported earnings albeit this would be expected to even out over the lease term.

The Group's leverage threshold loan covenants described in note 4.2 are under 'frozen-GAAP' and as such the adoption of IFRS 16 is not expected to impact the ability to comply with them.

Transition

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 30 December 2018 and identified as leases in accordance with IAS 17 and IFRIC 4, though the effect of this is not expected to be material.

The Group plans to apply IFRS 16 initially on 30 December 2018, for the 52 week period ending 28 December 2019, using the retrospective approach. Therefore the cumulative effect of adopting IFRS 16 will be recognised, in line with IAS 8 'Accounting policies, changes in accounting estimates and errors', by restating the 52 week period ending 29 December 2018 and making an opening equity adjustment as at 31 December 2017. The Group is not required to make any adjustment for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Other standards

The IASB has also issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2018. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IFRIC 22 'Foreign currency transactions and advance consideration'
- IFRIC 23 'Uncertainty over income tax treatments'
- Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'
- Annual Improvements to IFRS Standards 2014–2016 Cycle: IFRS 1 and IAS 28

5.6 ULTIMATE PARENT COMPANY INFORMATION

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

5.7 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 2017	Ownership 2016
AAE Unit Trust	Australia[1]	–	100.0%	100.0%
AQDEV Pty Limited	Australia[2]	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia[3]	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia[3]	Ordinary	65.0%	65.0%
Illawarra Tree Topps Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia[2]	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd	Australia[4]	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia[1]	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia[1]	–	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia[1]	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia[1]	–	100.0%	100.0%
LLA Aquariums Pty Limited	Australia[1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia[1]	–	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia[2]	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia[1]	–	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia[5]	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia[1]	–	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia[1]	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia[1]	–	100.0%	100.0%
Oceanis NB Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia[1]	–	100.0%	100.0%
Oceanis Unit Trust	Australia[1]	–	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia[2]	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia[2]	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia[2]	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
The Otway Fly Unit Trust	Australia[1]	–	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia[2]	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia[1]	Ordinary	100.0%	100.0%
US Fly Trust	Australia[1]	–	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia[3]	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria[6]	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria[6]	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium[7]	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	British Virgin Islands[8]	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada[9]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China[10]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China[11]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China[12]	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China[12]	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China[14]	Ordinary	100.0%	100.0%
Merlin Exhibition (Shenyang) Company Limited	China[54]	Ordinary	100.0%	–
Merlin Indoor Children's Playground (Shanghai) Company Limited	China[15]	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China[16]	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark[17]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark[17]	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy	Finland[18]	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France[19]	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany[20]	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany[21]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany[22]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany[22]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany[20]	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany[23]	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany[23]	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany[22]	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany[20]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany[20]	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany[20]	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany[24]	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany[21]	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany[21]	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited	India[25]	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 1 Limited	Ireland[26]	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 2 Limited	Ireland[26]	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland[27]	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy[28]	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy[29]	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy[28]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy[28]	Ordinary	100.0%	100.0%

