



INSPIRING TOMORROW'S MEMORIES

MERLIN ENTERTAINMENTS PLC
ANNUAL REPORT
AND ACCOUNTS 2018



AT A GLANCE

GLOBAL OPPORTUNITIES AND EXPANSION














A BALANCED, GLOBAL PORTFOLIO

SINCE OUR FORMATION IN 1999, THE PURSUIT OF OUR STRATEGY HAS RESULTED IN A PORTFOLIO OF ASSETS DIVERSIFIED BY GEOGRAPHY, BY FORMAT, AND BY CUSTOMER TYPE.

- Operating across 25 countries and 4 continents, we now generate over 70% of our profits from outside the UK.
- Whilst Merlin is not immune to external, geo-political shocks, the breadth and scale of the portfolio helps limit their impact.
- Our portfolio of Midway attractions and theme parks means that we are relatively balanced against weather fluctuations, with approximately 60% of revenue coming from outdoor attractions.
- With over two-thirds of our visitors being domestic, we are not reliant upon the 'fly-in' markets.

OUR BRANDS

MIDWAY ATTRACTIONS

 <p>Amazing Discoveries United Kingdom: 11 Continental Europe: 18 North America: 8 Asia Pacific: 9</p>	 <p>Famous Fun United Kingdom: 2 Continental Europe: 4 North America: 7 Asia Pacific: 10</p>	 <p>Playful Learning United Kingdom: 2 Continental Europe: 3 North America: 11 Asia Pacific: 4</p>	 <p>Continental Europe: 1 Asia Pacific: 1</p>	 <p>United Kingdom: 1</p>	 <p>Asia Pacific: 2</p>
 <p>Scary Fun United Kingdom: 5 Continental Europe: 3 North America: 1 Asia Pacific: 1</p>	 <p>Eye Opening United Kingdom: 2 Asia Pacific: 1</p>	 <p>Asia Pacific: 1</p>	 <p>Asia Pacific: 1</p>	 <p>Asia Pacific: 2</p>	 <p>Asia Pacific: 1</p>
			 <p>United Kingdom: 1</p>		

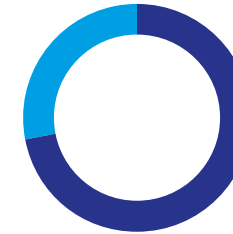
Geography⁽¹⁾

- UK: 31%
- CONTINENTAL EUROPE: 25%
- NORTH AMERICA: 27%
- ASIA PACIFIC: 17%



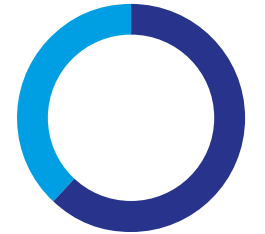
Tourist/domestic⁽²⁾

- DOMESTIC: 72%
- TOURIST: 28%



Weather exposure⁽¹⁾








- OUTDOOR: 62%
- INDOOR: 38%



(1) Based on 2018 revenue

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

THEME PARKS

 <p>Playful Learning United Kingdom: 1 Continental Europe: 2 North America: 2 Asia Pacific: 3</p>	 <p>Fantastical Escapism United Kingdom</p>	 <p>Wild Adventure United Kingdom</p>	 <p>Big Fantasy Adventure Italy</p>
 <p>Extraordinary Adventure Germany</p>	 <p>Insane Fun United Kingdom</p>	 <p>Ultimate Castle United Kingdom</p>	



Key

- Existing Merlin attractions
- 📍 Existing UK attractions
- 2018 new attractions

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OUR PURPOSE

DELIVERING MEMORABLE EXPERIENCES TO OUR GUESTS

In a busy and increasingly fragmented world, time is at a premium. Especially time together with friends and family.

At its heart, Merlin is about creating truly memorable experiences from these moments together: Memories to be shared at the school gates, on social media or on the journey home, but remembered forever.

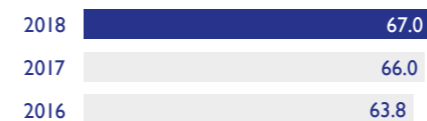


 **INFORMATION ONLINE**
Visit our website:
www.merlinentertainments.biz

HIGHLIGHTS AND KPIs

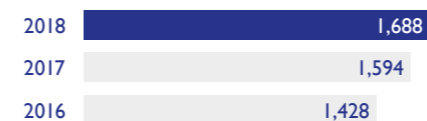
67.0m

VISITORS +1.4%



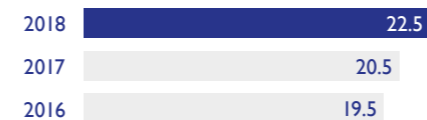
£1,688m

REVENUE
Reported growth +5.9%
Organic growth +5.2%
Like for like growth +1.8%



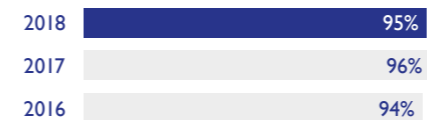
22.5p

BASIC EPS +9.5%



95%

GUEST SATISFACTION
Based on guest satisfaction surveys. Our target is a score over 90%.



How we report our results

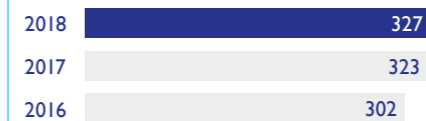
Details on the period under review and performance measures used are set out in the Financial and Operating Review on page 33. We use certain 'alternative performance measures' in our reporting in order to present our trading performance in the most helpful and meaningful way; that section explains the measures used and why we use them.

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 74 to 89.

Terms used throughout this document are defined in the Glossary on pages 156 to 157.

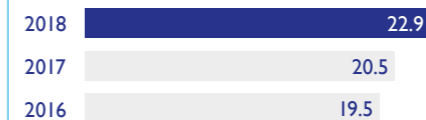
£327m

UNDERLYING OPERATING PROFIT
Reported growth +1.3%
Organic growth +3.4%



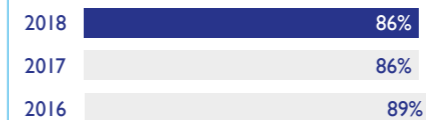
22.9p

ADJUSTED EPS +11.7%



86%

EMPLOYEE ENGAGEMENT
Based on our annual employee survey (see page 42). Our target is a score over 80%.



£323m

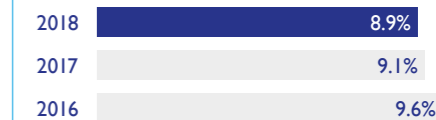
TOTAL OPERATING PROFIT

£285m

PROFIT BEFORE TAX

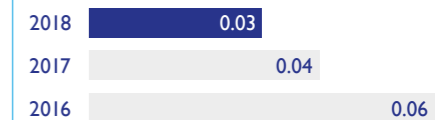
8.9%

RETURN ON CAPITAL EMPLOYED



0.03

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. The reduction in the rate in 2018 is therefore a positive outcome.



COMPANY OVERVIEW

A YEAR OF MEMORABLE EXPERIENCES

MERLIN ENTERTAINMENTS IS A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT.

As Europe's number one and the world's second-largest visitor attraction operator, Merlin now operates over 120 attractions, 18 hotels and 6 holiday villages in 25 countries and across 4 continents.

In 2018 the Company delivered memorable experiences to 67 million visitors worldwide, through its iconic global and local brands and the commitment and passion of its c.28,000 employees (peak season).

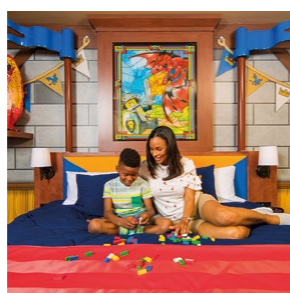
We operate two distinct types of visitor attraction;

- Our Midway Attractions are high quality, branded, predominantly indoor attractions with a typical one to two hour dwell time located in city centres, shopping malls or resorts.
- Our Theme Parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation. These are organised into two Operating Groups, based on the brands – LEGOLAND Parks and Resort Theme Parks.

APRIL

252 room hotel and SEA LIFE Centre open at LEGOLAND Japan, developing the park into a resort.

250 room LEGOLAND California Castle Hotel opens, doubling the capacity of on-site accommodation.



MARCH

'Wicker Man' roller coaster opens at Alton Towers Resort (see case study on pages 16 to 17).

142 room Pirate Island Hotel opens at LEGOLAND Deutschland (see case study on pages 18 to 19).

Opening of 'Peppa Pig Lands' at Gardaland and Heide Park Resorts.

JUNE

World's first sanctuary for beluga whales announced.

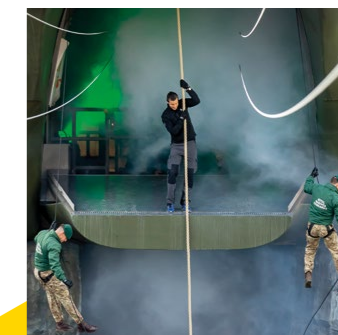


SEA LIFE TRUST
Beluga Whale Sanctuary

JULY

LEGOLAND Discovery Centre Birmingham opens.

'LEGO City: Deep Sea Adventure' opens at LEGOLAND California.



OCTOBER

The Bear Grylls Adventure in Birmingham, UK, Peppa Pig World of Play in Shanghai (see case study on pages 20 to 21) and the Shanghai Dungeon open.



SEPTEMBER

Little BIG City Beijing and LEGOLAND Discovery Centre Columbus open.

Merlin Magic Wand celebrates tenth anniversary.

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 increasingly partnering with third party Intellectual Property owners to create new brands which complement the portfolio and broaden our appeal across all key target demographics.

40.4m Visitors | £677m Revenue

GLOBAL BRANDS

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

Find out more on page 23

LEGOLAND PARKS

Located worldwide, 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.

15.6m Visitors | £637m Revenue

LOCATIONS

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

Find out more on page 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.

11.0m Visitors | £367m 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

Find out more on page 22

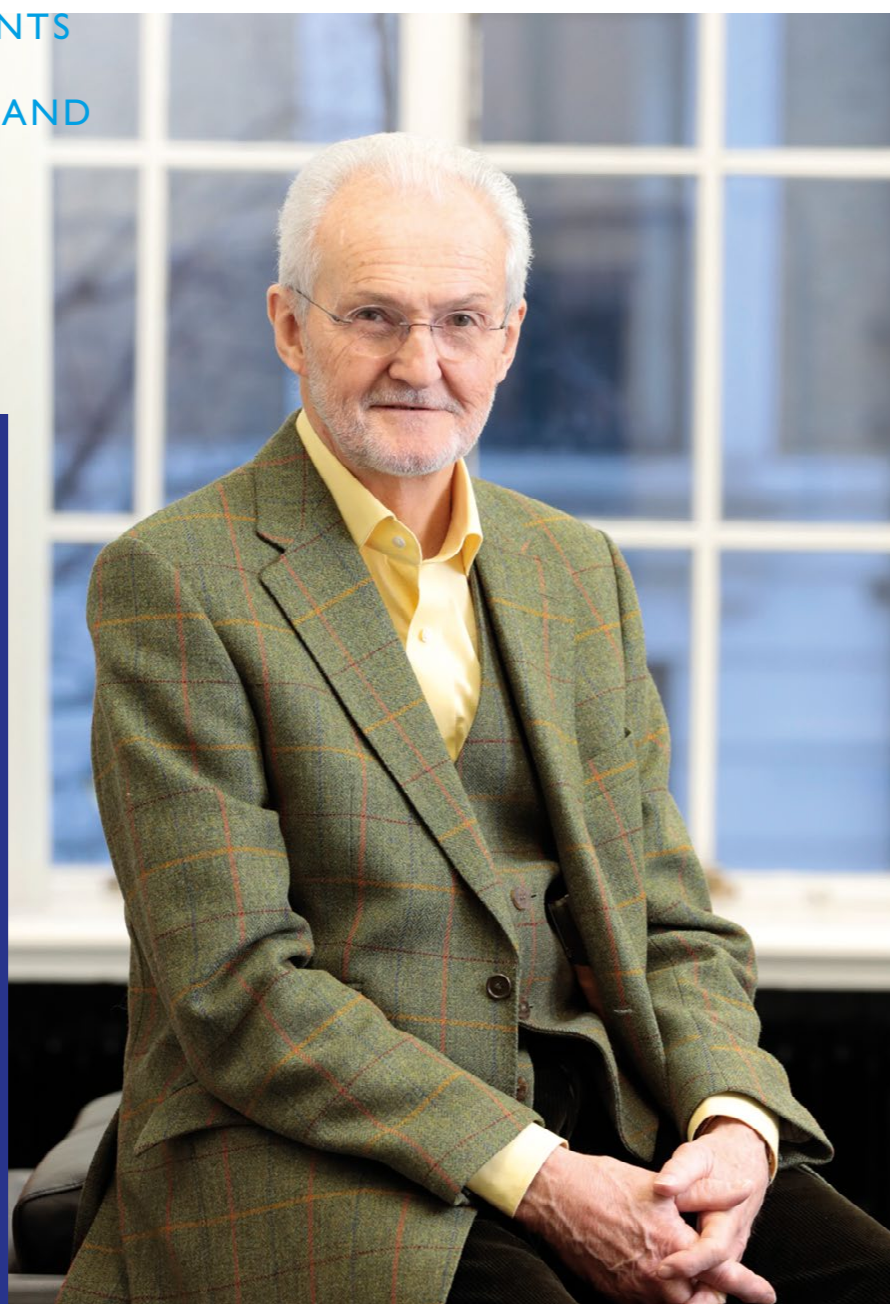
CHAIRMAN'S STATEMENT

STRATEGIC PROGRESS AND ORGANIC GROWTH

MERLIN ENTERTAINMENTS CONTINUES TO MAKE STRATEGIC PROGRESS AND REPORTS CONTINUED ORGANIC GROWTH.

INVESTMENT CASE

1. Attractive markets, with underlying growth characteristics and favourable dynamics
2. Diversified portfolio of world class brands and assets
3. Multiple levers of growth through our Six Strategic Growth Drivers (see pages 14 to 15)
4. Strict financial discipline and investment criteria
5. Committed to Being a Force for Good

**Trading and strategy**

After several challenging years, 2018 saw a number of important strategic developments and a year of continued steady organic growth.

Our strategy to expand the LEGOLAND parks footprint continued. Construction began in the first half of the year on the LEGOLAND New York Resort, which is progressing towards the planned 2020 opening, while at the end of the year we reached agreement with the local province for the funding of LEGOLAND Korea. We continue to believe there is the scope for 20 LEGOLAND parks worldwide and continue a number of progressive discussions about new partnership agreements in the key China marketplace.

Merlin's unique themed accommodation offering continues to drive growth across our theme park estate. We are therefore pleased to have a strong medium term pipeline for a variety of different accommodation formats at multiple locations across both theme park Operating Groups, which will add to the 4,000 plus rooms in the current portfolio.

In the Midway Attractions Operating Group, 2018 saw the pilot openings of the new Intellectual Property (IP) based attraction formats, 'Peppa Pig World of Play' and 'The Bear Grylls Adventure', aimed at the pre-school and adventure seeker markets respectively. While these attractions are still in their infancy, we are encouraged as they continue to broaden the Group's appeal within different markets and geographies. Furthermore, these investments reflect our ever-growing relationships with third party IP holders who seek to leverage their content through location based entertainment.

With respect to 2018 trading, Midway Attractions saw the key London market starting to recover from the impacts of terrorism that had so affected 2017 performance. In LEGOLAND Parks, a broadly flat performance in the existing estate was augmented by the expansion of the LEGOLAND Japan Resort by adding a hotel and SEA LIFE Centre to the park that had opened in 2017, with themed accommodation expansion in other parks also driving organic growth. Finally, Resort Theme Parks reported strong organic growth driven by the major resorts at Alton Towers and Gardaland, reflecting ongoing product investment and favourable weather. The trading performance is reviewed in further detail within this Annual Report.

Governance and the Board

The recent externally facilitated evaluation exercise confirmed that the Board and its Committees each remain effective. No major concerns were identified and the Board was described as strong, with a good mix of skills, experience and culture, with a collegiate, supportive and collaborative approach. The review also noted the appropriate level of constructive challenge during meetings.

Ken Hydon stood down as a Non-executive Director and Chairman of the Audit Committee in the year and 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.

Andrew Fisher OBE was appointed to the Board as a Non-executive Director in July 2018. Having led the successful growth of a number of technology-focused enterprises over the past 20 years, Andrew will add his experience in digital consumer and technology markets to the Board's already wide range of skills. Andrew has also joined the Audit Committee which is now chaired by Trudy Rautio, who brings a wealth of relevant financial experience to the role.

Further details on Merlin's Corporate Governance arrangements and activities are set out in the Corporate Governance Statement and Report on pages 58 to 65.

Dividends

At the Annual General Meeting in May, the Board will be recommending that we pay a final dividend of 5.5 pence per share. Taken together with the interim dividend of 2.5 pence per share paid last September, this will equate to a full year dividend of 8.0 pence per share, up 8.1% on 2017.

Responsibility and sustainability

Merlin is committed to responsible corporate citizenship. This commitment informs our governance structures and the operation of our businesses, notably in the area of health and safety where a constant focus on keeping our guests, employees and other visitors safe and secure is our overriding priority.

Our commitment to reducing our environmental impact continues with a particular focus in 2018 on plastic pollution. The Group partnered with Coca-Cola Great Britain in an innovative initiative to encourage more recycling and towards the end of the year the Group announced the phasing out of plastic straws within all of its owned attractions

worldwide as part of a number of initiatives to remove single-use plastics from the business.

Our partner charity, the SEA LIFE Trust, continues with activities to protect marine wildlife. Supported by the Group, in 2018 it announced a world first when construction started on a beluga whale sanctuary in Iceland. This will initially provide a new home for two beluga whales currently housed in one of our aquariums in China and has the potential to offer a more natural habitat for other captive beluga whales in the coming years. During the year SEA LIFE Conservation, Welfare and Engagement (CWE) was formed to continually improve standards in animal welfare and advocacy for marine conservation.

Merlin's Magic Wand, our partner children's charity, celebrated its tenth birthday in 2018. The charity continues to deliver magical experiences around the world to children who are facing challenges of serious illness, disability or adversity, with over 600,000 attraction visits taking place since the charity began. The charity also 'takes the magic' to local children's organisations with community outreach activities, and has now installed 46 'Magic Spaces' in children's homes and hospitals. As active members of the 'Members of Business Disability Forum' we also work to further improve experiences for guests with accessibility challenges.

Further details, together with our approach to non-financial reporting, are set out on pages 48 to 57.

Our people

I am, as always, extremely grateful to Merlin's management team and our many thousands of employees across the world who continue to drive the Group's strategic progress and are the foundation of our relations with our guests, communities and other stakeholders.

Looking forward

With Merlin's core strengths and assets, together with the backdrop of evolving, but attractive, market fundamentals, we continue to see significant global opportunity for the Company in 2019 and beyond.