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
Merlin Water Parks S.r.l.	Italy[28]	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy[30]	Ordinary	[a]49.4%	[a]49.4%
Ronchi S.p.A.	Italy[28]	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan[31]	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan[32]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.[b]	Luxembourg[33]	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg[33]	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg[33]	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia[34]	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia[52]	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia[34]	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands[35]	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands[36]	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands[37]	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands[38]	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand[39]	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand[39]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal[40]	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore[41]	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea[42]	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea[43]	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea[42]	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain[44]	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand[45]	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand[46]	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey[47]	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE[48]	–	[c]48.0%	[c]48.0%
Merlin Holdings Limited	UAE[53]	Ordinary	[c]1.0%	[c]1.0%
Alton Towers Limited	UK[49]	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK[49]	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK[49]	–	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK[49]	–	100.0%	100.0%
Charcoal Holdco Limited	UK[49]	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK[49]	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK[49]	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK[49]	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK[49]	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK[49]	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK[49]	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK[49]	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK[49]	Ordinary	100.0%	100.0%
Iconic Images International Limited[e]	UK[49]	Ordinary	–	100.0%
LEGOLAND US Holdings Limited	UK[49]	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK[49]	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK[49]	Ordinary	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
London Dungeon Limited	UK(49)	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK(49)	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK(49)	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK(49)	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited(e)	UK(49)	Ordinary	–	100.0%
Merlin Attractions Operations Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin UK Finance 1A Limited	UK(49)	Ordinary	100.0%	–
Merlin UK Finance 2A Limited	UK(49)	Ordinary	100.0%	–
Merlin UK Finco 1 Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK(49)	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK(49)	Ordinary	100.0%	100.0%
Pirate Adventure Golf Limited(d)	UK(49)	Ordinary	100.0%	50.0%
SEA LIFE Centre (Blackpool) Limited	UK(49)	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK(49)	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK(49)	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK(49)	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK(49)	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK(49)	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK(49)	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK(49)	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK(49)	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK(49)	Ordinary	100.0%	100.0%
Tussauds Limited	UK(49)	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK(49)	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA(50)	–	100.0%	100.0%
LEGOLAND California LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center Columbus LLC	USA(51)	–	100.0%	–

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
LEGOLAND Discovery Centre (Dallas) LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA(51)	–	100.0%	100.0%
LEGOLAND Discovery Center San Antonio LLC	USA(51)	–	100.0%	–
LEGOLAND Discovery Centre US LLC	USA(51)	–	100.0%	100.0%
LEGOLAND New York LLC	USA(51)	–	100.0%	–
Madame Tussauds Hollywood LLC	USA(51)	–	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA(51)	–	100.0%	100.0%
Madame Tussauds Nashville LLC	USA(51)	–	100.0%	100.0%
Madame Tussaud's New York LLC	USA(50)	–	100.0%	100.0%
Madame Tussauds Orlando LLC	USA(51)	–	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA(51)	–	100.0%	100.0%
Madame Tussauds Washington LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA(51)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA(51)	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments North America LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA(51)	–	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA(51)	–	100.0%	100.0%
San Francisco Dungeon LLC	USA(51)	–	100.0%	100.0%
SEA LIFE Center San Antonio LLC	USA(51)	–	100.0%	–
SEA LIFE Charlotte LLC	USA(51)	–	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA(51)	–	100.0%	100.0%
SEA LIFE Michigan LLC	USA(51)	–	100.0%	100.0%
SEA LIFE Minnesota LLC	USA(51)	–	100.0%	100.0%
SEA LIFE Orlando LLC	USA(51)	–	100.0%	100.0%
SEA LIFE US LLC	USA(51)	–	100.0%	100.0%
The Tussauds Group LLC	USA(51)	–	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5 OTHER NOTES (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Joint venture undertaking	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
LL Dubai Hotel LLC	UAE(55)	Ordinary	40.0%	–

(a) 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.
(b) Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries.
(c) Merlin Entertainments plc has 100% of the beneficial ownership of these entities.
(d) The Group acquired the remaining 50% of the Pirate Adventure Golf joint venture on 12 September 2017.
(e) Companies dissolved on 6 December 2017.