Sir John Sunderland
Chairman
27 February 2019

MARKET OVERVIEW

ATTRACTIVE MARKET OPPORTUNITY

MERLIN OPERATES IN A FUNDAMENTALLY ATTRACTIVE MARKET, ENJOYING UNDERLYING GROWTH CHARACTERISTICS AND FAVOURABLE DYNAMICS.

Growth in global leisure and tourism spend continues to be fuelled by increasing disposable incomes in both developed and emerging economies, and ever greater value being placed upon time together with friends and family.

1.3bn
TOURIST ARRIVALS GLOBALLY
(Source – UNWTO, Citi Research)

6.3%
USA ANNUAL GROWTH IN EXPERIENCE RELATED SERVICES 2014-2016
(Source – McKinsey & Company / US Bureau of Economic Analysis)

3 in 4
AMERICANS PRIORITISE EXPERIENCES OVER PRODUCTS
(Source – Expedia and Center for Generational Kinetics)

\$3.2tn
GLOBAL LEISURE AND TRAVEL MARKET 2025

USA & China
DRIVE THE GROWTH
TRAVEL AND LEISURE SPEND IN \$ BILLIONS – 2015 AND 2025 FORECAST
(Source – Euromonitor International Passport/McKinsey & Company, CityScope Database)



ATTRACTIVE MARKET FUNDAMENTALS ASIDE FROM THE GROWTH CHARACTERISTICS, THE MARKET FOR LOCATION BASED ENTERTAINMENT OFFERS ATTRACTIVE FUNDAMENTALS.

High barriers to entry

Obtaining relevant planning permissions and capital investment for major theme park projects is invariably highly challenging.

Fragmented marketplace

The market for visitor attractions is relatively fragmented. This provides the opportunity for acquisitions and partnerships, with many non-natural owners of assets.

Digitalisation

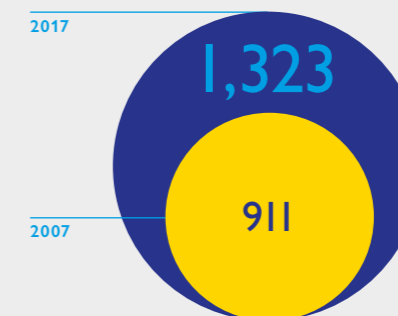
Unlike many consumer-facing businesses, Merlin sees limited threat, but significant opportunity, from the increasing importance of digital and technology which allow for enhanced guest experiences.

STRUCTURAL TRENDS WITHIN THIS LARGE AND GROWING MARKET MERLIN BENEFITS FROM THREE STRUCTURAL TRENDS.

1.3 billion international tourist arrivals

- Of which over half are holiday, leisure or recreation. Merlin benefits through our presence in Gateway cities.
- Growing wealth in emerging markets drives growth in travel, both domestically and internationally.

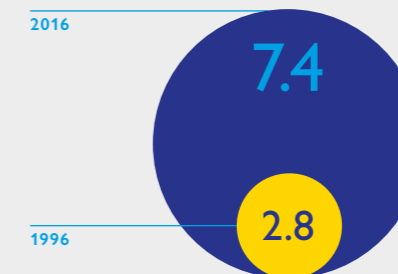
INTERNATIONAL TOURIST ARRIVALS (millions)



Growth in short breaks and demand for themed accommodation

- Aside from the benefit from short breaks enjoyed in Merlin's Gateway cities, 21% of Merlin's theme park revenue was generated from accommodation in 2018.
- Between 1996 and 2016, growth in UK short breaks was twice that of longer one/two week holidays (Source – ONS).

UK SHORT BREAK HOLIDAYS (millions)



Growing demand for a truly immersive, IP-led experience

Merlin has multiple global, or near-global, IP agreements. These range in scale from relationships at a local level for specific attractions, through global, multiproduct relationships with some exclusivity, all the way up to our core global, multiproduct and exclusive relationship with LEGO. Our standalone, IP-led attractions include LEGOLAND (parks and Discovery Centres), Peppa Pig World of Play, The Bear Grylls Adventure and DreamWorks Tours – Shrek's Adventure!.



BRAND PORTFOLIO THROUGH OUR DIVERSE PORTFOLIO, WE ARE ABLE TO CAPTURE ALL OF THESE ATTRACTIVE DYNAMICS ACROSS DEMOGRAPHICS, INCREASINGLY FOCUSED ON NEW BRANDS.

FAMILIES

- LEGOLAND parks
- SEA LIFE Centres
- Alton Towers
- Shrek's Adventure!
- Gardaland
- LEGOLAND Discovery Centres
- Warwick Castle
- Heide Park
- Chessington World of Adventures

PRE-SCHOOL FAMILIES

- Peppa Pig World of Play

CITY CENTRE TOURISTS

- Madame Tussauds
- The Dungeons
- The Eye Brand
- SEA LIFE Centres
- Little BIG City

ADVENTURE/ EXPERIENCE SEEKING

- The Bear Grylls Adventure

TEENAGERS AND YOUNG ADULTS

- THORPE PARK
- The Dungeons
- Alton Towers
- Heide Park
- Gardaland

BUSINESS MODEL

DELIVERING VALUE FOR ALL OUR STAKEHOLDERS

FOUNDATIONS AND COMPETENCIES

BRANDS AND ASSETS

- Synergistic relationship with LEGO (the world's top toy brand)
- Chainable and global Midway attraction brands
- Resort Theme Parks attractions are typically number one or two in their respective markets

IP PARTNERSHIPS

- Global, exclusive rights to the LEGOLAND IP
- Established and growing global, regional and local IP partnerships, for example with Star Wars, CBeebies, Bear Grylls and Peppa Pig

UNIQUE PORTFOLIO OF SKILLS

- Experienced research teams identify potential sites for new attractions and negotiate with local landlords, developers and civic bodies
- Unique creative teams develop content for all attractions and work with IP partners on new concepts
- In-house production capabilities for wax figures, LEGO model production and attraction theming create efficiencies and reduce costs
- World class animal welfare expertise and ethical animal husbandry
- We can project manage any scale of construction project including individual rides and attractions in our existing estate, new Midway attractions across the globe and full scale LEGOLAND parks

Find out more on pages 24 to 25

TOGETHER OUR INDIVIDUAL BUSINESSES CREATE AN EXPANDING, DIVERSE PORTFOLIO

OUR OPERATING GROUPS



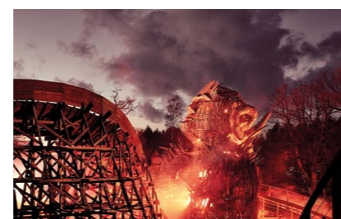
MIDWAY ATTRACTIONS

Find out more on page 23



LEGOLAND PARKS

Find out more on page 23



RESORT THEME PARKS

Find out more on page 22

PORTFOLIO SYNERGIES

- Established investment cycles drive growth at each attraction, funded by groupwide operating free cash flow
- Increasing scale and global reach improve opportunities for worldwide IP partnerships
- Synergy benefits go across Operating Groups in key markets where we can sell annual passes and enhance marketing opportunities
- Opportunities for multiple attractions at one location via city centre 'clustering' and 'second gates' at theme park resorts
- Six complementary strategic growth drivers

OUR CUSTOMER OFFERING

VISITOR REVENUE

- Admissions, increasingly booked in advance, including cluster/ multi-day tickets and annual passes
- Fastrack passes
- Food outlets – from snacks to gourmet restaurants
- Photos – print and digital downloads
- Retail – souvenirs, clothing, LEGO

ACCOMMODATION

- A wide range of themed accommodation for short break visitors – hotels, chalets and lodges, glamping
- Multiple options cater for different demographics and price points

VALUE CREATED FOR STAKEHOLDERS

CUSTOMERS

- Guest satisfaction constantly monitored at each attraction to drive improvement, with a continued focus on 'Top Box', 'Net Promoter' scores and social media engagement

95% GUEST SATISFACTION

EMPLOYEES

- Around 28,000 employees at peak season committed to delivering memorable experiences

Find out more on pages 42 to 47

86% EMPLOYEE ENGAGEMENT

COMMUNITIES

- Merlin's attractions operate responsibly at the heart of their communities, contributing to the local economy
- We partner with two charities to provide children with memorable experiences and to protect the marine environment

Find out more on pages 54 to 57

>100k MERLIN'S MAGIC WAND VISITS

INVESTORS

- We aim to deliver returns, long term value and dividend growth to shareholders

8.0p DIVIDEND PER SHARE

UNDERPINNED BY STANDARDS IN...

Health, safety and security

Industry leading standards, a rigorous safety culture and complete commitment from our teams

Find out more on pages 68 to 69

Corporate governance

Diverse, experienced Board and effective Committees provide oversight

Find out more on pages 58 to 65

Business responsibility

Ethical operating culture and animal welfare standards, with a commitment to manage environmental impacts

Find out more on pages 48 to 57

CHIEF EXECUTIVE'S REPORT

DEVELOPING THE PLATFORM FOR GROWTH

MERLIN MADE GOOD STRATEGIC PROGRESS THROUGHOUT 2018. OUR LONG TERM INVESTMENTS HAVE FURTHER DEVELOPED THE PLATFORM FOR FUTURE GROWTH.



Merlin is uniquely placed to exploit the growing opportunities to partner with leading owners of Intellectual Property content and provide additional ways in which to deliver memorable experiences.

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.

- High growth**
- High return**
- Strong brands**
- Global portfolio**



2018 overview

Merlin made further good strategic progress during 2018, delivering organic growth in underlying EBITDA of 6.2% and underlying operating profit of 3.4%. We welcomed a record 67 million visitors whilst continuing to report strong guest KPIs, including a three percentage point increase in our 'Net Promoter' score, to 57%. We have further strengthened our pipeline of attractive opportunities alongside investing in our existing brands, underpinning our platform for continued growth.

Growth in the year was driven primarily by our New Business Development programme, which saw us open a record 644 accommodation rooms and seven new Midway attractions – the majority of which were either new brands or attractions in new markets. The pilot openings of our two new brands – 'Peppa Pig World of Play' and 'The Bear Grylls Adventure', in Shanghai and the UK respectively, have already received encouraging guest feedback. These openings represent an entry into exciting new market categories for Merlin and underscore our focus in strengthening our position as an operator of location based entertainment partnering with leading owners of Intellectual Property.

2018 trading saw an improvement in trends across a number of our businesses. Midway London, which had been adversely impacted by the 2017 terrorist attacks, returned to growth in the second half of the year; and Resort Theme Parks saw exceptionally strong like for like growth, benefiting from successful product investment and very favourable weather. This performance was partially offset by the cost headwinds we have been highlighting for several reporting periods, as well as a quieter year for 'new news' in our LEGOLAND parks.

Since the year end we have announced our intention to open a LEGOLAND park in South Korea, having reached an agreement with the local province regarding funding. This is important for the continued development of the LEGOLAND estate, and the planned opening by 2022 will maintain our LEGOLAND Parks momentum, following the targeted opening of LEGOLAND New York in 2020.

67.0m
VISITORS

£327m
UNDERLYING OPERATING PROFIT

Market overview

Merlin operates in an attractive marketplace, benefiting from underlying growth characteristics and favourable dynamics. At its heart is increasing disposable income in both developed and emerging economies, and the ever greater value being placed upon time together with friends and family.

Firstly, we continue to see the long term growth opportunity through international tourism, benefiting our Gateway city attractions such as those in London, New York and Hong Kong. Globally, there were 1.3 billion tourist arrivals in 2017 – over half of which were travelling for leisure or recreation – representing a 3.8% CAGR over the past decade. This has been driven in part by the continued growth in emerging markets, with increasing levels of wealth in countries such as China and India set to continue over the coming years. We therefore remain confident that the market opportunity for our Gateway city attractions remains significant.

Secondly, the increase in short breaks, in addition to fuelling international travel, sees more and more people take 'staycations'. Short breaks in the UK have grown at twice the rate of longer holidays over the past 20 years. We are increasingly well positioned to meet this demand through our growing offering of themed, on-site accommodation and 'second gate' attractions to extend dwell time. Furthermore, the relatively lower cost to the guest of 'staycations' has historically provided balance to Merlin's portfolio during more challenging economic conditions.

Finally, Merlin is uniquely placed, given its global reach and multi-format expertise, to exploit the growing opportunities to partner with leading owners of Intellectual Property content. These partnerships provide Merlin with additional ways in which to deliver memorable experiences, whilst offering those partners opportunities to increase engagement with their customers. Merlin has long enjoyed success through flagship partnerships such as that with LEGO, and was pleased to launch two new IP-based brands in 2018. We see opportunities to develop further relationships with more IP or content owners over the coming years, building on the success of existing relationships.

CHIEF EXECUTIVE'S REPORT

In addition to these existing market drivers, we continue to carefully monitor broader consumer tastes and trends, particularly with regards to new concepts. The exponential growth in formats such as 'pop-ups' and Escape Rooms is of increasing interest, and we have already begun trialling some of these as part of offerings within our existing attractions, with Escape Rooms now in Madame Tussauds San Francisco and The Bear Grylls Adventure in Birmingham, UK.

Strategy update

With this attractive market backdrop, Merlin's purpose is about creating truly memorable experiences for our guests; creating memories to be shared at the school gates, on social media or simply on the journey home.

Since the creation of Merlin in 1999, our strategic vision has been to create a high growth, high return, family entertainment business naturally balanced against external factors. Specifically, we 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.

In pursuit of this, Merlin has consistently focused on its six strategic growth drivers (see pages 14 to 15). Progress against these in 2018 has been as follows:

Existing estate capex – investment in the existing estate helps to maintain and grow visitation and guest satisfaction. In addition to the major capex investments in 2018, such as the 'Wicker Man' roller coaster at Alton Towers and 'LEGO City: Deep Sea Adventure' at LEGOLAND California, new innovations included immersive 'build and play' features in our LEGOLAND Discovery centres, and Madame Tussauds' first 'intelligent' wax figure in Shanghai. Following our decision in Q3 2017 to rebalance our capital allocation more towards new business opportunities, Midway Attractions and Resort Theme Parks existing estate capex spend was carefully reduced in 2018. At the same time the team retained a clear focus on maintaining our levels of guest satisfaction. This capital discipline has resulted in Group existing estate capex reducing to 9% of revenue, remaining within our target range of 8% to 10%.

Strategic synergies – we continue to leverage the growing scale of the Group through areas such as procurement, promotional activity and technology. The roll out of the accesso® e-commerce platform is substantially complete, whilst our 2019 focus will be upon further developing the digital guest journey and the launch of the first Merlin Annual Pass membership programme.

Short break positioning – the success of our accelerated investment in on-site themed accommodation and developing our theme parks into short break resorts remains compelling. Accommodation revenue grew by 28% in 2018 on a constant currency basis and has doubled over the past five years, now representing 21% of revenue across our theme park Operating Groups compared to 13% in 2013. Accommodation continues to drive improved levels of guest satisfaction and increases in advanced bookings. In 2018 we opened 644 rooms across three LEGOLAND parks, and anticipate opening 372 rooms across a range of formats in 2019.

Midway roll out – we continue to see the opportunity to open new Midway attractions globally, based on both our existing and new brands. We opened seven new attractions in 2018, including pilots of our three new brands – 'Little BIG City' (the first pilot attraction of which was launched in Berlin in 2017), 'Peppa Pig World of Play' and 'The Bear Grylls Adventure'. Our pipeline continues to comprise a mixture of new brands or attractions in new markets, as well as the core brands in established markets. Over time, these will broadly balance out, though 2017-18 reflected proportionally more emerging market and new brand openings. In 2019, we target opening ten attractions.

Opening new LEGOLAND parks – 2018 represented the first full year of trading of LEGOLAND Japan, and the resort was enhanced further through the addition of a SEA LIFE centre and 252 bedroom hotel. We made encouraging progress during the year towards the opening of LEGOLAND New York, scheduled to open in 2020, and we have subsequently announced our intention to open a park in South Korea by 2022. We remain in active discussions, some of



Our ongoing product investment and innovation, and relentless focus on creating memorable experiences for our guests throughout 2018, have resulted in continued strong levels of guest satisfaction.



which are advanced, with a number of potential partners to develop several LEGOLAND parks in China. The current investment phase for LEGOLAND parks will continue to have the effect of reducing near term, reported Group ROCE given the projects' gestation periods and funding structures, but we are confident in the long term opportunity and returns outlook.

Strategic acquisitions – whilst we remain active in assessing inorganic opportunities against our clear investment criteria, we made no acquisitions during 2018.

Health, safety and security

The health, safety and security of our guests and employees remains our number one priority and we will continue to invest time and resource in improving our already high standards. In 2018, we developed further global partnerships with third party organisations related to matters of health, safety and security with the aim of mutually sharing any learnings, and launched a number of internal initiatives including the Company's HSS magazine called 'The Shield' and a new series of line manager-led briefings.

Productivity Agenda

Merlin has successfully mitigated significant cost pressures in recent years, resulting from legislative changes such as the UK National Living Wage, and significant increases in utilities and business rates. We are also increasingly seeing the impact of tighter labour markets in many parts of the world such as Southern California, Bavaria and the South East of England. To date this cost mitigation has been achieved largely through attraction-level savings and tactical efficiency improvements.

Mindful of these continuing cost pressures, we have been focused on our Productivity Agenda which seeks to consolidate a number of initiatives to provide long term, sustainable savings across the Group. As a result, we have identified annualised savings of up to £35 million which we expect to deliver by 2022, incurring overall one-off operating costs related to the implementation of this programme of approximately £35 million.

These cost savings will be delivered through back office savings, such as our 'Finance 21' project, operational efficiencies by evolving our business model, the application of continuous improvement principles in our attractions, and in many cases through better use of technology and automation. In addition to delivering financial savings, our programme seeks to improve productivity, better enabling our attraction staff and general managers to focus upon what truly delivers memorable experiences for our guests.

Guest satisfaction

Our ongoing product investment and innovation, and relentless focus on creating memorable experiences for our guests throughout 2018, have resulted in continued strong levels of guest satisfaction. Guest feedback is monitored daily through the touchscreens at our attractions, generating over one million reviews each year. In 2018 we delivered an overall guest satisfaction score across the Group of 95%, and a 'Net Promoter' score of 57%, which increased by three percentage points.

Employee engagement

We know that the better engaged our employees are, the better our guests' experiences will be. We are therefore pleased to report that our annual employee survey – 'The Wizard Wants to Know' – which was completed by 95% of our employees, shows that 94% enjoy working at Merlin. Employee engagement at Merlin remains significantly above global benchmarks. We're not stopping there though. In 2018 we developed a new employer brand and value proposition; 'Love Your Work. Work Your Magic', as we seek to attract, recruit and retain the very best people, and work is under way to encourage even greater diversity and inclusivity within the workplace through a number of new people initiatives.

Our team of 28,000 employees should be proud of what we have achieved this year, and I would like to thank them for their continued dedication and for delivering another year of fun, safe, and memorable experiences for our millions of guests around the world.

Nick Varney
Chief Executive Officer
27 February 2019

OUR SIX STRATEGIC GROWTH DRIVERS

PROGRESS, GROWTH AND PLANS FOR THE FUTURE



GROWTH DRIVER

PROGRESS

2019 OUTLOOK

Planned investment cycles in the existing estate

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. Each attraction has a planned investment cycle with varying capex levels that help to smooth overall expenditure across the portfolio and ensure investments are funded from operating free cash flow.

We made significant investments across all Operating Groups ranging from IP-based features such as the DC Comics 'Justice League' experiences, through to new roller coasters such as the 'Wicker Man' at Alton Towers Resort. As planned, total investment reduced in 2018 as we reallocate capital to new business opportunities.

[Find out more on pages 16 to 17](#)

Exploiting strategic synergies

We continue to leverage the growing scale of the Group through areas such as procurement, promotional activity and technology. In doing so we always seek to improve the customer's experience, for example, by streamlining the guest journey on our e-commerce platforms.

The roll out of the accesso® e-commerce platform for online revenue is substantially complete and several projects are now under way as part of our Productivity Agenda initiative to deliver long term operational efficiencies.

Developing our theme parks into destination resorts

Adding on-site, themed accommodation improves guest satisfaction, increases the catchment area for our parks, and increases the level of pre-booked revenue.

A total of 644 accommodation rooms were opened during 2018 across LEGOLAND Japan, transforming the park which opened in 2017 into a resort, LEGOLAND Deutschland's new Pirate Island Hotel, and LEGOLAND California, where a second hotel doubled the on-site accommodation capacity.

[Find out more on pages 18 to 19](#)

Opening new Midway attractions

We are expanding our estate of Midway attractions, rolling out a combination of core and new brands, in both established and developing markets.

Seven new Midway attractions opened in 2018. These included Little BIG City Beijing, our second attraction under that new format, the first Dungeon attraction in Asia in Shanghai, and pilots of two new IP-based brands – The Bear Grylls Adventure in the UK and Peppa Pig World of Play in Shanghai.

[Find out more on pages 20 to 21](#)

Opening new LEGOLAND parks

We are expanding our current estate of eight LEGOLAND parks that we operate under three models (operated and owned, operated and leased, operated under management contract).

2018 was the first full year of trading for LEGOLAND Japan that expanded into a full resort in the year with the opening of the on-site hotel and the SEA LIFE Nagoya second gate attraction. LEGOLAND New York is now under construction.

Strategic acquisitions

We operate in relatively fragmented markets, with non-natural owners of attractions. This provides opportunities for acquisitions.

Reflecting our strict investment criteria, no acquisitions were made in 2018.

Each year we plan that all existing estate attractions will have 'something new' for customers to enjoy. In 2019 major investments will include the launch of the iconic Colossos roller coaster at Heide Park while LEGOLAND Florida will see the first of our 'LEGO Movie World' investments. At SEA LIFE Sydney Aquarium, visitors will be able to experience the world's largest Great Barrier Reef exhibit in the state of the art, interactive 'Day and Night on the Reef'.

Work will continue on our projects to evolve and simplify our operating models across both theme parks and Midway attractions.

The 'Finance 21' project will start to roll out a cloud based software solution that will underpin the strategy to optimise the Group's finance organisation.

We plan to open on average approximately 500 rooms per annum in the medium term (372 in 2019 at LEGOLAND Billund, Alton Towers and Gardaland) and will continue the investment in second gates to further develop resorts.

Reflecting our plan to roll out new brands in new locations, 2019 will see ten openings overall. More Peppa Pig World of Play attractions will expand that new IP-based brand in China and the USA. There will also be a number of core brand openings with a suite of LEGOLAND Discovery Centres and SEA LIFE Centres scheduled to open in the USA, China and Malaysia.

Construction on LEGOLAND New York will ramp up during 2019 in line with our schedule to open in 2020.

We continue to monitor the market for acquisition opportunities.

MEASURING PROGRESS

Organic revenue growth

5.2%
in 2018

Accommodation revenue growth

27.7%
in 2018 (constant currency)

Accommodation

+644
rooms across **three**
LEGOLAND parks

Midway attractions

+7
across **six** brands in **four** countries
launching **two** new brands

LONGER TERM FOCUS AREAS

Productivity Agenda

Our Productivity Agenda initiatives will look to evolve the Group's operations over the next few years. We expect to see the benefits of this in lower operating costs, with up to £35 million annualised cost savings by 2022. At the same time we will continue to focus on the guest experience, for example through the use of improved technology.

Short break accommodation

We see a continued market demand for our themed accommodation in the short break holiday market. Our investments in this area to date have proved very successful, generating strong financial returns and helping to increase guest satisfaction over their longer visit to a Merlin destination. Accordingly, we plan to have opened approximately 2,500 new rooms between 2018 and 2022 across both theme park Operating Groups.

LEGOLAND parks

At the start of 2019 we announced that agreement has been reached with the local province in respect of LEGOLAND Korea, which will be a fully owned and operated resort, scheduled to open by 2022. Our increasing level of consultancy and study agreements give us confidence for further opportunities in China and we continue to believe that there is the potential for 20 LEGOLAND parks worldwide.

Intellectual Property (IP)

We see the growing importance of IP content and how location based entertainment can be a platform for this, providing greater ways to deliver memorable experiences, whilst offering partners opportunities to engage with consumers in a richer way. We see the opportunity to develop multiple relationships with IP or content owners over time and believe Merlin is uniquely placed to develop such relationships given our strong credentials, and our multi-format, global reach.

EXISTING ESTATE DEVELOPMENT | NEW BUSINESS DEVELOPMENT



RESORT THEME PARKS

FLAMING NEW ADVENTURES



The laughter coming from the 'Wicker Man' is the ultimate indicator for me that it's done its job – happy and delighted guests enjoying the adrenaline and fun of the theme park, on an innovative and creative product that adds to our great compendium of world class roller coasters.

Ian Crabbe
Divisional Director,
Alton Towers Resort



GROWTH DRIVER PLANNED INVESTMENT CYCLES IN THE EXISTING ESTATE

Each of our existing attractions follow a planned capital investment cycle enabling them to plan ahead and increase capacity. A major roller coaster investment at a theme park creates marketing 'new news' that generates media and customer interest, thereby growing visitation.



'WICKER MAN' ROLLER COASTER AT ALTON TOWERS

The process to create the 'Wicker Man' started more than four years ago as Alton Towers looked to create a new 'family thrill' ride. The Merlin Magic Making (MMM) creative team took on the challenge to create an innovative theme that was exciting enough for thrill-seekers and also one that most of the family can enjoy, and from there came the idea of putting wood and fire together.

MMM then project managed the construction as the 'Wicker Man' took shape – 7,500 tonnes of sustainably sourced wood creating over 2,000 feet of track to give riders the unique 'woodie' experience.

In its first year of operation the 'Wicker Man' has been really well received, winning industry awards, delivering on its investment criteria and helping drive significant revenue growth and high customer satisfaction levels.

We believe that the 'Wicker Man' has attracted more visitors back to the resort, boosting the local and regional economy and providing new and exciting job opportunities.



GROWTH DRIVER
DEVELOPING OUR
THEME PARKS INTO
DESTINATION RESORTS

Merlin currently has over 4,000 rooms across its estate. We see continued strong guest demand for themed accommodation and an ongoing trend towards short breaks. Adding accommodation increases the park catchment area, improves guest satisfaction and provides strong returns on investment.



**LEGOLAND
DEUTSCHLAND
PIRATE ISLAND HOTEL**

For the start of the 2018 season the German resort introduced its fourth, themed overnight accommodation; the 142 room, €27 million Pirate Island Hotel, further extending the capacity of the accommodation offering. Exceptionally high satisfaction levels and occupancy of up to 95% show that the pirate theme is as popular as ever.

Buccaneer motifs on the walls, a huge mast in the lobby, ship-shaped bunk beds and a cosy tavern with a family-style dining concept provide a pirate atmosphere in the whole hotel complex. Combining these details with LEGO models of all shapes and sizes, LEGOLAND Deutschland creates a one-of-a-kind family experience.

In 2008 the resort earned 6% of its revenue from its 97 rooms. Following subsequent investments in a range of accommodation types, that has now increased to 29% of revenue coming from 461 rooms. With approximately 60% of our holiday village guests coming from outside Germany, this expansion means LEGOLAND Deutschland is now a truly international resort.

97%
GUEST SATISFACTION

>90%
PEAK OCCUPANCY



The Pirate Island Hotel has seen really strong guest satisfaction scores, giving guests wishing to come and visit us an even wider choice as we continue to develop LEGOLAND Deutschland into an international resort destination.

Martin Kring
Divisional Director,
LEGOLAND Deutschland
Resort

LEGOLAND PARKS

**TREASURED
EXPERIENCES**

MIDWAY ATTRACTIONS

A WORLD OF PLAY



It's a pleasure to see the smiles on children's faces as they step into the world of Peppa Pig – the attraction is packed full of activities that will provide our youngest visitors with a truly memorable experience.

Yuna Wang
Attraction Manager,
Peppa Pig World of Play
Shanghai



GROWTH DRIVER OPENING NEW MIDWAY ATTRACTIONS

Opening new Midway attractions delivers organic growth through core and new brands across existing and developing markets. Merlin is uniquely placed with its strong existing brands and relationships with IP holders. New attractions can tap into different demographics such as the pre-school family market, helping to further diversify our portfolio.



PEPPA PIG WORLD OF PLAY SHANGHAI

Peppa Pig is a hugely successful, critically acclaimed pre-school animated series for girls and boys that has global reach, extremely high awareness and is still growing in many markets. In 2017 Merlin announced a partnership to open attractions in all territories excluding the UK.

The first Peppa Pig World of Play opened in October 2018 in the LCM Mall in Pudong, Shanghai. The attraction boasts ten amazing play areas, each recognisable from the much loved TV series, including Peppa's Family Home, Madame Gazelle's School Bus, Peppa's Treehouse and Rebecca Rabbit's Underground Adventure.

We have plans to open further Peppa Pig World of Play sites at locations in China and the USA during 2019, with hopefully many more to come in the future.



Q&A – OPERATING GROUPS

VIEWS FROM OUR OPERATING GROUP LEADERS

RESORT
THEME PARKS

Fiona Eastwood

**Q. What is your best guest story of 2018?**

It's always great to receive feedback from guests and one that really stands out for me relates to a mum visiting Alton Towers Resort with her autistic son. She wrote to thank the team for the way they made time for her son; sitting with him to answer all of his questions and providing exciting facts at Alton's SEA LIFE which made him feel important. She said that her son's confidence had grown due to the kindness and amount of time the staff had spent with him. She ended with a comment that it's clear the team there love what they do. This to me epitomises what we do and the difference our team can make in delivering amazing, memorable experiences.

Q. What were your key achievements in 2018?

As well as delivering a strong trading performance on the back of great new product offering and smart marketing, for example, on local season passes as part of our strategy to build loyalty, drive revenue and hedge against weather, it would be how we delight our guests as evidenced by our continued high guest satisfaction across our resorts.

Q. How do you see the marketplace changing and your position in it?

We have the challenge of operating in a world that's rapidly changing; with a plethora of choice for thrill-seekers and young adults from pop-ups to increased escapism from in-home entertainment. With pressure on families to find time to be together and escape the 'day to day', our role is to deliver unmissable, memorable experiences that tap into the fear of missing out amongst the teen and young adult demographic and deliver on togetherness and escapism for families. In doing this, we need to ensure we have a strong digital customer journey to delight our guests from the 'hello' to the 'goodbye' and everything in between. We see the potential for growth in the family short break and 'staycation' market, where we will continue to transform our parks into resorts by building our unique themed accommodation.

LEGOLAND
PARKS

Hans Aksel Pedersen

**Q. What are you proudest of in 2018?**

During 2018 one of our main achievements was to significantly increase our accommodation offering, opening new hotels at three resorts in Germany, Japan and the USA. At LEGOLAND California, for example, we doubled the on-site accommodation capacity with the new 250 room LEGOLAND Castle Hotel. With an overall guest satisfaction score of 93%, we are proud to share one typical comment – 'I cannot rate this place highly enough! Give yourselves a round of applause because your ability to make us feel so welcomed, special and all the amenities your hotel provided was simply spectacular!'

Q. How do you see the marketplace changing and your position in it?

We are aware that competition is fierce so we need to aim to beat our best performance every day. This comes from a combination of both the product offering and how our staff interact with guests. If guests come for their first visit and we 'blow their socks off' then they will return – the challenge is then to keep up that level of performance for their second visit and hopefully many more to come. Memorable experiences still reign and Merlin delivers these unique family experiences through exceptional staff and high quality attractions. Luckily our business is built on LEGO play, fun and imagination, and we'll probably not run out of that any day soon!

Q. What are you and your team most excited about in 2019?

In 2019 we open 'The LEGO Movie World' at LEGOLAND Florida Resort – based on the first LEGO movie and the 2019 sequel that hits cinemas around the world from February. This state of the art experience will put guests right in the middle of Bricksburg, the city where Emmet lives in the movies, featuring two new rides, the chance to meet the characters from the movies, a giant themed playscape, and the complete transformation of an existing interactive boat ride. The sights and sounds will be fully immersive, bringing the movie franchise to life in a way that only a LEGOLAND park could. This is a significant investment at LEGOLAND Florida and the first of what we plan to be a global roll out of a programme of 'LEGO Movie Worlds' in the coming years.

MIDWAY
ATTRACTIONS

Nick Mackenzie

Q. What are your key achievements in 2018?

Midway London is our largest division so it was reassuring to see growth in the cluster in the second half of the year, as visitors return to London following the suppressed trading we saw in 2017 after the terror incidents early in that year. Similarly, in Istanbul, another location where there have been security concerns in recent years, our cluster of three attractions reported strong growth, confirming our view of the long term potential of that exciting marketplace.

Q. What are you proudest of in 2018?

Ever since Merlin acquired Living and Leisure Australia in 2012, and reflecting our long held view that cetaceans should not be kept in captivity, we have been committed to finding a sustainable solution to the long term care of the beluga whales we inherited at Changfeng Ocean World in Shanghai. So it was great that in June 2018 we confirmed that in early 2019 we will hand over the care of 'Little Grey' and 'Little White' to our partner charity, the SEA LIFE Trust, at the world's first beluga whale sanctuary, now being constructed at a small bay on the south coast of Iceland. We will be telling the amazing story of their journey throughout the SEA LIFE estate in 2019, as they move to a more natural and wild habitat – hopefully somewhere that more belugas currently housed in aquariums will call home in the future.

Q. What are you and your team most excited about in 2019?

There is a wide range of great products this year that really show the breadth of what Midway offers. At SEA LIFE Sydney Aquarium there will be a full year's trading from the 'Day and Night on the Reef', recreating the wonders of that unique habitat across 24 hours of the day. At SEA LIFE Bangkok Ocean World we will see a new ice themed penguin attraction, while Madame Tussauds New York will showcase the best of Andrew Lloyd Webber's Broadway musicals, as we take guests on a fully immersive journey through the magical world of Broadway. Finally, we are looking forward to 'The LEGO Movie 2: The Second Part', where our LEGOLAND Discovery Centres will have movie themed events across the estate.

Q&A – MMM AND NEW OPENINGS

UNIQUE SKILLS THAT SUPPORT OUR STRATEGY

MERLIN MAGIC MAKING



Mark Fisher



MERLIN MAGIC MAKING (MMM) – THE UNIQUE RESOURCE SITTING AT THE HEART OF MERLIN, SUPPORTING ALL OUR ATTRACTIONS WITH SPECIALISTS IN FOUR AREAS

Finding the magic

Utilising consumer insight and research, MMM's experienced research teams find 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 across the existing estate and new attractions. This includes creating Merlin's very own in-house Intellectual Property (IP) and working with IP partners on new concepts.

Producing the magic

MMM takes these creative ideas and then uses its in-house production facilities to produce amazing content for all our attractions across each Operating Group. MMM makes LEGO models, wax figures and attraction theming, also working closely with our animal specialists to ensure 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.

Q. What are the challenges you face and how are you responding?

There are always new entrants into our marketplace with competitors bringing new ideas and formats. So we continue to undertake significant product research and development to make sure we stay competitive, including launching specific projects to invest in new concepts and work with up and coming businesses.

Within our teams we also look to unlock even more of our potential – a large part of the MMM team are highly skilled creative people such as designers, sculptors or hair stylists and colourists and in 2018 we have taken the opportunity to determine how we can tap into these skills to create new and exciting products to intrigue and enthrall our guests. For example, we can make lifelike masks that allow actors to walk amongst our guests – creating gasps as a buzz flies around the attraction...and then Harry and Meghan appear!

Q. What is your best guest story of 2018?

MMM is all about creating something new for guests, so I always like seeing people's reactions when they see something we have created for the first time. In 2018 we welcomed the first guests to The Bear Grylls Adventure in Birmingham and loved hearing them say 'Wow!' when they first entered the attraction – no wonder the guest satisfaction scores so far are so high!

A second example is where we can take our highly developed skills and match them to new technology to create a new amazing experience for guests, such as at Madame Tussauds London where we introduced a talking and gesticulating Donald Trump. It is extremely satisfying to unveil a figure and see every person reaching for their phone to take a picture and then a selfie to prove to their friends and family that they were there!

Q. What are you and your team most excited about in 2019?

There are almost too many to highlight! A big piece of 'new news' will be the launch of Colossos at Heide Park, featuring an epic 25 metres long fiery creature that's tangled itself up with the roller coaster. Each time a train passes the iconic creature it reacts with a surge of spectacular anger, spewing fiery smoke from its eyes and mouth and shooting eight metre flames from its head!

We're also very excited about our continued investment into our uniquely themed accommodation with the launch of the Magic Hotel at Gardaland. We will also see the new Dungeon at Alton Towers, the start of 'The LEGO Movie World' roll out at LEGOLAND Florida, and more Peppa Pig World of Plays as that new IP-branded attraction format expands across China and the USA.

NEW OPENINGS



John Jakobsen



Q. What is your best guest story of 2018?

I walked with a group of young Chinese visitors through our new Dungeon attraction on Nanjing Road in Shanghai. It was fantastic to see how the Dungeon idea of Scary Fun certainly also works with our Chinese audience – there was a combination of screams and laughter, just as there should be! Two hours before that I was watching two to four year olds and their parents enjoying Peppa Pig World of Play and wishing I had brought my two year old granddaughter. This was a great reminder of the variety we have in our portfolio of brands and how Merlin is able to nurture our own IPs as well as turn other IPs into successful location based entertainment offerings.