Registered offices

(1) Level 11, 50 Queen Street, Melbourne, VIC, 3000, Australia
(2) Level 16, 201 Elizabeth Street, Sydney, NSW, 2000, Australia
(3) 3 Ireland Street Bright, VIC, 3741, Australia
(4) Falls Creek Road, 3699 Falls Creek, Victoria, Australia
(5) Doncaster Road 861, 3109 Melbourne–Doncaster East, Victoria, Australia
(6) Riesenradplatz 5-6, 1020 Wien, Vienna, Austria
(7) Koning Albert I Laan 116, 8370, Blankenberge, Belgium
(8) P.O. Box 3340, Road Town, Tortola, British Virgin Islands
(9) Suite 5300 Commerce Court West, 199 Bay Street, Toronto, ON, M5L 1B9, Canada
(10) No. 4, 6, 8, 10, 12, 14, 16, 18 Qianmen Avenue, Dongcheng District, Beijing, China
(11) 10/F New World Building, No 2-68 Nanjing Xi Road, Shanghai 200003, China
(12) 21, Han Street, Wuchang District, (Shops 40/41/42) Building 5, Lot J2, Wuhan, China
(13) 3F, St John's Building, No. 33 Garden Road, Central, Hong Kong
(14) 4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China
(15) L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
(16) 189, Dadhue Road, Pu Tuo District, Shanghai, 200062, China
(17) Aastvej 10, 7190 Billund, Denmark
(18) Tivolitie 10, Helsinki 00510, Finland
(19) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 7711 Marne-La-Vallée, France
(20) Cremon 11, 20457 Hamburg, Germany
(21) Heidenhof 1, 29614 Soltau, Germany
(22) Legoland Allee, 89312, Gunzburg, Germany
(23) Prinzregentenstrasse 18, 80538 Munich, Germany
(24) Klein Vehedig, Hafenstrasse 9, 78462 Konstanz, Germany
(25) 44, Regal Building, Connaught Place, New Delhi, Central Delhi DL, 110001, India
(26) 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
(27) First Floor, Fitzwilton House, Wilton Place, Dublin 2, Ireland
(28) Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy
(29) Via Vivaldi n.7, Castelnuovo del Garda Verona, 37014, Verona, Italy
(30) Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy
(31) 2-2-1, Kinjoufutou Minato-ku, Nagoya-shi, Japan
(32) Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan
(33) 20, Rue Eugène Ruppert, L-2453, Luxembourg
(34) Suite 2-4, Level 2, Tower Block, Menera Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
(35) Fred. Roeskestraat 123, 1076 EE Amsterdam, Netherlands
(36) Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
(37) Croeselaan 18, Utrecht, Netherlands
(38) Rokin 78, 1012 KW Amsterdam, Netherlands
(39) Level 12, 55 Shortland Street, Auckland 1010, New Zealand
(40) Avenida Da Boavista 3265, 7th Floor, 4100–137 Porto, Portugal
(41) 10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore
(42) 1411-4, Jung 1-dong, Haenudee-Gu, Busan, Republic of Korea
(43) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
(44) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
(45) 989 Siam Discovery Center 6, 6A, 7 and 8th Floors, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok 10330, Thailand
(46) B1-B2 Floor Siam Paragon, 991 Rama 1 Road, Khweng Patumwan, Bangkok 10330, Thailand
(47) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
(48) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
(49) Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
(50) 80 State Street, Albany, New York 12207-2543, United States
(51) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
(52) No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor, Malaysia
(53) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates
(54) No. 2 Jia-1, Bolan Road, Heping District, Shenyang, China
(55) 201-01 Emaar Square, PO Box 123311, Dubai, United Arab Emirates

MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

Company statement of financial position at 30 December 2017 *(2016: 31 December 2016)*

	Note	2017 £m	2016 £m
Non-current assets			
Investments	iii	3,129	3,126
Other receivables	iv	1,449	1,214
		4,578	4,340
Current assets			
Other receivables	iv	3	4
Cash and cash equivalents		7	–
		10	4
Total assets		4,588	4,344
Current liabilities			
Interest-bearing loans and borrowings	vi	7	5
Other payables	v	8	2
		15	7
Non-current liabilities			
Interest-bearing loans and borrowings	vi	1,271	1,147
Total liabilities		1,286	1,154
Net assets		**3,302**	**3,190**
Issued capital and reserves attributable to owners of the Company	vii	3,302	3,190
Total equity		**3,302**	**3,190**

The notes on pages 145 to 149 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity at 30 December 2017 *(2016: 31 December 2016)*