Q. What were your key achievements in 2018?

We managed seven new openings in 2018. Five of these openings were either new brands or in markets where we had not opened that brand before. Five of the openings also took place over a short period in September and October, which was a challenge to achieve. But it all worked very well and we got great collaboration not just from within the New Openings team, but also from many parts of the Group who came to support these openings.

Q. How do you see the marketplace changing and your position in it?

We obviously see consumers spending more and more time in front of screens. At the same time there is – and always will be – a demand for spending time together as a family. The families are very critical and selective about the location based entertainment experiences they choose. Merlin's well-established brands and our ability to work with IP holders make us well positioned at the top of the list for consumers' choices.

NEW OPENINGS – A SPECIALIST TEAM WITH TWO AREAS OF FOCUS

Opening new LEGOLAND parks

Utilising our experience of opening LEGOLAND parks and leveraging our strong relationship with LEGO, New Openings locate potential new sites and provide consultancy services to potential new business partners.

They then work closely with civic and development bodies, negotiate construction and development contracts, and manage the multi-year build process.

Finally they set up park operations and recruit teams, before opening and operating the park for the post opening period.

Opening new Midway attractions

New Openings use these same skills to take over a completed attraction from MMM before managing the opening and operating the attraction for the first 18 to 24 months of trading.

Q. What are you and your team most excited about in 2019?

2019 will be a busy year on many fronts! On the LEGOLAND parks side we will have an intense period for LEGOLAND New York which is under construction. This project will go from its current 15 staff members and then ramp up to about 1,000 when we open in early 2020. At the same time, we will be getting construction under way in Korea – and probably lining up for our first park in China.

We are also very excited about our strong Midway openings schedule. We plan to open LEGOLAND Discovery Centres and SEA LIFE Centres across a number of USA and Asia locations, while at the same time continuing the expansion with more Peppa Pig World of Play attractions in China and the USA.

FINANCIAL AND OPERATING REVIEW

INVESTING FOR THE FUTURE

WE CONTINUE TO INVEST CAPITAL WHERE WE ANTICIPATE GOOD LONG TERM RETURNS, WHILE ALSO MAKING PROGRESS ON OUR PRODUCTIVITY AGENDA.

+9.7%
OPERATING FREE CASH FLOW

+11.7%
ADJUSTED EPS GROWTH



Introduction

In 2018 the Group's trading performance reflected the diverse nature of Merlin's portfolio, with overall growth driven by our new business development activity and the strong demand for our themed accommodation offering. In a challenging cost environment we mitigated many of those pressures, and made progress on our Productivity Agenda that we believe will deliver cost savings and efficiency benefits in years to come. We continued to invest capital both in the existing estate where returns are generated immediately, as well as our Midway roll out and LEGOLAND park developments where trading profits and cash flow will be seen in future years.

Presentation of results

Revenue and trading

In 2018 the Group has adopted IFRS 15, the new accounting standard for revenue accounting. In the first year of adoption, this change creates an increase in revenue of £35 million and an equal and opposite increase in cost of sales. This primarily results from revenue derived from third party arrangements such as tickets purchased through online travel agents. Under IFRS 15, and depending on the terms of the relevant contractual arrangements, Merlin records revenue at the higher amount paid by the visiting customer rather than the lower amount received by the Group from the intermediary third party. In addition, Merlin partners with third parties in the operation of in-attraction offerings such as photo operations and games, where there are some small changes in revenue, depending on the role of each party in the operation of those offerings.

There is no adjustment to previously reported 2017 numbers, and a negligible impact on EBITDA. To aid comparability, growth rates within these reported results refer to movements excluding the impact of IFRS 15 unless otherwise stated. Also, and unless otherwise stated, all growth rates are presented on a constant currency basis, that is, as if the 2018 results were retranslated at 2017 average rates.

Underlying results and exceptional items

Our Productivity Agenda initiatives will together look to streamline and evolve the Group's back office and operations. We expect to incur total costs of approximately £35 million on this programme and plan to see the benefits of this in lower operating costs with up to £35 million of annualised costs savings by 2022. In order to present the underlying performance of the business more accurately, the costs of these initiatives are reported within exceptional items.

Unless otherwise stated, the commentary below refers to underlying results, that is, before the impact of exceptional items.

Revenue

Reported revenue increased to £1,688 million. Organic revenue growth, excluding the impact of IFRS 15, was 5.2%, rising to £1,653 million. On a like for like basis, revenue grew by 1.8%, reflecting growth in the Resort Theme Parks Operating Group and broadly flat performances in the Midway Attractions and LEGOLAND Parks Operating Groups.

We made good progress with our new business development. We opened seven new Midway attractions, which together with the full year benefit of 2017 openings, contributed £11 million to revenue growth. Similarly new accommodation added £44 million. Study agreements regarding prospective LEGOLAND parks and the full year effect of LEGOLAND Japan resulted in a further £2 million contribution to revenue.

EBITDA

Underlying EBITDA increased to £494 million resulting in a margin of 29.9% (29.3% including the impact of IFRS 15). This increase reflects strong trading within Resort Theme Parks and the increased accommodation offering across the theme parks, offset by the cost pressures noted elsewhere.

The cost base at our attractions is relatively fixed in the short term so any increases and decreases in revenue normally flow through to the operating result. If revenue is anticipated to fall short of our expectations, we will implement localised 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. Our more structural Productivity Agenda initiatives will over time help mitigate such cost pressures.

Operating Group margins are also 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.

Central costs, whilst relatively fixed in nature, will change over time as central functions evolve to support the increasing breadth and scale of the business. Net central costs of £46 million were £2 million lower than in 2017. This reflects increased income in respect of study agreement and consultancy activities that are accounted for centrally, offset by underlying cost increases.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2018 performance at 2017 rates would result in a £25 million benefit to revenue and a £9 million benefit to EBITDA. We set this out in more detail by major currency on page 158.

Operating profit

Depreciation and amortisation grew by 12.0% to £167 million reflecting the impact of continued investment in attractions and accommodation and, in particular, the opening of LEGOLAND Japan. On a constant currency basis, underlying operating profit increased by 3.4% to £327 million.

Exceptional items

Exceptional costs of £4 million were incurred in delivering on our Productivity Agenda, resulting in total operating profit of £323 million. More details on the exceptional items are set out on page 33.

	Total 52 weeks ended 29 December 2018 £m	Underlying 52 weeks ended 29 December 2018 £m	Underlying 52 weeks ended 30 December 2017 £m	Underlying growth (actual currency)	Underlying organic growth (constant currency) ⁽¹⁾
Revenue (without the adoption of IFRS 15)	1,653	1,653	1,594	3.7%	5.2%
Revenue (as reported)	1,688	1,688	1,594	5.9%	
EBITDA	490	494	474	4.3%	6.2%
Depreciation and amortisation	(167)	(167)	(151)	(10.5)%	(12.0)%
Operating profit	323	327	323	1.3%	3.4%
Net finance costs	(38)	(38)	(52)	26.1%	
Profit before tax	285	289	271	6.5%	
Taxation	(55)	(55)	(62)	11.6%	
Profit for the year	230	234	209	11.9%	
Earnings per share	22.5p	22.9p	20.5p	11.7%	
ROCE		8.9%	9.1%		
Operating free cash flow		345	315	9.7%	
Leverage on net debt to underlying EBITDA		2.4x	2.4x		

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 accounting standards and excludes growth from acquisitions.

FINANCIAL AND OPERATING REVIEW

Geographic performance

Merlin has the longer term aim of sourcing revenues equally from Europe, the Americas and Asia Pacific regions. 2018 performance against this is as follows:

Europe (56% of revenue, 2017: 55%) saw organic revenue growth of 5.0%, driven by strong trading in the Resort Theme Parks attractions which are all in Europe.

The Americas (27% of revenue, 2017: 27%) saw organic revenue growth of 6.6%, driven by new Midway attractions and the opening of the 250 room LEGOLAND California Castle Hotel.

Asia Pacific (17% of revenue, 2017: 18%) grew 3.8% on an organic basis. This is predominantly due to the opening of new Midway attractions in the region and the 252 room hotel at LEGOLAND Japan.

Midway Attractions

Midway reported organic revenue growth of 1.1%, driven by the continued roll out of new attractions and a broadly flat like for like performance.

New business development

Our Midway roll out programme can be segmented into two different types of investment: our existing brands opening in developed markets, and those attractions representing either pilots of new brands, or attractions opening in developing markets or in markets in which Merlin is less established. The two categories have significantly different profiles, with the latter typically generating lower short term returns and seeing greater fluctuations in visitor numbers as we build the brand or establish our presence in the new market. They are, however, a key part of our pipeline as they provide the platform for longer term growth and improving returns.

In 2018, we opened seven attractions which, combined with those opened in 2017, contributed an additional £11 million to revenue growth in 2018. Attractions opened in 2018 comprised LDC Birmingham, the Shanghai Dungeon, LDC Columbus, Peppa Pig World of Play Shanghai, The Bear Grylls Adventure Birmingham and Little BIG City Beijing. SEA LIFE Nagoya is accounted for in the LEGOLAND Parks Operating Group.

	2018	2017	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	40.4	40.7	(0.9)%		
Revenue (without the adoption of IFRS 15 – £m)	650	656	(1.0)%	1.1%	0.1%
Revenue (as reported – £m)	677	656	3.1%		
Underlying EBITDA (£m)	210	220	(4.7)%	(3.0)%	
EBITDA margin (%)	32.3	33.5			
Underlying operating profit (£m)	139	152	(8.3)%	(6.9)%	

Existing estate performance

Overall, revenue grew by 0.1% on a like for like basis. The improvement in trends was driven primarily by London which returned to growth in the second half of the year, following the 2017 terrorist attacks. Our portfolio of attractions outside of Gateway cities, which comprises predominantly LEGOLAND Discovery Centres and SEA LIFE Centres saw continued growth, albeit impacted by the hot summer weather in Northern Europe which resulted in challenging trading conditions for a number of our attractions. We expect the non-Gateway city Midway attractions to deliver inflationary growth over time.

Underlying EBITDA declined by 3.0% on a constant currency basis and resulted in a margin of 32.3% (31.0% including the effect of IFRS 15). The decline in margin was driven predominantly by the greater proportion of investment in openings of new brands or attractions in new markets, together with a number of non-recurring factors. These included the temporary closure of the LEGOLAND Discovery Centre in Shanghai due to the refurbishment of the shopping centre within which it is located and the non-recurrence of a sales tax rebate received in 2017. Otherwise, the margin was largely unchanged.

Existing estate capex of £50 million was down slightly from 2017 despite the increased size of the estate, reflecting the capital allocation decision communicated in October 2017. This resulted in strong operating free cash flow conversion of 76% (2017: 77%).

LEGOLAND Parks

LEGOLAND Parks reported organic revenue growth of 6.4% in 2018 as the roll out of new accommodation offset a broadly flat like for like performance.

A total of 644 new accommodation rooms were opened in 2018, comprising the 142 room Pirate Island Hotel at LEGOLAND Deutschland, the 252 room hotel at LEGOLAND Japan and the 250 room LEGOLAND California Castle Hotel. Combined with the rooms opened in 2017, this resulted in accommodation revenue growth of 39.7% on a constant currency basis.

On a like for like basis, revenue declined by 0.3%, following several years of very strong growth which were driven by both well-targeted product investments and support from LEGO movie releases. Conversely, 2018 saw limited 'new news', reflecting a low point in our capital investment cycle and no LEGO movies.

	2018	2017	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	15.6	15.3	2.2%		
Revenue (without the adoption of IFRS 15 – £m)	636	609	4.4%	6.4%	(0.3)%
Revenue (as reported – £m)	637	609	4.6%		
Underlying EBITDA (£m)	242	230	5.5%	7.7%	
EBITDA margin (%)	38.2	37.8			
Underlying operating profit (£m)	194	191	1.7%	3.9%	

Resort Theme Parks

Resort Theme Parks reported an improved performance in 2018, with organic revenue growth of 9.1%.

The Operating Group enjoyed strong trading throughout the peak summer season and the Halloween period which is now one of the most important trading periods of the year, due to successful product offerings such as 'Scarefest' at Alton Towers, resulting in like for like revenue growth of 8.6%. Our major capex investment at Alton Towers – the 'Wicker Man' roller coaster – drove growth in visitation and revenue per capita, whilst the introduction of 'Peppa Pig Lands' at Heide Park and Gardaland proved similarly successful, supporting significant growth in the young family and pre-school markets. Additionally, very favourable weather in both the UK and Continental Europe allowed for a more positive market backdrop following the difficult conditions which adversely impacted 2017 performance.

	2018	2017	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	11.0	10.0	9.6%		
Revenue (without the adoption of IFRS 15 – £m)	360	329	9.4%	9.1%	8.6%
Revenue (as reported – £m)	367	329	11.5%		
Underlying EBITDA (£m)	88	72	22.7%	23.1%	
EBITDA margin (%)	24.5	21.8			
Underlying operating profit (£m)	51	36	38.6%	39.9%	

LEGOLAND Japan, which opened in April 2017, saw improved profitability in 2018. This was due to the non-recurrence of pre-opening costs, the effect of which more than offset a slight decline in attendance which is typical for new theme parks, following their opening year. Including the benefit of the new hotel and SEA LIFE, the resort saw growth in revenue compared to 2017.

Underlying EBITDA grew by 7.7% on a constant currency basis and resulted in a margin of 38.2% (38.1% including the effect of IFRS 15). The slight improvement in margin, despite the like for like revenue decline and underlying cost inflation, is due largely to the uplift related to LEGOLAND Japan following its opening in April 2017.

Depreciation increased by £9 million primarily relating to LEGOLAND Japan.

Operating free cash flow conversion improved to 81% (2017: 80%) with existing estate capex of £45 million (2017: £45 million).

Accommodation revenue grew by 7.3% on a constant currency basis. This reflected the full period benefit of the 76 room CBeebies Hotel which opened in 2017, and continued growth in our existing accommodation.

Underlying EBITDA grew by 23.1% on a constant currency basis and resulted in a margin of 24.5% (24.0% including the effect of IFRS 15). The margin increase is a result of continued tight cost control and strong like for like revenue growth.

Operating free cash flow conversion improved to 59% (2017: 39%) due to growth in EBITDA and an £8 million reduction in existing estate capex.

FINANCIAL AND OPERATING REVIEW



Financing, tax and dividends

Finance costs

Net finance costs of £38 million were incurred in 2018 (2017: £52 million). The decrease was due in part to the benefit of closing certain derivative positions as part of the refinancing which took place during the period, together with the benefit of foreign exchange movements. The refinancing is explained in more detail below.

Taxation

The tax charge of £55 million represents an effective tax rate of 19.0% of underlying profit before tax. This has fallen from 22.9% in 2017, primarily due to the impact of changes in tax legislation in the USA. Excluding prior year adjustments, which related primarily to these legislative changes, our effective tax rate would have been 23.5%.

Significant factors which may impact the Group's future effective tax rate include the USA tax reforms, the ability to continue with our current internal financing arrangements and changes to local or international tax laws.

The international corporate tax environment is becoming ever more complex. We have seen rapid change in the USA and Europe and international bodies such as the Organisation for Economic Cooperation and Development (OECD) have had a significant impact on tax policy. In particular, the interpretation of tax law, or uncertainties in the application of tax law, increases the potential for challenges by relevant tax authorities and could lead to additional tax exposures.

More specifically there is an European Commission (EC) investigation into the UK's Controlled Foreign Company rules, where the preliminary finding of the EC is that this legislation constitutes unlawful State Aid (see note 5.4 to the financial statements). Like many other UK-based international groups, should there be a final determination against the UK this may adversely affect the Group.

Further detail on taxation is provided in note 2.4 to the financial statements.



Dividends

In September 2018 we paid an interim dividend of 2.5 pence per share and the Board is recommending a final dividend of 5.5 pence per share. This equates to a full year dividend of 8.0 pence per share and represents growth of 8.1% from 2017. This equates to a payout ratio of 35% of adjusted earnings per share.

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 pages 153 to 154), as well as the liquidity of the Group.

Cash flow

Operating cash flow

Merlin continues to be highly cash generative, delivering operating free cash flow (being underlying EBITDA less existing estate capital expenditure) of £345 million in 2018 (2017: £315 million). Net cash flow from operating activities for the 52 weeks to 29 December 2018 was £450 million (2017: £413 million).

Investing activities

A total of £332 million was incurred on capital expenditure in 2018. The total comprised £149 million invested in the existing estate and £183 million on new business development (NBD), of which £78 million related to attractions or accommodation not yet opened. NBD investment represented £88 million in developing new accommodation across our theme park estate, £60 million in respect of new Midway attractions that either opened in 2018 or will open in 2019, and £35 million on the longer term investments of developing new LEGOLAND parks, primarily LEGOLAND New York.

Grants received of £14 million relate to LEGOLAND Korea. The local government has agreed to support direct funding for the project totalling KRW 80 billion (£56 million), of which this was the first instalment.

Financing activities

During the year, we successfully refinanced a significant portion of the Group's debt facilities. The issuance of a US Dollar denominated bond, enlarging the revolving credit facility (RCF) to £600 million from £300 million and utilising surplus cash on the balance sheet enabled us to repay the existing term loans which were due to mature in March 2020. At 29 December 2018 £148 million of the RCF was drawn down (2017: £nil).

The cash outflow of £220 million on repayment of borrowings (2017: £132 million inflow) reflects these transactions and the subsequent use of additional surplus cash to pay down the RCF.

The refinancing has extended our average maturity, as well as providing us with greater flexibility to finance working capital requirements and capital investment. All covenant requirements were satisfied throughout the year.

Interest payments of £44 million (2017: £45 million) include the part year impact of the refinancing.

Merlin's current loan facilities are detailed in note 4.2 to the financial statements. Leverage on net debt at the year end equates to 2.4x underlying EBITDA (2017: 2.4x).

	2018 £m	2017 £m
Underlying EBITDA	494	474
Exceptional items	(4)	–
Working capital and other movements	6	3
Tax paid	(46)	(64)
Net cash inflow from operating activities	450	413
Capital expenditure – existing estate	(149)	(159)
Capital expenditure – new business development	(183)	(177)
Grants received	14	–
Other investing activities	–	(12)
Proceeds from share capital	6	8
Interest paid, net of interest received and settlement of interest rate swaps	(44)	(45)
Dividends paid	(76)	(74)
Other	–	4
Net cash inflow/(outflow) before refinancing and repayment of borrowings	18	(42)
Refinancing and repayment of borrowings (net)	(220)	132
Net cash (outflow)/inflow for the year	(202)	90

FINANCIAL AND OPERATING REVIEW

**Net assets**

Property, plant and equipment increased by £252 million, primarily reflecting the capital additions referred to previously, offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates. Further analysis of the working capital movements of £12 million are provided in note 3.4 to the financial statements.

The increase in reported net debt is primarily due to the impact of foreign exchange movements on non Sterling borrowings and finance leases.

Further details are provided in the consolidated statement of financial position on page 102 and the notes to the financial statements on pages 105 to 147.