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 27 December 2015		10	–	3,100	3,110
Profit for the year		–	–	134	134
Total comprehensive income for the year		–	–	134	134
Shares issued		–	2	–	2
Equity dividends	vii	–	–	(67)	(67)
Share incentive schemes: – movement in reserves for employee share schemes	iii	–	–	11	11
At 31 December 2016		**10**	**2**	**3,178**	**3,190**
Profit for the year		–	–	175	175
Total comprehensive income for the year		–	–	175	175
Shares issued	vii	–	8	–	8
Equity dividends	vii	–	–	(74)	(74)
Share incentive schemes: – movement in reserves for employee share schemes	iii	–	–	3	3
At 30 December 2017	vii	**10**	**10**	**3,282**	**3,302**

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

1 ACCOUNTING POLICIES

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The amendments to FRS 101 (2016/17 Cycle) issued in July 2017 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Link House, 25 West Street, Poole, Dorset BH15 1LD. Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Merlin Entertainments plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 'Share-based payment' in respect of group settled share-based payments; and
- certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instrument disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared for the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*.

The Directors have taken advantage of the exemption available under s408 of the Companies Act 2006 and have not presented a profit and loss account of the Company.

A summary of the Company's significant accounting policies is set out below.

Investments in subsidiaries
Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the income statement.

Foreign currency
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

1 ACCOUNTING POLICIES (CONTINUED)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

Share-based payments

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

The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. The fair value of the share plans is recognised as an expense over the expected vesting period net of deferred tax with a corresponding entry to retained earnings. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are not material to the financial statements.

Loans to Group undertakings

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

Classification of financial instruments issued by the Group

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

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and 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.

Interest-bearing loans and borrowings
These are initially recognised at the principal value of the loan concerned, less any related fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate).

If the Group's estimate of the expected life based on repayment subsequently changes, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Dividends
Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

II OPERATING EXPENSES

Staff numbers and costs
The average number of persons employed by the Company during the year was nine *(2016: nine)*. 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 66 to 87. One Director accrued benefits under defined contribution schemes during the year *(2016: one)*.

Auditor's remuneration
Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis (note 2.1 of the consolidated financial statements).

III INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 27 December 2015	3,115
Capital contributions to subsidiaries	11
At 31 December 2016	3,126
Capital contributions to subsidiaries	3
At 30 December 2017	3,129

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the year end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Holding company	Luxembourg	100.0%	Ordinary

A full list of Group companies is included in note 5.7 of the consolidated financial statements on page 137.

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS (CONTINUED)

52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016)*

IV OTHER RECEIVABLES

	Current assets		Non-current assets	
	2017 £m	**2016 £m**	**2017 £m**	**2016 £m**
Amounts owed by Group undertakings	3	4	1,449	1,214

Amounts owed by Group undertakings comprise funds loaned by the Company to fellow Group undertakings. The non-current loans have maturities of 2020 and 2022 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

V OTHER PAYABLES

	2017 £m	**2016 £m**
Amounts owed to Group undertakings	7	1
Accruals	1	1
	8	2

VI INTEREST-BEARING LOANS AND BORROWINGS

	2017 £m	**2016 £m**
Non-current		
Floating rate bank facilities due 2020	649	723
£300 million floating rate revolving credit facility due 2020	–	–
€700 million *(2016: €500 million)* fixed rate notes due 2022	622	424
	1,271	1,147
Current		
Interest payable	7	5
	1,278	1,152

During the year an additional €200 million of the March 2022 2.75% coupon notes were issued at 103.5% of their nominal value to yield 2.01% (£178 million). The proceeds were partly used to repay €50 million (£43 million) of the floating rate term debt due to mature in March 2020.