Return on investment

Reflecting Merlin's disciplined approach to the use of capital, a variety of measures are used in assessing financial performance and in appraising individual projects.

The Board considers Return on Capital Employed (ROCE) to be an important metric for appraising the Group's financial performance and uses it in the remuneration of senior executives. 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.

ROCE in 2018 was 8.9%, which is above our estimated weighted average cost of capital. The significant investment in attractions or accommodation which have yet to open, including new LEGOLAND parks, or into attractions which have yet to mature, such as the new Midway brands or existing brands opening in new markets, has been a major contributor to the reduction in ROCE in recent years.

	2018 £m	2017 £m
Property, plant and equipment	2,344	2,092
Goodwill and intangible assets	1,028	1,018
Investments and other non-current receivables	75	70
Working capital	(181)	(169)
Net debt	(1,190)	(1,160)
Corporate and deferred tax	(190)	(175)
Employee benefits	(6)	(6)
Other liabilities	(136)	(103)
Net assets	1,744	1,567

Due to the long gestation period of a number of our capital projects, and Merlin's aim to create value over the long term, Internal Rate of Return is employed as the primary criteria for the appraisal of individual projects. This is supplemented by shorter term measures such as an assessment of payback period.

Productivity Agenda

Merlin is changing as we evolve our business model and the way we work, and also in response to the significant cost pressures affecting the business. Our global Productivity Agenda programme has therefore gathered pace in 2018.

Firstly, we have made progress mobilising the project team in developing our new cloud based finance system that will be rolled out across the business from the second half of 2019. This 'back office' investment, which includes better use of technology and automation, will support changes in how the finance teams support the business in the coming years. Secondly, under the heading of 'model evolution' we have launched initiatives seeking to simplify and streamline the operations of our smaller Midway attractions and applying lean continuous improvement principles in our parks. We have also exited certain non-core smaller Midway attractions.

These activities are partly enabled through capital investment, but also through incurring certain one-off operating costs. Because these costs do not form part of the underlying trading of the Group, they are reported within exceptional items, which totalled £4 million in 2018.

As this programme accelerates, we expect to incur total costs of approximately £35 million over the periods 2018 through 2021. We anticipate that these initiatives will generate up to £35 million of annualised savings by 2022.

Summary

In 2018, as well as reporting a solid trading performance, we have made progress in a number of areas. We are investing in our people, how we work, and in our diverse portfolio of assets. Together, these initiatives will all show returns in the future.

Anne-Francoise Nesmes

Chief Financial Officer
27 February 2019

How we report our results

Financial KPIs and Alternative Performance Measures (APMs) – we adopt certain APMs that in our view help present our trading performance in the most helpful and meaningful way, and that we use consistently each year. These can be summarised as follows:

- We refer to EBITDA as it is a 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.
- We refer to 'underlying' results, which remove the impact of any exceptional items and provide a more direct comparison of trading performance. Details of exceptional items are provided in note 2.2 to the financial statements.
- We refer to operating free cash flow, which is underlying EBITDA less existing estate capital expenditure and which 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 therefore also refer to operating free cash flow conversion, which calculates operating free cash flow as a percentage of underlying EBITDA, thereby providing insight as to our cash conversion performance.
- To provide a more direct comparison of trading performance in the existing estate, we refer to 'like for like' performance. This represents growth between two years at constant currency and accounting standards, including all businesses owned and operated before the start of the earlier year (2017 in this Annual Report).
- To provide insight into the Group's overall performance, including the impact of our new business development programme, we refer to 'organic growth'. This represents growth from like for like businesses and new business development at constant currency and accounting standards and excludes growth from acquisitions.
- In 2018 these adjusted measures mean that the growth in revenue is calculated as if IFRS 15 had not been implemented, so adopting consistent accounting with 2017. IFRS 15 has had a negligible impact on profit and therefore profit metrics would be unchanged. In our 2019 reporting, both years will reflect the impact of IFRS 15.

Period under review – 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. All balance sheet, and therefore cash flow, information is reported as at the statutory year end date.

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 109 to 111. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 106.

Our financial performance measures are defined in the Glossary on pages 156 to 157. Where relevant they are clearly set out within the consolidated Group financial statements as shown on pages 100 to 147. Details regarding ROCE are set out within the 'Other financial information' section on page 158. The five year financial record on page 155 contains further information.

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; and
- 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
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Management structure

- | | |
|---|--|
| <ul style="list-style-type: none"> • Defined reporting lines, accountabilities, authority levels and duty segregation. • Principal operating units and functions are led by Executive Committee members. • Leadership teams at each attraction and function. | <ul style="list-style-type: none"> • 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

- | | |
|---|---|
| <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • 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 projects. |
|---|---|

Policies and procedures

- | | |
|---|--|
| <ul style="list-style-type: none"> • Policies and procedures in place to manage operational, performance and compliance obligations. | <ul style="list-style-type: none"> • Compliance reporting by internal and external assurance providers. • 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:

- | | |
|---|---|
| <ul style="list-style-type: none"> • Operational – to ensure safe, effective and efficient attraction operation. • Health, safety and security – to ensure compliance with regulatory and legislative requirements. • Information technology – to ensure a stable infrastructure platform exists. • Financial – to support prevention and detection of financial reporting misstatement or fraud, and ensuring that day-to-day transactions are accurate. • Business continuity planning – including escalation procedures and crisis management protocols that enable attractions to operate on the occurrence of adverse events. | <ul style="list-style-type: none"> • Regular reporting of operational performance metrics to the Board. • Regular reporting by assurance providers on the operation of internal controls. • Reporting by profit protection professionals to support management in addressing fraud and theft risks. • Regular deep dive reviews on treasury, taxation and IT, with ad-hoc matters covered as necessary. • Self-certification by management of compliance and control issues. • Whistleblowing policy and independently operated employee hotline. |
|---|---|

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, without compromising the health, safety and security of guests, employees, contractors, animals or other visitors. They must 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, operating profit, ROCE and customer satisfaction scores. Qualitative measures consider items such as reputational impact and compliance with laws and regulations.

Risk management framework

The risk management framework sets out the Group's relevant risk management responsibilities together with the oversight, monitoring, reporting and management processes that support those responsibilities. The key elements are described in the table alongside.

RISK MANAGEMENT FRAMEWORK



Notes:
 (1) Sub-committee of the Board. See pages 60 to 65 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

Brexit

While not captured within the Group's ongoing principal risk assessments, the Board continues to keep the potential implications of Brexit for the Group's operations under review.

Although the Group is headquartered in the UK, the majority of our customers are in other countries and account for most of our revenue and cash flow. Our operational activities are generally incorporated and licensed in the jurisdiction in which they operate, enabling them to adapt to a wide range of local market influences. As such, our ability to provide services to our customers in the countries in which we operate, inside or outside the EU, is unlikely to be significantly affected by Brexit.

To ensure the Group remains in a position to react to the outcome from the negotiation process, a cross-functional team, led by the Group CFO, has identified a number of areas in which Brexit might affect the Group's operations. If there is no agreement between the UK and the EU, we believe that the following matters could directly affect our operations:

Structural issues – longer term impacts where resolution will require bilateral or multilateral governmental agreement. The areas of current focus relate to resolving issues that will arise as a result of:

- tax and tariff relief being lost from not being within the EU tax and trade treaty umbrella; and
- immigration restrictions limiting access to non-UK staff currently needed to operate the UK attraction estate.

Transitory issues – short term impacts as a consequence of administrative, process or market changes, which will unwind over a number of months after exiting the EU. The principal areas where these transitory issues can occur are:

- delays in the movement of goods and products that disrupt retail, food and beverage and ride operations, when either sourced directly or through third party providers in the supply chain; and
- restrictions on the actual availability of goods and products that disrupt retail, food and beverage and ride operations, when either sourced directly or through third party providers in the supply chain.

There are also a number of potential consequences of Brexit that are being considered as both a risk and an opportunity. The areas currently being considered relate to:

- extreme movements in foreign exchange rates impacting visitation and underlying costs; and
- UK and European citizens staying at home as a consequence of anticipated travel friction in the early months following a disorderly exit.

The final matter being considered relates to the impact on future performance if the Brexit process has a significant impact on the macro-economic climate in which we operate, in turn impacting the performance of our major European attractions including those in the UK.

In consideration of the matters noted above, a number of exercises have been undertaken to identify hot spots, perform analysis of particular contractual arrangements that could be threatened or become more expensive, assess increasing costs of duty, and analyse alternative supply options and the volume and location of inventory holdings across the estate.

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 pages 72 to 73.

Plans for 2019-20

The process of designing and implementing new finance systems has started, acting as the focal point for driving standardisation of business processes and the automation of transactional activities. This project, combined with the ongoing roll out of common HR processes and systems, will help improve consistency and strengthen our internal control framework across the business.

PRINCIPAL RISKS AND HEAT MAP

Management has identified the principal risks as set out on pages 38 to 40. The risk committees consider both gross and residual 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.

Risk	Type	KPI ⁽¹⁾	Viability ⁽²⁾	Responsibility	Appetite driver	Gross trend
1 Safety	HSS CS	K	V	HSS Committee	Compliance	↔
2 Security	HSS CS		V	HSS Committee	Compliance	↔
3 Innovation, brand development and customer satisfaction	CS	K		CSRM Committee / Operating Group Managing Directors	Commercial	↔
4 People availability and expertise	CS	K		CSRM Committee / HR Director	Commercial	↑
5 Competition and Intellectual Property (IP)	CS			CSRM Committee / Chief Development Officer	Commercial	↑
6 External threats to city centres	CS		V	CSRM Committee / Operating Group Managing Directors	Commercial	↑
7 Availability and delivery of new sites and attractions	CS			CSRM Committee / Chief Development Officer	Commercial	↔
8 Animal welfare	CS			CSRM Committee / Divisional Director, CWE	Compliance	↔
9 IT robustness, technological developments, cyber security including GDPR	CS			CSRM Committee / Chief Digital Marketing and Information Officer	Commercial Compliance	↑
10 Anti-bribery and corruption	FP			Audit Committee / General Counsel	Compliance	↔
11 Liquidity/cash flow risk	FP			Audit Committee / Chief Financial Officer	Commercial	↔
12 Foreign exchange translation risk	FP			Audit Committee / Chief Financial Officer	Commercial	↑

Gross risk trend



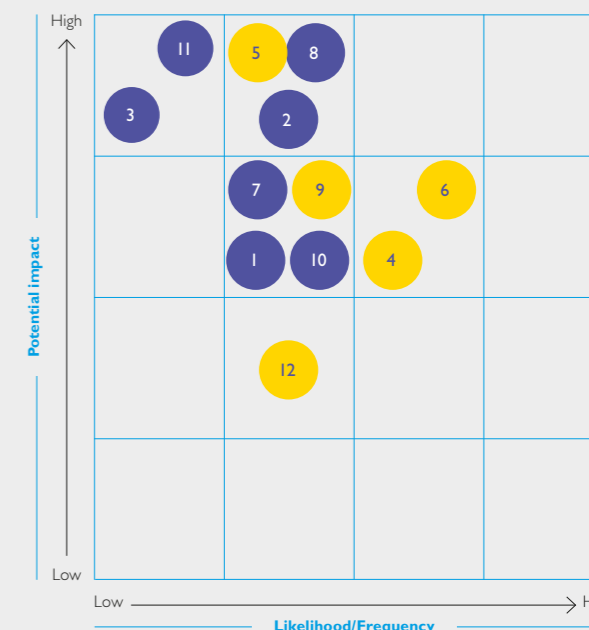
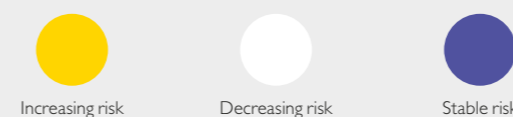
Notes:
 (1) Health and safety, customer satisfaction and employee engagement are Merlin's non-financial key performance indicators.
 (2) Risk that was considered for the viability assessment as detailed on page 41.

Risk type

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

The heat map sets out the residual risk once the impact, likelihood and effectiveness of existing controls have been taken into account. Risks are assessed with reference to safety, financial, commercial and reputational impacts on the business.

The only change in the risk trends in 2018 is the security risk moving from increasing to stable. This reflects the fact that during 2018 there was no increased terrorist activity in the locations where the Group operates.



PRINCIPAL RISKS

RISKS AND UNCERTAINTIES CONTINUED



High growth



Strong brands



High return



Global portfolio

Risk	Description	How risks are managed
1 Safety 	Serious incidents leading to guests, staff members or contractors being harmed as a result of: <ul style="list-style-type: none"> a failure to follow safety management systems when operating rides; inadequate maintenance and management of buildings, infrastructure and vegetation; or substandard build quality, asset degradation, fire, flood, storm or utility failure. 	<ul style="list-style-type: none"> 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. Board Committee established with specific mandate for this risk area.
2 Security 	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.	<ul style="list-style-type: none"> 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. Current events vigilantly monitored to identify emerging risks. Co-operation with local and national security forces. Appropriate insurance cover. Board Committee established with specific mandate for this risk area.
3 Innovation, brand development and customer satisfaction 	Our growth potential could be impacted if guests: <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
4 People availability and expertise 	The increasing cost and challenge of attracting and retaining appropriately experienced and well-motivated customer service orientated staff could impact: <ul style="list-style-type: none"> guest satisfaction; or the successful delivery of planned future expansion. 	<ul style="list-style-type: none"> 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.

Risk	Description	How risks are managed
5 Competition and Intellectual Property (IP) 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
6 Commercial impact of external threats to city centres leading to displacement of tourists 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
7 Availability and delivery of new sites and attractions 	The ability of the Group to grow in line with strategic objectives could be inhibited by the lack of: <ul style="list-style-type: none"> economically viable sites to locate Midway attractions and LEGOLAND parks; and timely approval of planning consent required for building new rides and attractions. 	<ul style="list-style-type: none"> 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.
8 Animal welfare 	Incidents or staff behaviours leading to animals in our care being harmed as a result of: <ul style="list-style-type: none"> a failure to follow prescribed welfare protocols; or inadequate maintenance and management of buildings, infrastructure and vegetation. 	<ul style="list-style-type: none"> External zoo licence audits. An internal ethics committee and the SEA LIFE Conservation, Welfare and Engagement team monitor the treatment of animals. A comprehensive range of policies, standards, procedures and guidelines. Training programmes for all staff who interact with animals. Planned preventative maintenance programmes to ensure buildings, infrastructure and vegetation remain suitable for displaying the animals in our care.

PRINCIPAL RISKS

RISKS AND
UNCERTAINTIES CONTINUED

Risk	Description	How risks are managed
<p>9 IT robustness, technological developments, cyber security including GDPR</p> 	<p>The Group operates various IT systems and applications, the obsolescence or failure of which could impede trading or the ability to operate an attraction.</p> <p>Without the technical developments necessary to meet consumer or business expectations, the Group may fail to deliver the growth required by the business strategy.</p> <p>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 a GDPR compliance investigation.</p>	<ul style="list-style-type: none"> 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. Independent assessment of compliance arrangements.
<p>10 Anti-bribery and corruption</p> 	<p>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.</p> <p>Any such incident could lead to criminal or civil prosecution, fines and cause reputational damage to the Group.</p>	<ul style="list-style-type: none"> 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.
<p>11 Liquidity/cash flow risk</p> 	<p>A lack of liquidity could inhibit the ability of the Group to grow in line with the strategic objectives if:</p> <ul style="list-style-type: none"> insufficient cash is generated during peak trading periods to cover fixed costs, interest and tax payments 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. 	<ul style="list-style-type: none"> A committed £600 million multi-currency revolving credit facility assists with liquidity and seasonal cash flow requirements. Review of weekly cash flow forecasts covering a period of 12 weeks assists planning for short term 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.
<p>12 Foreign exchange translation risk</p> 	<p>Merlin generates its main profits in Sterling, Euros and US Dollars and has long term debt in Euros and US Dollars.</p> <p>Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.</p>	<ul style="list-style-type: none"> 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 future four year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 37 to 40 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 2022.

Review period

The Group has a well-established portfolio of attractions that have demonstrated their longevity and ability to evolve over time. Additionally, the Group is expanding its portfolio with existing and new brands as well as expanding into new markets. Our proven profitability, ability to generate operating cash flows, and access to long term funding give us confidence as to the Group's long term prospects.

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;
- 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 2022 is an appropriate period over which to provide the Group's Viability Statement.

Risk assessment

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
- security related incidents including acts of terrorism and/or the impact of the threat of terrorism on consumer behaviours.

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. Additionally, a significant portion of planned spending on both the existing estate and for new business development is discretionary in nature, which gives the Group flexibility to manage cash flows. This ability to flex the cost base and 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.

Access to financing

During the year the Group refinanced a significant portion of its long term debt, issuing \$400 million US Dollar denominated 5.75% senior notes due June 2026 and increasing its revolving multi-currency credit facility from £300 million to £600 million with the repayment date extended to April 2023. The proceeds and surplus cash were used to repay the £250 million of Sterling and \$540 million of US Dollar denominated term loans due to mature in March 2020. The remainder of the Group's facilities are a bond in the form of €700 million seven year notes with a coupon rate of 2.75% to mature in March 2022. Taking into account Merlin's profitability and financial position, it is anticipated that the Group will be able to refinance these facilities. The Group will undertake a process to extend or replace all 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.

PEOPLE TEAM MERLIN



WE KNOW THAT THE MORE ENGAGED OUR EMPLOYEES ARE, THE BETTER OUR GUESTS' EXPERIENCE WILL BE. THAT'S WHY EMPLOYEE ENGAGEMENT CONTINUES TO BE A KEY AREA OF FOCUS, AND WHY WE'RE SO PROUD THAT OUR ENGAGEMENT LEVELS CONTINUE TO BE SIGNIFICANTLY AHEAD OF GLOBAL BENCHMARKS.



We value our people – employee engagement

Employee engagement continues to be a key focus area for Merlin. Our annual employee survey, 'The Wizard Wants to Know' (WWTk), is the perfect opportunity for Team Merlin to tell us how we're doing, how they are feeling and what they need to feel more engaged and happy at work. Our latest results confirm that our levels of employee engagement remain significantly above the global benchmarks. We're very proud of this, especially the 95% response rate, with overall engagement remaining at 86%.