The facilities are:
- Bank facilities comprising £250 million and $540 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.51% *(2016: 0.37%)* and 1.61% *(2016: 0.99%)* respectively at 30 December 2017. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 30 December 2017 was 2.0% *(2016: 2.0%)*.
- A £300 million multi-currency revolving credit facility of which £nil had been drawn down at 30 December 2017 *(2016: £nil)*. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 30 December 2017 was at a margin of 1.75% *(2016: 1.75%)* over the same floating interest rates when drawn.
- €700 million *(2016: €500 million)* notes with a coupon rate of 2.75% to mature in March 2022.

The Group has estimated that a refinancing of the bank facilities and multi-currency revolving credit facility is likely within the next 18 months, which is earlier than that previously assumed for accounting purposes. As a result, the amortisation of financing costs in respect of these facilities has been accelerated. The fees related to the fixed rate notes are being amortised to the maturity of the notes as the notes are currently expected to be held to their full term. The borrowings (including the revolving credit facility) and the €700 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Company is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA on a consolidated basis to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €700 million notes. All covenant requirements were satisfied throughout the year.

VII EQUITY

Share capital

	2017 Number	2017 £m	2016 Number	2016 £m
Ordinary shares of £0.01 each				
At beginning of the year	1,015,809,266	10	1,013,746,032	10
Shares issued	3,763,183	–	2,063,234	–
At end of the year	1,019,572,449	10	1,015,809,266	10

Issue of new shares
During the year the Company issued 3,763,183 ordinary shares for consideration of £nil in connection with the Group's employee share incentive schemes (note 4.6 of the consolidated financial statements). The Company also received £8 million in relation to the exercise of options under the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP). This was taken to the share premium account.

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.

Retained earnings
The profit after tax for the year in the accounts of Merlin Entertainments plc is £175 million *(2016: profit after tax of £134 million)*. All of the Company's retained earnings are distributable (with the exception of those movements in reserves for employee share schemes).

Dividends

	2017 £m	2016 £m
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	–	45
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	–	22
Final dividend for the 53 weeks ended 31 December 2016 of 4.9 pence per share	50	–
Interim dividend for the 52 weeks ended 30 December 2017 of 2.4 pence per share	24	–
Total dividends paid	74	67

The Directors of the Company propose a final dividend of 5.0 pence per share for the year ended 30 December 2017 *(2016: 4.9 pence per share)*, amounting to £51 million *(2016: £50 million)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.4 pence per share *(2016: 7.1 pence per share)*.

In making this proposal the Directors have considered the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits, as noted above, as well as the position and liquidity of the Group disclosed in the consolidated statement of financial position as explained in the Group going concern disclosures on page 101.

VIII RELATED PARTY TRANSACTIONS

Transactions with subsidiary undertakings, which principally relate to the provision of funding within the Group, are carried out on an arm's length basis. Outstanding balances are placed on intercompany accounts (note iv).

During the financial year the Company received a dividend from Merlin Entertainments Group Luxembourg 3 S.à r.l. of £174 million *(2016: £135 million)*.

For full details of transactions and arrangements with the Company's largest shareholder, see note 5.3 of the consolidated financial statements.

FINANCIAL RECORD

	2017 £m	2016 (52 weeks) £m	2016 (53 weeks) £m	2015 £m	2014 £m	2013 £m
Results						
Revenue	1,594	1,428	1,457	1,278	1,249	1,192
Underlying EBITDA	474	433	451	402	411	390
Underlying operating profit	323	302	320	291	311	290
Operating profit	323	302	320	291	311	260
Profit before tax	271	259	277	237	226	172
Adjusted earnings per share (p)	20.5	19.5	20.8	17.8	17.7	16.9
Dividend per share (p)	7.4	7.1	7.1	6.5	6.2	n/a
Consolidated statement of financial position						
Property, plant and equipment	2,092	n/a	1,841	1,495	1,410	1,321
Intangible assets	1,018	n/a	1,017	923	942	961
Cash and cash equivalents	309	n/a	215	152	285	264
Non-current interest-bearing loans and borrowings	1,271	n/a	1,147	1,003	1,131	1,179
Total equity	1,567	n/a	1,428	1,149	1,063	944
Consolidated statement of cash flows						
Net cash flow from operating activities	413	n/a	433	325	357	365
Changes in working capital	1	n/a	23	(19)	(4)	30
Net increase/(decrease) in cash and cash equivalents	90	n/a	40	(137)	16	125

OTHER FINANCIAL INFORMATION

Foreign exchange rate sensitivity

The Group's income statement is exposed to fluctuations in foreign currency exchange rates principally on the translation of our non Sterling earnings. The tables below show the impact on 2016 52 week revenues and EBITDA of re-translating them at 2017 foreign exchange (FX) rates.

Currency	2016 average FX rates	2017 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.37	1.29	6.1%	25
EUR	1.23	1.14	7.3%	22
AUD	1.83	1.68	8.1%	8
Other				12
Increase in 2016 revenues at 2017 FX rates				67

Currency	2016 average FX rates	2017 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.37	1.28	6.8%	11
EUR	1.21	1.13	7.0%	7
AUD	1.81	1.67	8.4%	2
Other				5
Increase in 2016 EBITDA at 2017 FX rates				25

Return on capital employed (ROCE)

The return is based on underlying operating profit after tax. Tax is calculated for the purposes of ROCE by applying the Group's underlying ETR for the year *(2017: 22.9%, 2016: 23.8%)* to the Group's underlying operating profit.

The capital employed element of the calculation is based on average net operating assets for the relevant period between the opening and closing statements of financial position. Net operating assets include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

On a 52 week basis no change in net assets is assumed, except for the 53rd week return, which has adjusted net debt.

	2017 £m	2016 (53 weeks) £m	2016 (52 weeks) £m
Underlying operating profit	323	320	302
Taxation	(74)	(76)	(72)
Return	**249**	**244**	**230**
Net assets	1,567	1,428	1,414
Less:			
Deferred tax assets	(33)	(38)	(38)
Deferred tax liabilities	171	179	179
Net debt (note 4.1)	1,160	1,025	1,039
Derivative financial assets	(5)	(3)	(3)
Derivative financial liabilities	3	5	5
Net operating assets at the period end	2,863	2,596	2,596
Capital employed	**2,730**	**2,401**	**2,401**
ROCE	**9.1%**	**10.2%**	**9.6%**

GLOSSARY

Key terms	Definition
Adjusted EPS	Adjusted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders, adjusted for exceptional items, by the weighted average number of ordinary shares in issue during the year.
Capex	Capital expenditure.
Cluster	A group of attractions located in a city close to one another.
Constant currency growth	Using 2017 exchange rates.
DreamWorks Tours – Shrek's Adventure!	This attraction opened in 2015. It is part of the Midway Attractions Operating Group.
EBITDA	Profit before finance income and costs, taxation, depreciation and amortisation and after taking account of attributable profit after tax of joint ventures.
EPS	Earnings per share.
EU GDPR	EU General Data Protection Regulation.
Exceptional items	Due to their nature, certain one-off and non-trading items can be classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
Existing estate (EE)	EE comprises all attractions other than new openings.
High year	Year of high spend in capital investment cycle of an attraction.
IP	Intellectual Property.
IPO	Initial Public Offering.
IRR	Internal Rate of Return.
KIRKBI	KIRKBI owns 75% of LEGO A/S and owns 29.72% of the share capital of Merlin Entertainments plc.
KPI	Key Performance Indicator.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Lead price	Face value of a ticket, which may then be discounted.
Like for like (LFL)	2017 LFL growth refers to the growth between 2016 and 2017 on a constant currency basis using 2017 exchange rates and includes all businesses owned and operated before the start of 2016.
Listing	Listing on the London Stock Exchange.
Little BIG City	This is a new attraction that opened in 2017. It is part of the Midway Attractions Operating Group.
LLP	LEGOLAND Parks Operating Group.
Merlin Magic Making (MMM)	MMM is the unique resource that sits at the heart of everything Merlin does. It is our specialist in-house site-search and business development; creative design; production; and project management team. MMM also pursues acquisition and investment opportunities.
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, resorts or shopping malls.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
Net Promoter Score	How we measure the propensity of our customers to recommend our attractions.
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.
Operating free cash flow	EBITDA less existing estate capex.