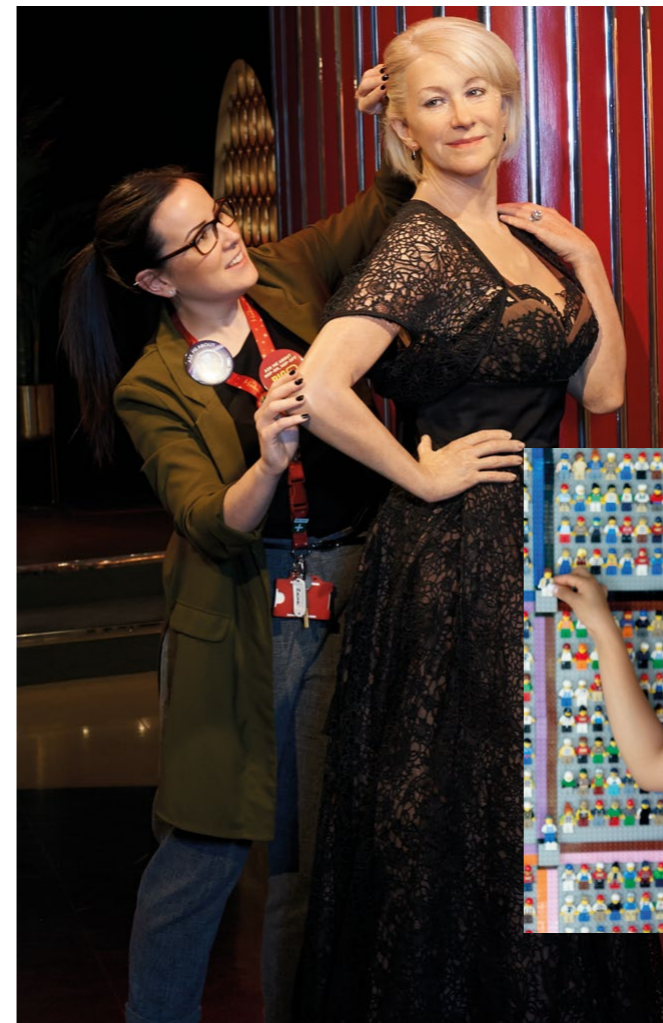
We constantly want to improve though and each team has created their own action plan focusing on improving the areas that are most important to them. Additionally, each of our businesses has a 'Your Voice Counts' (YVC) forum for discussing local issues which would benefit the attraction. With the introduction of the 'Employee Voice' as part of the 2018 UK Corporate Governance requirements, from 2019 these local forums will now have the opportunity to discuss important topics with a member of the Board on an annual basis with the establishment of the 'UK Your Voice Counts' information sharing meeting.



We recognise the contribution our people make to our success

We understand the importance of recognition and encourage local attractions to ensure they are recognising their teams appropriately. Our STAR recognition programme continues to be our global programme for recognising behaviour and performance that truly embody our values. This year almost 140,000 STARS were sent across the globe, contributing to more than 800,000 STARS that have been sent since the scheme was launched seven years ago.

We also innovate in this area. In 2018 the LEGOLAND Florida Resort launched 'You Earned It', a platform resort employees can use to recognise colleagues for performance and behaviour linked to our Merlin values by sending them points which can be redeemed for customised rewards. There is a 'real-time' activity feed enabling colleagues to amplify anyone's post by adding a 'High-5', as well as 'Behaviour Bonuses' which are for specific challenges or goals, either for the whole attraction or at department level. LEGOLAND Florida saw an increase in a number of recognition based questions in the 2018 'Wizard Wants to Know' survey with comments from employees such as "You Earned It has so far been an awesome incentive tool"; "You Earned It...makes me feel the company cares about creating a fun environment" and "You Earned It has helped create a most positive working environment".



We embrace diversity and inclusivity

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.

At Board level we are achieving a good level of diversity. A recent report by Hampton-Alexander ranked us seventh out of FTSE 250 companies for Board gender diversity, with 44% of our Board members being women. Our Board members are also made up of a number of nationalities, reflecting our geographical spread, and bring a range of experience over industry sectors.

WWTk – our employee survey

95%
RESPONSE RATE

94%
"I ENJOY WORKING HERE"

96%
"I AM ENCOURAGED TO MINIMISE RISKS AND ENSURE A SAFE WORKING ENVIRONMENT FOR COLLEAGUES AND CUSTOMERS"

95%
"I AM CLEAR ABOUT WHAT I AM EXPECTED TO ACHIEVE IN MY JOB"

86%
ENGAGEMENT INDEX

PEOPLE

TEAM MERLIN CONTINUED

We've also made progress this year at the Executive Committee level with three of our 12 Executive Committee members now being women.

Of our management positions (General Managers up to and including the Executive Committee) 157 (37%) are female and 268 (63%) are male. This is an increase from 2017 when we had 137 (34%) women. We have once again increased the percentage of female permanent employees by 2% to 50% (2018: 4,532, 2017: 4,182). Although improvements have been made, we want to increase the percentage of female staff in all areas and at all levels.

Gender pay gap

During the year Merlin completed its first gender pay gap report for UK employees, under the new UK gender pay gap reporting rules. This identifies differences in pay between men and women. For the latest available reporting period to 5 April 2017, Merlin's mean gender pay gap (calculated as the difference between the average hourly pay of men and women as a percentage of the average hourly pay of men) was 16.55%. The median gender pay gap, (the difference between the hourly pay of an employee in the middle of the range of male wages and an employee in the middle of the range of female wages), was 2.60%. Both figures were better than the UK average. The key reasons behind our gender pay gap are:

- lower numbers of female representation in senior, higher paid roles;
- relatively large populations of employees in traditionally male-dominated roles, for example, engineering staff and electricians; and
- a large proportion of females taking up roles with greater flexibility in working hours, such as housekeepers.

We are proud of the inclusive environment we create for all the people who work at Merlin and are actively encouraging and promoting more females into senior roles. This has included Board level sponsorship of Merlin's women leadership programme 'Women@Merlin'. Where possible, we encourage greater female participation in occupations such as engineering where there are proportionally fewer female employees, and host a number of initiatives to educate and inspire career progression within Merlin among female staff.

Managing inclusively

During the year, we introduced a new development programme for managers called 'Managing Inclusively', designed to recognise biases, understand their effect on employees and provide direction on how to deal with bias in the workplace. Managers across the UK, USA, Dubai and Europe attended, and we plan to extend this within our Asia Pacific sites in 2019. We have seen positive responses to the question 'I can be myself at Merlin' asked as part of 'The Wizard Wants to Know' survey, which increased from 78% in 2017 to 82% in 2018.

A great example of our efforts in this area comes from our Midway attractions in Australia and New Zealand. Our employees there are proud to work where diversity and equality are recognised and embraced, so they celebrate this for a specific week each year in March. Employees take part in a number of initiatives such as International Women's Day and international food fairs to acknowledge and celebrate the contributions different groups make to the workplace and society more broadly. In some years the week culminates in Merlin entering a float in the annual 'Sydney Gay and Lesbian Mardi Gras Parade' where the teams raise awareness and funds for Merlin's Magic Wand and Positive Kids Camp Goodtime, a charity which supports children whose lives have been affected by HIV.



We inspire careers

We are extremely proud to have many success stories which demonstrate how we are working towards being a truly global employer. The depth and breadth of roles within our attractions, our creative teams and our central functions give many opportunities for our employees.



Kathy Bagshaw

Following a number of positions in entertainments and operations before moving on to operational leadership roles across both the UK and USA, Kathy, our recently appointed Group Product Excellence leader, reports directly to the CEO. She is based in California, illustrating the cross-functional, cross-border journey you can undertake in our organisation.



Sandra Hazel

The Group Head of our 'Being a Force for Good' responsibility initiatives reports directly to our Group HR Director, having started her career on the Merlin graduate programme before gaining experience in operational roles.

We develop potential

Our New Openings division is now structured across multiple continents, supporting the business wherever it is required – illustrating that for the right talent, regional and global careers don't have to be restricted by where you live.

Developing our people has always been a real focus to ensure we deliver memorable experiences for our guests and support our growth ambitions. Encouraging individuals to take ownership of their own development is a critical part of their career journey. Our role is to provide the direction, the tools and the opportunities to learn and grow as they build their Merlin careers.

At a Group level, the focus in 2018 has been on enhancing development in two key areas. In operations, our programmes are targeted towards 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. Our 'Marketing the Magic the Merlin Way' programme continues to support our marketing community through understanding the specific capabilities needed for success. We have now engaged general management and other groups with this programme, to further expand our marketing capability across the organisation. We have also introduced two functional development programmes in two key commercial areas:

- 'Finance for Non Finance Managers' – a virtual programme to focus on improving the financial understanding of our current and future leaders.
- 'Project Management' – uses a virtual platform to focus on improving a core capability required in our ever-changing and evolving organisation.

These online programmes show the direction for future career development at Merlin, enabling the delivery of more effective, real-time learning over the coming years.

Accelerate Graduate programme

We are really proud of our Accelerate Graduate programme which has been a source of great talent for Merlin over the last 13 years that it has been running. The focus in 2018 was on developing the latest intake's skills in their current work streams, which has had great success, seeing our graduates fast track their career across Merlin and in many instances taking up placements within some of our new brands. The current intake will rotate into their final placement in March 2019 before securing permanent placements later in the year. Accelerate alumni go from strength to strength with many of them now in general management and marketing management positions.

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. We therefore provide multiple opportunities to access employee share schemes. Of our permanent employees, 32% participate in at least one of our Sharesave plans, with many contributing to more than one. We are extremely proud of this uptake. During 2018 we also made more than 500 share awards to colleagues at executive, senior and middle management levels under our long term incentive plans. This included 76 exceptional awards recognising outstanding contributions to the business.



PEOPLE

TEAM MERLIN CONTINUED

Promoting wellbeing

Following its launch in 2017 our 'BeWell' programme is now embedded within every region of our business. We believe the success of the programme is evident from the positive responses in our staff survey to the question 'Merlin does a good job of promoting health and wellbeing with employees' where the score was 72%. During 2018 we conducted a global campaign for employees to volunteer to be an ambassador for wellbeing at their attractions. As a result, 157 'Wellbeing Warriors' have been appointed who all work towards maintaining and nurturing a healthy and happy workforce.

As part of their local 'BeWell' programme, our London attractions have been working with Mind, the UK's national mental health awareness charity, to facilitate mental health awareness training programmes for their management team. This was followed by sessions to discuss more complex mental health issues and how best to manage these in the workplace. The Midway London team has since developed its own 'Mental Health Awareness' programme to raise awareness of mental health issues for line managers responsible for large operational teams. It has given them more confidence to deal with situations that often are not managed or managed poorly due to lack of knowledge and understanding.

Midway London was also the first division to train individuals across its attractions to be 'Mental Health First Aiders'. Eight selected managers are now qualified in mental health first aid in the workplace, gaining specialised skills in dealing with mental health issues within their teams. This initiative has proven our commitment to understanding and supporting those with mental health conditions, ensuring that we have trained, qualified employees who can proactively deal with any issues that may arise and manage them appropriately and sensitively.

'Love Your Work. Work Your Magic'

We love what we do, no matter where we work in Merlin. More than that, each and every one of us has the opportunity to use our personal set of skills to make brilliant things happen and deliver memorable experiences for our guests the world over. We thought it was time to share this with the outside world to help us to attract, recruit and retain the very best talent, so we have developed a new employer brand and value proposition that embodies who we are and what it's like to work at Merlin.

To inform this process we spent time talking to our employees around the globe to find out what matters to them in their daily working lives and concluded that the following key propositions are common to Merlin people around the world:

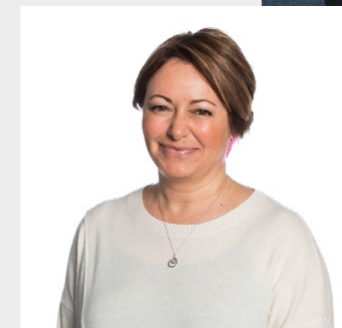
- That 'Fun Comes First' at Merlin
- That most days give them a 'Guess What I Did Today?' moment
- That they can 'Make Magic Their Way'
- And that as a Merlin team we are on 'The Ride of Our Lives'

The new 'Love Your Work. Work Your Magic' employer brand really showcases our employees and their experiences, while our new global 'Merlin Careers' website provides access for prospective employees to apply for any one of our roles worldwide.

The People Portal

In 2018 we started the implementation of the first modules of a new global cloud based HR system, known internally as 'The People Portal'. Once fully implemented, this will deliver a single, comprehensive HR system supporting all Merlin businesses globally and in local languages, increasing the speed and quality of HR delivery and at the same time reducing costs compared to legacy systems. In 2018 the recruitment, core HR and learning modules were made available to employees across Europe and North America. In 2019 we will complete the global implementation by implementing these modules across Asia Pacific as well as extending functionality globally to include performance, talent and compensation.

The People Portal is driving standardisation of our HR processes, reducing HR administrative costs, and driving efficiencies in recruitment and talent management across the organisation. The learning management capabilities provide a platform to introduce new methods of training and increase the visibility of our compliance, with mandatory training for certain roles in areas such as health and safety. The solution also provides many benefits to our employees, enabling interaction through personal mobile devices, delivered in all local languages.



Natalie Bickford

Looking to the future

Natalie Bickford, our Group HR Director, is anticipating an exciting few years ahead for Team Merlin and our people's role in delivering memorable experiences for our guests.



To deliver memorable experiences for our guests, we plan to hone in on the people agenda in order to:

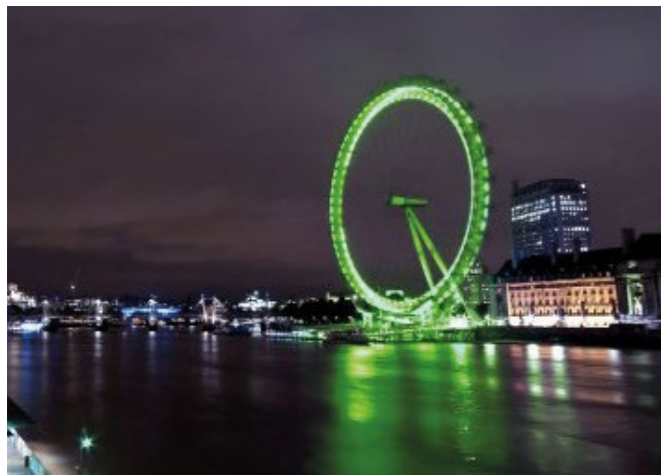
- deliver structured and exciting career progression;
- drive productivity;
- develop robust succession and workforce planning;
- provide an inclusive environment where every employee has the opportunity to be heard and to contribute; and
- communicate transparent and motivational rewards.



RESPONSIBLE BUSINESS

ACTING RESPONSIBLY, TAKING CARE

MERLIN'S COMMITMENT AND STRONG SOCIAL CONSCIENCE DRIVES OUR APPROACH TO BUSINESS RESPONSIBILITY AND 'BEING A FORCE FOR GOOD'. THIS IS REFLECTED IN HOW WE TREAT AND CARE ABOUT OUR VISITORS, OUR PEOPLE, OUR SUPPLIERS, OUR PLANET, THE ANIMALS WE LOOK AFTER AND THE COMMUNITIES IN WHICH WE OPERATE.



Turning the London Eye green for Green GB Week 2018

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 66 to 89.

This approach then extends to how we run the business. For example, in the critical area of health and safety, the core mission to maintain the safety and wellbeing of our guests, employees and contractors is supported by a series of robust strategic initiatives and the regular monitoring of certain key performance indicators. More details on how we approach health and safety can be found on pages 50 to 51.

Non-financial reporting

We set out below our approach to the five specific areas required under the non-financial reporting requirements set out in the Companies Act. Further information can also be found on Merlin's website and the websites of our partner charities.

Environmental

We recognise that our attractions have an impact upon the environment. Merlin engages in a number of activities in this area under the oversight of the Executive Committee and Chief Executive Officer, as well as partnering with the SEA LIFE Trust charity. The Group's environmental policy is published on our website and the 'We care about our planet' section on pages 52 to 53 contains more information. This includes our greenhouse gas reporting, where we target annual reductions in our carbon intensity of 2%.

Employees

Our worldwide team of skilled employees is one of the key elements of our long term business model. We constantly keep them up to date with the business through the 'My Merlin' intranet, a quarterly groupwide newsletter 'The Wizard', as well as using TV screens and noticeboards in staff rooms and other areas. Further details of how we engage with and develop our employees, together with employee and gender diversity statistics can be found in the People section on pages 42 to 47. This includes the results of our employee engagement survey and our employee engagement score, a key non-financial performance indicator.



Beach clean arranged by SEA LIFE Porto

We make no differentiation between able bodied persons and persons with disability 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.

For details of how we manage the risks of people availability and their expertise, see page 38.

Social matters

Our strong social conscience informs how the Group operates, including with regard to both the people and creatures connected to our business. This is exemplified by areas such as our ethical animal husbandry activities, our work with children faced with the challenges of serious illness, disability and adversity, and how we approach visitor accessibility. More details can be found on pages 52 to 57.

For details of how we manage the risks regarding animal welfare, see page 39.

We also 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 on this area are available on our website.

Human rights

Merlin has implemented a Human Rights Policy, guided by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work together with the OECD Guidelines for Multinational Enterprises.

This policy and Merlin's Modern Slavery and Human Trafficking Statement can be found on Merlin's website.

Anti-corruption and anti-bribery matters

Merlin's approach regarding the management of anti-bribery and corruption risks is set out on page 40. Merlin has a zero tolerance approach in this area, with regular reports on whistleblowing being provided to the Audit Committee.



We're delighted to break new ground in marine animal welfare with the creation of the world's first sanctuary for beluga whales. This is a pioneering solution to how the aquarium industry can reshape the futures of whales and dolphins in captivity.

James Burleigh
Divisional Director,
Conservation Welfare and Engagement
(CWE)

RESPONSIBLE BUSINESS

WE KEEP PEOPLE SAFE AND SECURE

MERLIN IS DEDICATED TO DELIVERING BEST IN CLASS HEALTH, SAFETY AND SECURITY (HSS) STANDARDS THAT ARE CLEARLY UNDERSTOOD AND IMPLEMENTED ACROSS THE GROUP.

Mission and strategic initiatives

Our mission sets out the Company's philosophy with regard to ensuring the safety and wellbeing of our guests, employees and contractors. To support this mission, the Company has also set out its core HSS strategic initiatives and how these must direct and focus all efforts in a manner that is both systematic and progressive.

What we do

Safety leadership walks – on-site walks, both in visitor areas and 'back of house', by senior leaders in the business where dedicated time is spent talking with staff about HSS matters and understanding what more can be done.

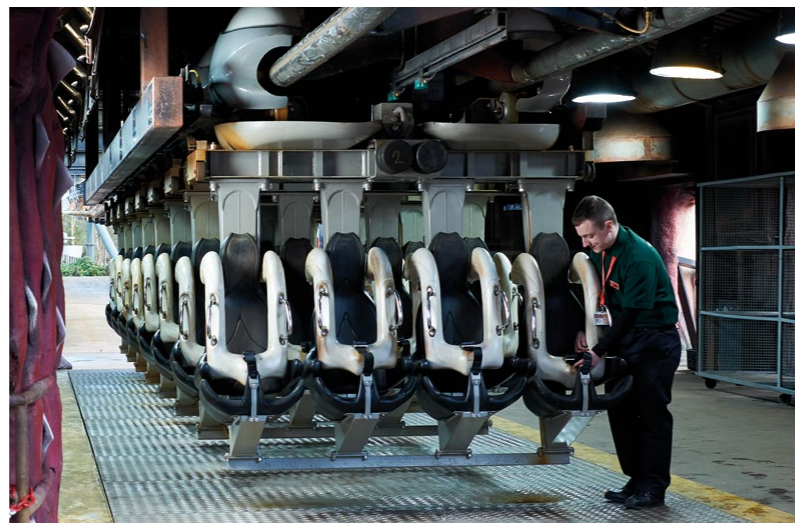
Training – rigorous training and instruction are fundamental to Merlin's approach to HSS across the business, with mandatory new starter training for all employees and safety leadership training for managers.

Risk assessments – Feasibility Risk Assessments and Operational and Use Risk Assessments now provide a more structured methodology for risk identification, elimination or control for new rides and hotels.

Fire safety – proactive fire engineering surveys of our hotels have helped ensure that we continue to uphold the highest of physical and procedural controls at all of our hotels.

Food safety – we adopt the best practice system of Hazard Analysis and Critical Control Points (HACCP). We ensure traceability and assurance over food produce sources and support our guests in their choice of products based on their specific dietary and allergy requirements.

Maintenance – robust maintenance systems and procedures comprise daily, weekly, monthly and annual maintenance programmes across Merlin's rides, buildings, facilities and estates.



Ride inspections – thorough inspections conducted at least annually by independent inspection bodies on each ride complement our internal maintenance and inspection regimes.

Construction – best in class standards are maintained across all Merlin's global construction projects. The new Bear Grylls Adventure attraction in the UK along with new hotels at LEGOLAND Japan and LEGOLAND California are examples of safe projects achieved through rigorous HSS standards.

Auditing – our 'Triple Lock' audit programme was further enhanced in 2018 with a new software system that allows for integrated reporting.



Our strategic initiatives comprise the following six core aspects:

Leadership and Engagement

Requiring our leaders to exhibit visible, proactive and unwavering leadership towards HSS, supported by our people who are fully engaged with this shared responsibility.

Competency and Culture

Fostering a positive, proactive and fair safety culture, with competent and talented people focused on the effective management of HSS risks.

Assessment and Control of Risk

Identifying, understanding and controlling HSS risks effectively so that the greatest effort and resource is placed on our most material risks, whether existing or emerging.

Standards and Procedures

Developing and rigorously implementing clear and suitable standards and procedures for safe design, construction, maintenance and operation of assets and equipment.

Assets and Equipment

Managing our assets and equipment to ensure they are fit for purpose throughout their life-cycle such that no unacceptable or uncontrolled HSS risk is created.

Monitoring and Assurance

Assessing and critically reviewing our performance, in a balanced and objective manner, in order to understand, improve and sustain our HSS performance.

To help communicate these to our key internal and external stakeholders, the Company has published a new informative brochure called '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.

Additional HSS news items and features are also published throughout the year on the Company's 'Backstage' website.



How we monitor HSS performance

HSS performance, including near-miss and incident reporting, is regularly reviewed by each attraction, with 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⁾	95%
Safety Culture Survey Results ⁽⁴⁾	87%
HSS Committee Meetings ⁽⁵⁾	100%

Lagging indicators

Medical Treatment Case Rate (Guests) ⁽⁶⁾	0.03
Medical Treatment Case Rate (Employees) ⁽⁶⁾	0.07

(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 % score represents the average compliance score. Where opportunities for improvement to local practices are identified, these are discussed with local management and plans implemented to address them.
 (4) Merlin's annual 'The Wizard Wants to Know' employee survey features a series of questions relating to health and safety and this % score represents the overall safety engagement score.
 (5) Through the HSS Committee the Board provides strategic direction and performance scrutiny of HSS matters within the business. Additionally, each Operating Group has its own HSS Steering Committee. These forums are intended to meet quarterly and this % score indicates compliance with this expectation. We note that the December HSS Committee meeting for the LEGOLAND Parks Operating Group was rescheduled to early January 2019 for logistical reasons.
 (6) A Medical Treatment Case (MTC) is defined as an injury which requires external medical treatment (i.e. ambulance attendance to the 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.

RESPONSIBLE BUSINESS

WE CARE ABOUT OUR PLANET

WE RECOGNISE THAT OUR OPERATIONS IMPACT UPON THE ENVIRONMENT AND THAT EFFECTIVE MANAGEMENT, IN LINE WITH OUR STRATEGIC BUSINESS GOALS, IS ESSENTIAL FOR SUSTAINABLE BUSINESS SUCCESS. WE ARE COMMITTED TO MINIMISE THE POTENTIALLY HARMFUL EFFECTS OF SUCH ACTIVITY.

Strategy and governance

The Executive Committee is responsible for setting strategy, policy, principles and guidance for attractions. Ultimate responsibility for our sustainability strategy rests with the Chief Executive Officer, supported by management, to ensure that strategic policy is implemented and that our sites' sustainability objectives align to our corporate sustainability objectives. Each attraction has a sustainability champion who is responsible for the delivery of our sustainability objectives at a local level. More details can be found on the sustainability page on our website.

Compliance and environmental management

We participate in the UK Carbon Reduction Commitment (CRC) energy efficiency scheme and other applicable environmental regulations globally. Specific budgets are made available each year to test and implement environmentally focused initiatives.

Climate change

The Group has identified the following issues related to climate change, which are set out below together with Merlin's approach in the relevant area.

- Energy use – the risk that using fossil fuel energy contributes to climate change. Merlin is investing in on-site zero to low carbon technologies such as installing solar photovoltaic and combined heat and power assets.
- Energy price – the risk of fluctuation in the global energy price. Merlin is investing in systems to reduce the amount of energy we use, for example at Madame Tussauds London where a new building management system monitors carbon dioxide levels around the attraction and adjusts energy usage accordingly.
- Weather – the risk of distortion in weather patterns. Merlin operates a balance of both outdoor theme park resorts and Midway attractions which are generally indoors.
- Waste, recycling and the use of landfill – Merlin is diverting waste from landfill where possible through recycling and generating energy from waste. For example, our four largest UK theme parks recycle and recover all their waste for energy generation.

'We Care about our Planet' annual event

Merlin teams all over the world participated 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 global teams including beach cleans, collecting plastics and other waste, staff cycling and walking to work and around our attractions to raise awareness.



Staff cycling at Gardaland Resort

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 include GOs for Heide Park and REGOs for our UK operations.
- Our annual carbon reduction target is measured based on market based emissions.

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 2017 to 30 November 2018 in comparison to our financial year of January to December 2018.
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 2018 edition and emissions factors from DEFRA (2018).
Intensity ratio	Emissions per £1 million of revenue
Scope 1	22,768 tonnes of CO ₂ equivalent (2017: 25,560 tonnes)
Scope 2 (Localised based)	109,923 tonnes of CO ₂ equivalent (2017: 111,911 tonnes)
Scope 2 (Market based)	102,691 tonnes of CO ₂ equivalent (2017: 104,672 tonnes)
Group gross emissions	125,459 tonnes of CO ₂ equivalent (2017: 130,232 tonnes)
Intensity baseline (revenue)	£1,688 million (2017: £1,594 million)
Emissions intensity	74 tonnes of CO ₂ equivalent per £1 million of revenue (2017: 82 tonnes)

SEA LIFE Porto volunteers removing litter from the beach



Greenhouse gas (GHG) reporting

The Company is required to report each year on its carbon dioxide emissions, which are set out in the table above. The reported emissions intensity is affected by the impact of foreign exchange movements on the revenue figure that forms the intensity baseline. This has reduced the reported 9.0% intensity reduction by 1.3% and accordingly the reduction on a constant currency basis would be 10.3%. Carbon emission factors used in 2018

were lower compared to 2017 due to a reduction in the use of coal for energy generation. This contributes 5.6% to the reported reduction. Our underlying carbon emission intensity reduction was therefore 4.7%, ahead of our annual target which is to reduce our carbon emission intensity by 2.0% year on year.

Unique Coca-Cola Great Britain reverse vending machines



Commitment to plastics reduction

As a responsible business and an advocate for marine conservation, Merlin is committed to working towards removing the use of single-use plastics, and 2018 has seen a number of initiatives in this area.

In the summer of 2018 we partnered with Coca-Cola Great Britain to encourage more recycling through state of the art vending machines. Unlike traditional vending machines that dispense drinks, the unique machines rewarded those who deposited their empty plastic bottles with a 50% off entry voucher to 30 of our attractions. The scheme followed, and reinforced, research by Coca-Cola Great Britain which revealed that 64% of British people would recycle more if they were instantly rewarded for doing so.

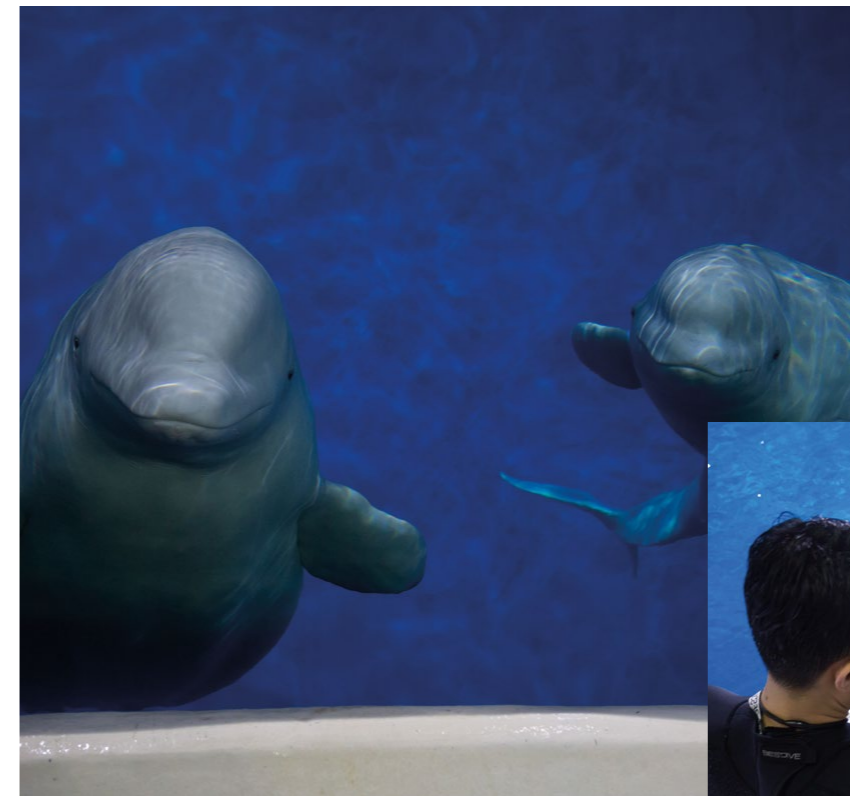
It is estimated that 26 million tonnes of plastic pollution ends up in the oceans each year and beach cleans help to prevent harmful materials from posing a danger to marine life, entangling and poisoning creatures that live on or near the beach. The year saw one of our biggest beach cleans with over 350 volunteers collecting 280 kilograms of rubbish in their annual event at SEA LIFE Porto. Every year SEA LIFE aquariums across the globe host beach cleans to clear up litter and help prevent ocean pollution in their local area.

Finally, by the end of the year we had ceased the use of plastic straws within all our owned attractions as part of a number of initiatives to reduce plastics from the business. We will focus even more effort in the coming years on our single-use plastics policy and actively seek out environmentally responsible businesses throughout our supply chain.

RESPONSIBLE BUSINESS

WE CARE ABOUT ANIMAL CONSERVATION AND WELFARE

WE OPERATE TO WORLD CLASS WELFARE STANDARDS THROUGH OUR ANIMAL CARE NETWORK AND SUPPORT THE WORK OF THE SEA LIFE TRUST IN ITS MISSION TO PROTECT MARINE LIFE AND HABITATS ACROSS THE WORLD.



Picture above: Little White and Little Grey
 Picture right: Preparations for the journey
 Picture below: Klettsvik Bay, Heimaey Island, Iceland

SEA LIFE Conservation, Welfare and Engagement

The newly named SEA LIFE Conservation, Welfare and Engagement team will continue to help SEA LIFE to focus on delivering world class animal welfare throughout our animal care network, where we look after around 160,000 animals, as well as developing new exciting guest experiences which will inspire future generations to care for our oceans and all marine life. The team will ensure that inspiring conservation is at the heart of all our projects and new guest developments. They will also communicate all the great conservation work SEA LIFE undertakes and supports around the world including the activities of our pioneering marine conservation partner charity, the SEA LIFE Trust.

SEA LIFE Trust

2018 saw a real step change in the SEA LIFE Trust's mission to protect marine life and habitats across the world.

Through the 'Team Turtle' campaign, millions of SEA LIFE visitors have had the opportunity to learn about the threat plastic pollution poses to these amazing animals and how they can make simple changes in their own life to help protect sea turtles from this. In March, the Trust took on its first marine animal sanctuary – the Cornish Seal Sanctuary in the UK. This sanctuary rescues, rehabilitates and releases sick or injured seal pups every year with over 80 being helped by our expert team over the most recent pup season.

In June, the Trust announced the construction of its second sanctuary and a world first. The SEA LIFE Trust Beluga Whale Sanctuary in Iceland will provide a new, more natural home for two beluga whales currently housed in an aquarium in China. The funds required to build the sanctuary were in the main part donated to the Trust by Merlin and the sanctuary will be ready to welcome its first residents during 2019. It is hoped that more belugas currently housed in aquariums across the world will join the first two over the coming years – providing a brighter future in a more natural home for these amazing animals.

[Find out more www.sealifetrust.org](http://www.sealifetrust.org)

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.



RESPONSIBLE BUSINESS

WE CARE ABOUT PEOPLE

WE HARNESS THE ENTHUSIASM OF OUR EMPLOYEES TO DEMONSTRATE AND REINFORCE OUR CORE 'MERLIN WAY' VALUES, ESPECIALLY HOW 'WE CARE'.



Merlin's Magic Wand

In 2018 our partner children's charity Merlin's Magic Wand (MMW) celebrated its tenth birthday, with Merlin teams across the world getting involved in birthday themed Fun Festival activities. MMW continues to enable children faced with the challenges of serious illness, disability and adversity to experience the magic of Merlin.

Since the charity began we have provided days out to over 600,000 children and their families (over 100,000 in 2018), launched 46 Magic Spaces projects globally, and taken the magic of Merlin 'on tour' to children in hospitals all over the world.

[Find out more www.merlinsmagicwand.org](http://www.merlinsmagicwand.org)

Accessibility

In addition to our commitments to employees with disabilities, we are focused on improving the accessibility of our attractions. 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. This includes making necessary reasonable adjustments to our facilities to ensure guests with different requirements can 'experience the magic'. We understand our obligations and we care about continuously improving accessibility. In order to ensure that we continue to meet the needs of all of our guests, we are committed to listening to feedback and reviewing our facilities and the way we do things to make them better for everyone.

In 2018 we have remained active members of the 'Members of Business Disability Forum', working closely with their expert team to drive continual improvements and support for guests with disabilities.

Picture far right: MMW Fun Festival at LEGOLAND Billund Resort



This new play area has removed barriers to play and access that our children and their families face every day. We are so incredibly grateful to your teams for making this happen. We work with over 200 children and families each year and are delighted that the new play area will be a happy and fun place for our children and their siblings, friends and wider community to enjoy year after year.

Yorda Adventures

Sensory space at Heartlake City, LEGOLAND Windsor



Guests can now explore the Sensory Space in Heartlake City at LEGOLAND Windsor Resort. The calming space has been specifically designed for those with additional sensory needs, and is a permanent feature for guests to enjoy. This is the first dedicated sensory facility of its kind in our theme parks and is an open space full of interactive sensory experiences, with vibrating bean bags, soft seating, interactive projections, bubble tubes, infinity tunnels, tactile panels and soft lighting, all designed to create a calm space to relax in for those who need it.

The feedback has been overwhelmingly positive:



Many autistic children love trips to theme parks where they can have fun and socialise. But unfamiliar places, especially popular attractions, can increase their anxiety levels and overload their senses. This is why we were delighted to hear about LEGOLAND Windsor Resort's new sensory facilities. Supportive spaces like these play an essential role in opening up the world for autistic children and their families.

Spokesperson for the National Autistic Society



My family appreciate having this space now available and well placed too. Because we had a nice cool 30 minutes in this area, my relaxed kids could then manage another hour enjoying LEGOLAND, where normally we'd have had to consider heading home.

Visitor to LEGOLAND Windsor



GOVERNANCE

CORPORATE GOVERNANCE STATEMENT



The Board recognises the importance of culture in ensuring Merlin's long term success and plays an important role in establishing Merlin's purpose, values and strategy and satisfying itself that these are aligned with its culture.

Dear Shareholder

I am pleased to introduce Merlin's 2018 Corporate Governance Report.

Your Board continues to believe 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 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. I am pleased to confirm that throughout 2018 we complied with its provisions.

Governance priorities in 2018

The key governance activities undertaken by the Board and its Committees are explained in detail throughout this report. The Board focused on a number of key governance priorities in 2018 and I thought it would assist to summarise these below.

Board composition

Following Ken Hydon's retirement from the Board last year, Andrew Fisher OBE was appointed to the Board as a Non-executive Director in July 2018. Andrew has led the successful growth of a number of technology-focused enterprises over the past 20 years. Andrew brings with him a wealth of experience in digital consumer and technology markets which will prove invaluable as Merlin increasingly focuses resources and efforts in this area.

Revised UK Corporate Governance Code

In July 2018 the Financial Reporting Council issued a revised UK Corporate Governance Code designed to reflect the changing business environment and help UK companies achieve the highest standards of corporate governance. The Code applies to accounting periods beginning on or after 1 January 2019. The Company will therefore report on how it applies the principles set out in the Code for the first time in the Annual Report and Accounts for 2019 (to be published in 2020). During the year, the Board, with support from its advisers where appropriate, has carefully considered the requirements of the revised Code and determined how the Company's governance arrangements will be adapted to ensure they align with the new Code principles.

Culture

The Board recognises the importance of culture in ensuring Merlin's long term success. The Board plays an important role in establishing Merlin's purpose, values and strategy and satisfying itself that these are aligned with its culture. During the year, the Board held a meeting, facilitated by Spencer Stuart, to assess and monitor Merlin's culture. Applying Spencer Stuart's diagnostic framework for defining corporate culture to Merlin as well the results of the 'Wizard Wants to Know' employee engagement survey, Merlin's culture was described as results-oriented, with fun, customer-centricity and safety at its core. The Board also discussed a number of areas to be explored to evolve the culture further as the business matures and a follow up Board discussion has been scheduled in 2019 to ensure progress is monitored.