Key terms	Definition
Organic growth	Growth from like for like businesses and new business development at constant currency and excluding growth from acquisitions.
ROCE	Return on Capital Employed. The profit measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.
ROIC	Return on Invested Capital. Incremental EBITDA divided by the capital invested.
Rooms	A single accommodation unit at one of our theme parks, for example a hotel room, lodge or 'glamping' tent.
RPC	Revenue per capita, defined as visitor revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
The Code	UK Corporate Governance Code.
The Merlin Way	The culture of the Group which encompasses our vision and values.
Top Box	The highest level of customer satisfaction that we record in our customer surveys.
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.

Terms used

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. Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

SHAREHOLDER INFORMATION

Share listing
The Company's shares are listed on the London Stock Exchange.

Share register and registrars
The Company's share register is maintained and administered in the UK by Computershare Investor Services PLC (Computershare) at the following address:

Computershare	Telephone:
Investor Services PLC	+44 (0)370 703 6259
The Pavilions	Investor Centre:
Bridgwater Road	www.investorcentre.co.uk/contactus
Bristol	Website:
BS99 6ZZ	www.computershare.com

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 2.4 pence per share was paid on 25 September 2017 to shareholders on the share register on 18 August 2017.

A final dividend for the year ended 30 December 2017 of 5.0 pence per share will be recommended to shareholders for approval at the 2018 Annual General Meeting of the Company.

Dividend Re-Investment Plan
The Company has a Dividend Re-Investment Plan (DRIP) which allows holders of ordinary shares, who choose to participate, to use their cash dividends to acquire additional shares in the Company which will be purchased on their behalf by the DRIP administrator. Further information in relation to the DRIP will be sent to shareholders in advance of the 2018 Annual General Meeting.

Financial calendar
The principal dates in our financial calendar for 2018 are as follows:

Preliminary Announcement of Results	1 March
Annual General Meeting	27 April
Interim Results Announcement	2 August

Shareholder communications
We encourage our shareholders to receive their communications from the Company electronically using email and web-based communications. This means that information about the Company can be received as soon as it is available. The use of electronic communications also reduces costs and the impact on the environment. Shareholders can register for electronic communications through Investor Centre or by contacting Computershare. Shareholders with any queries regarding their shareholding should contact Computershare.

The Investor Relations section of our corporate website also contains information which shareholders may find helpful (www.merlinentertainments.biz/investor-relations).

Annual General Meeting (AGM)
The AGM of the Company will be held on 27 April 2018 at Chessington Safari Hotel, Chessington World of Adventures Resort, Leatherhead Road, Chessington, Surrey, KT9 2NE at 11.00am. Details of each resolution to be considered at the meeting and voting instructions will be provided in the Notice of AGM which will be issued to shareholders under separate cover.

Registered in
England and Wales

Company number
08700412

EPIC/TIDM
MERL

ISIN
GB00BDZT6P94

LEI
549300ZTI0VEFO6WV007

Registered office

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Poole	investor.relations@
Dorset	merlinentertainments.biz
BH15 1LD	Website:
	www.merlinentertainments.biz

Company Secretary
Matthew Jowett

Head of investor relations
Simon Whittington

External auditors
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Gateway House, Tollgate
Chandlers Ford
Southampton
SO53 3TG

Telephone:
+44 (0)23 8020 2000

Joint corporate brokers

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5 North Colonnade	Citigroup Centre, Canada Square
Canary Wharf	Canary Wharf
London	London
E14 4BB	E14 5LB

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Registered number: 08700412
Registered in England and Wales

www.merlinentertainments.biz