General Data Protection Regulation (GDPR)

GDPR came into force in May 2018, introducing a new data protection framework across Europe, bringing new rights for individuals, extending the responsibilities of data controllers and processors and enhancing the regime for enforcement. GDPR applies to many areas of the Company's business, including every step of the guest journey. In 2018 the Board has overseen the implementation of the Company's compliance programme to address these new requirements including the roll out of policies, procedures and related staff training and, most importantly, the creation of a Company-wide culture of awareness of privacy and data protection.

The Board will continue to monitor this programme actively in 2019 to ensure it is fully embedded throughout the business.

Cyber security

I mentioned in last year's report that cyber security was an emerging area of risk and, once again in 2018, the Board carefully considered the potential impact of this threat on Merlin. Early in 2018, PwC undertook an independent review of the cyber security controls in place across the business and presented an overall assessment of Merlin's cyber security maturity levels to the Audit Committee. The results of this review were reassuring and a number of actions were agreed to further strengthen Merlin's resilience as part of a long term cyber security strategy.

Sir John Sunderland

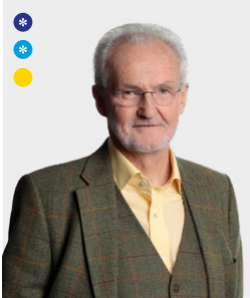


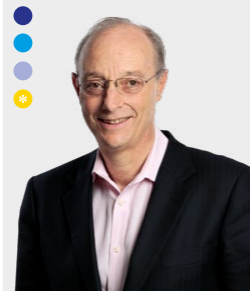
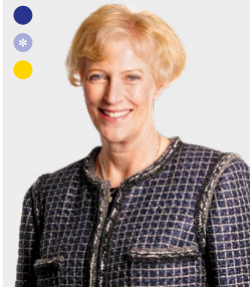
Chairman

27 February 2019

GOVERNANCE

DIVERSE AND EXPERIENCED BOARD OF DIRECTORS

THE MEMBERS OF THE BOARD DURING THE YEAR AND AT THE DATE OF THIS REPORT ARE AS FOLLOWS:

	<p>Sir John Sunderland Chairman</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 5 years 4 months</p> <p>Age: 73</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Leadership • Governance • Food and beverage market • Multi-sector experience <p>Sir John has over 40 years' experience in business leadership and previously held the roles of Chief Executive Officer of Cadbury Schweppes, President of the Confederation of British Industry and a Director of the Financial Reporting Council. He is an experienced Chairman and Non-executive Director, having held numerous roles over many years in a variety of sectors including financial services, alternative energy, gaming and education.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Chancellor of Aston University • Adviser – CVC Capital Partners
	<p>Nick Varney Chief Executive Officer</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 5 years 4 months</p> <p>Age: 56</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Leadership • Visitor attractions • Marketing • M&A <p>Nick has over 25 years' experience in the visitor attractions industry. With a background in marketing he led the management buy-out from Vardon Attractions to form Merlin in 1999, taking the Company through its successful 2013 Listing on the London Stock Exchange. He has overseen Merlin's rapid expansion ever since as Chief Executive Officer.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Chairman of UK Hospitality
	<p>Anne-Francoise Nesmes Chief Financial Officer</p> <p>🇫🇷 Nationality: French</p> <p>Length of tenure 2 years 6 months</p> <p>Age: 47</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Finance • Strategy execution • M&A • Process improvement <p>Anne-Francoise has over 25 years' experience in finance gained in multinational organisations, having previously held the role of Chief Financial Officer at Dechra Pharmaceuticals PLC and a number of senior finance roles at GlaxoSmithKline.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Non-executive Director of Compass Group plc
	<p>Charles Gurassa Senior Independent Non-executive Director</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 5 years 4 months</p> <p>Age: 63</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Travel and tourism industry • Telecommunications <p>Charles has over 30 years' experience in management roles and was previously Chief Executive of Thomson Travel Group plc.</p> <p>He is an experienced Non-executive Director, having held numerous roles as Chairman of Virgin Mobile plc, LOVEFILM, Phones4U and TUI Northern Europe, Non-executive Chairman of Genesis Housing Association and Non-executive Director at Whitbread plc.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Chairman at Channel 4 • Chairman of Great Rail Journeys • Deputy Chairman of easyJet plc • Trustee of English Heritage and the Migration Museum
	<p>Trudy Rautio Non-executive Director</p> <p>🇺🇸 Nationality: American</p> <p>Length of tenure 3 years 4 months</p> <p>Age: 66</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Travel and hospitality industry • Finance • North American market <p>Trudy has over 40 years' experience in finance, including more than 20 years in the hospitality and travel industry where she held several senior executive positions (including Chief Executive Officer and Chief Financial and Administrative Officer) with Carlson until her retirement in 2015.</p> <p>Trudy was appointed Chair of the Audit Committee upon Ken Hydon's retirement.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Director of Cargill Inc, The Donaldson Company, Inc. and Securian Holding Company

- Nomination Committee
 - Health, Safety and Security Committee
 - Audit Committee
 - Remuneration Committee
 - * Committee Chair
- Tenure – since IPO in November 2013



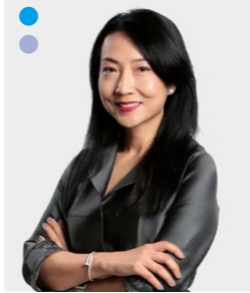

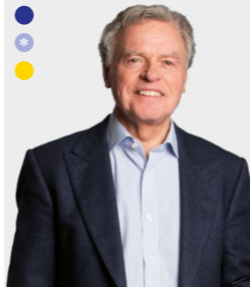
Diversity

Female representation
44%

Nationalities
5

Skills: Leadership, governance, sales and marketing, finance, international experience, strategy execution, M&A, process improvement, private equity investment, international consumer, technology, growth strategy.

Industry experience: Visitor attractions, food and beverage, travel, tourism and hospitality, pharmaceuticals, telecommunications, media, LEGO brand, North American, Asia Pacific and European markets, property, consumer and e-commerce, digital, technology.

	<p>Søren Thorup Sørensen Non-executive Director</p> <p>🇩🇰 Nationality: Danish</p> <p>Length of tenure 5 years 4 months</p> <p>Age: 53</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Finance • M&A • Governance • Strategy • European markets <p>Søren has over 25 years' experience in finance and has held several senior executive positions, most notably Partner, Chief Financial Officer of A.P. Moller – Maersk Group and Managing Partner of KPMG Denmark.</p> <p>Søren is an observer of the Audit, Remuneration and Nomination Committees.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Chief Executive Officer of KIRKBI A/S • Director of various KIRKBI A/S subsidiaries • Chairman of the Board of Boston Holding A/S • Non-executive Director of Falck A/S
	<p>Fru Hazlitt Non-executive Director</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 4 years 10 months</p> <p>Age: 55</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Sales and marketing • Media <p>Fru has over 20 years' experience within the media sector, having previously been Managing Director, Commercial, Online and Interactive at ITV and Chief Executive Officer at both GCap Media plc and Virgin Radio.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Non-executive Director at Channel 4 • Chair of Downe House Foundation and Deputy Chair of Downe House School
	<p>Rachel Chiang Non-executive Director</p> <p>🇨🇳 Nationality: Chinese</p> <p>Length of tenure 3 years 1 month</p> <p>Age: 51</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • Private equity investment • Leadership and entrepreneurship • Property, entertainment, consumer and e-commerce sectors • China and Asia Pacific markets <p>Rachel has over 25 years of private equity investment experience in Asia with a focus on the property, retail and consumer markets. Rachel was the founding member of the private equity division of the Pacific Alliance Group.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Director of Prospere Capital Ltd • Non-executive positions with Sands China, Pacific Century Premium Developments (PCPD) and Goodbaby International Holdings Ltd
	<p>Andrew Fisher Non-executive Director</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 7 months</p> <p>Age: 49</p>	<p>Skills and experience</p> <ul style="list-style-type: none"> • International consumer and technology sectors • High growth digital businesses • Strategy • Business transformation <p>Andrew has over 20 years' experience leading and growing a number of technology-focused enterprises and was instrumental in developing and executing a growth strategy to establish Shazam as one of the world's leading mobile consumer brands.</p>	<p>Current external appointments</p> <ul style="list-style-type: none"> • Non-executive Director at Marks and Spencer plc and MoneySupermarket.com Group plc
	<p>Ken Hydon Non-executive Director</p> <p>🇬🇧 Nationality: British</p> <p>Length of tenure 4 years 6 months</p> <p>Age: 74</p>	<p>Ken retired from the Board on 27 April 2018.</p>	

GOVERNANCE

CORPORATE GOVERNANCE REPORT

THE BOARD

- Overseeing strategy, management and approval of major policies
- Determining the 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 engagement with shareholders and other stakeholders
- Reviewing recommendations from Committees on
 - Board membership
 - Board and senior management remuneration
 - Succession planning
 - Diversity
 - Financial reports

BOARD COMMITTEES

Nomination Committee

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

 [Find out more on pages 66 to 67](#)

Health, Safety and Security Committee

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

 [Find out more on pages 68 to 69](#)

Audit Committee

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

 [Find out more on pages 70 to 73](#)

Remuneration Committee

Assists the Board in discharging its responsibilities in relation to remuneration

 [Find out more on pages 74 to 89](#)

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 ⁽¹⁾	3	1	N/A	2	1
Fru Hazlitt	7	2	4	N/A	3
Trudy Rautio	7	1	N/A	5	3
Rachel Chiang	7	N/A	4	5	N/A
Andrew Fisher ⁽²⁾	3	N/A	N/A	1	2
Søren Thorup Sørensen	7	N/A	N/A	N/A	N/A

(1) Ken Hydon attended each of the Board, Nomination Committee, Audit Committee and Remuneration Committee meetings prior to his retirement from the Board on 27 April 2018.

(2) Andrew Fisher, following his appointment on 1 July 2018, attended each of the Board and Remuneration Committee meetings and, due to prior commitments, one Audit Committee meeting only.

Board composition and meeting attendance

During the year Ken Hydon resigned from the Board on 27 April 2018. Following Ken's resignation, Trudy Rautio was appointed as Chair of the Audit Committee and as a member of the Nomination Committee. Andrew Fisher was appointed as a Non-executive Director on 1 July 2018 and on appointment joined the Audit Committee and Remuneration Committee.

A full list of the Board and Committee Directors who served during the year and their attendance is set out in the table on the previous page. 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 to the Company in October 2013, prior to the Company's initial public offering. 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, Rachel Chiang and

Andrew Fisher should be regarded as independent Non-executive Directors. Although Charles 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 Charles Gurassa. KIRKBI presently holds 29.64% 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 2018, 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.

WHAT THE BOARD HAS DONE DURING THE YEAR

The Board has overall responsibility for overseeing the management of the Company. There is a schedule of matters reserved for the Board which require formal Board approval. In 2018, the key activities of the Board included the following:

Off-site meetings

One way in which the Board gains detailed understanding of the business is by attending meetings at Merlin locations around the Group. In June, the Board meeting was held in Shanghai and the November meeting was held at Warwick Castle. During the year meetings of the Health, Safety and Security Committee took place at THORPE PARK, the London Eye and SEA LIFE London Aquarium.

Productivity

Oversight of the Company's Productivity Agenda was a key focus in 2018. This included the review and approval of a number of transformational IT projects including the upgrading of the Company's finance and HR systems.

Major new projects

Each year, the Board programme includes reviewing and approving significant new rides and attractions. In 2018, this included the approval of the LEGOLAND Korea project, numerous new Midway attractions (including a number of new Peppa Pig World of Play formats), new rides and attractions at our theme parks and new hotels at LEGOLAND Florida Resort and Gardaland Resort, Italy.

Strategy

Each year the Board holds a full day strategy meeting which took place this year at Warwick Castle in November. The meeting was facilitated by a number of internal and external presentations and extensive pre-read materials for the Board. The Strategic Report provides more information on the Company's strategy.

Finance updates

At each meeting, the Board discussed the financial performance of the Group including a review of the management accounts and full year forecasts. The 2018 budget of the Company was approved by the Board in January. The Board also approved and reviewed the 2017 Annual Report and Accounts and half year results for 2018.

The Board also assesses long term liquidity needs and viability matters. During 2018, a refinancing of the Group took place including the issue of \$400 million US Dollar denominated senior notes. Major financings are a matter reserved for the Board so this project was reviewed in detail by the Audit Committee and the Board during the year.

Post-investment appraisals

Twice in 2018 the Board received and discussed post-investment appraisals on a number of recently completed capital projects. The purpose of these reviews is to ensure that the learnings from past projects can be captured and disseminated for the benefit of future investments.

Technical updates

The Board received updates during the year from a number of functional directors in areas such as tax, treasury, legal and investor relations.

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.

GOVERNANCE

CORPORATE GOVERNANCE
REPORT CONTINUED

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 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 Operating Group 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; and
- 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, evaluations were undertaken of the effectiveness of the Board, its Committees, the Chairman and individual Directors. As has been the case each year since the IPO in 2013, these evaluations were externally facilitated by Prism Cosec, which is independent of the Company. 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;

- the presentation of the recommendations from these reports by Prism Cosec to the Chairman and Company Secretary;
- discussions between the Chairman and individual Directors;
- the discussion of the results of the evaluation by the full Board and each of its Committees, and
- the agreement of an action plan to address key findings.

The performance of the Chairman was evaluated by the Non-executive Directors, led by the Senior Independent Non-executive Director.

The outcome of the evaluations was very positive. The Board was described as strong, with a good mix of skills, experience and culture and with a collegiate, supportive and collaborative approach whilst exhibiting an appropriate level of constructive challenge during meetings. Whilst no major concerns were identified, a number of areas were identified for further improvement, including the following recommendations:

- the Board should hold a session in 2019 focused on customer needs and emerging consumer trends; and
- the increased focus of the Board on strategy, risk and culture should be maintained by regular dedicated sessions on the agenda on these topics.

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 those areas identified for improvement will be implemented during the year. Further details can be found in the Committee reports.

In 2018, the Board implemented an action plan to address the findings of the Board evaluation review conducted in 2017. This plan included, amongst other things, improvements to the format of the annual strategy day agenda and follow up on resulting actions, preparing a formal training calendar for 2018 which included a session on corporate culture and increasing the number of site visits by the Health, Safety and Security Committee. In addition to these evaluations, the Audit Committee led formal reviews of the internal audit function and external auditors and these concluded that both functions remain effective.

Shareholders and share capital**Major shareholdings**

As at 26 February 2019, 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 below.

Name of shareholder	Number of ordinary shares	% of issued share capital	Nature of holding (Direct/Indirect)
KIRKBI Invest A/S	302,971,529	29.64	Direct
The Wellcome Trust	51,788,240	5.07	Direct
ValueAct Capital Management, L.P	54,700,000	5.35	Indirect
Marathon Asset Management LLP	59,967,789	5.87	Indirect

KIRKBI/LEGO relationships

A Licence and Co-operation Agreement (LCA), as amended and restated from time to time, was entered into on 24 August 2005 with KIRKBI, which 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.

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 which set out our strategy, operating model and performance together with our plans for future growth. Our Annual Report and Accounts and investor presentations are also available on the website. Merlin's 2019 financial calendar is set out on page 159.

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 and hold conference calls after the production of reports and participate in roadshows after preliminary and half year results are announced.

STAKEHOLDER ENGAGEMENT

In addition to the shareholder engagement activities described above, the Board recognises that effective engagement with all our other major stakeholders is a key component of long term success. We balance the needs of these various stakeholders when making decisions and have engagement processes in place with each.

Customers

Our customers around the world provide real-time feedback on their experience at our attractions. This information, as well as external indicators including Trip Advisor, is analysed and addressed by our Product Excellence team. Improvement plans are implemented where appropriate and discussed regularly by the Board.

Employees

We know that a happy and productive workforce will give our guests a day to remember. Once again this year 'The Wizard Wants to Know' survey reflects very high levels of employee engagement. We keep our employees up to date on what is happening in Merlin through the 'My Merlin' intranet and quarterly newsletter, 'The Wizard'. As described on page 46, this year we launched our employer brand proposition across the business where we encourage all Merlin employees to 'Love Your Work. Work Your Magic'.

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



Chairman
Sir John Sunderland

Membership
Charles Gurassa
Trudy Rautio
Fru Hazlitt

WE CONTINUED OUR REVIEW OF BOARD AND COMMITTEE COMPOSITION AND DIVERSITY, TRAINING AND DEVELOPMENT, TOGETHER WITH SUCCESSION PLANNING FOR EXECUTIVE MANAGEMENT.

Responsibilities

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.

The Committee's terms of reference are available on the Company's website.

Effectiveness review

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, with further focus on succession planning to be addressed in 2019.

Dear Shareholder

I am pleased to present the Nomination Committee's report for the year ended 29 December 2018.

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.

Diversity

The Nomination Committee continues to develop and propose recommendations to the Board regarding its policy on diversity. The Board is committed to diversity in all its forms, in all aspects of its business and at all levels. The Board highly values diversity and supports the appointment of diverse candidates to roles at all levels within Merlin, including on the Board itself.

The Committee received a report from management during the year highlighting reassuring progress on gender diversity including the introduction of female talent reviews and the identification of a larger pool of women executives with the potential to progress into senior management roles. There has also been a push on encouraging women into mentoring relationships and a continued focus on gender-balanced shortlists and interview panels. In 2018, a new inclusion council was established to provide leadership across all strands of diversity and diversity KPIs have been introduced. There has been some progress on the proportion of women in operational roles in Merlin although there is still some way to go in this area.

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. However, the Nomination Committee's remit is also to ensure that diversity is not only gender focused but also addresses ethnicity, country of origin and disability. Noting the requirements in the Hampton-Alexander and Parker reviews, the Committee is committed to making further progress across all strands of diversity and this will be a focus of its work in 2019.

The Nomination Committee continues to review the composition of the Board and its Committees. In particular, it must satisfy itself that they benefit from the right balance of skills, knowledge and experience to support and challenge management. It is also important that Board members are sufficiently independent, demonstrate perspective and understand the governance issues which exist in the operation of a large international company. The Committee determined in 2018 that the Board's composition benefits from an appropriate level of skills, international and gender diversity.

Succession planning

The Committee is also responsible for overseeing succession planning at Board level as well as for the executive management team. Each of these areas was reviewed by the Committee during 2018 and appropriate short and longer term plans are in place to ensure continuity is maintained. 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.

Board training and development

The Board recognises that training and development is key to ensuring the skillset of the Board remains current and to help achieve this, at least one Board meeting each year is held at one of the Company's attractions. In June 2018 we travelled to Shanghai, China. We were able to visit each of the Company's attractions in the city, including the construction site of the new Shanghai Dungeon, and meet with local management. These visits provide the Board with very useful insight into local issues and we are able to understand and follow the customer journey first-hand. As part of the June Board meeting we commissioned presentations from external consultants with significant strategic experience of the Asian consumer market to provide us with their thoughts on operating in China, consumer trends and the Chinese economy.

Selected topics for 2019 include social media strategy, diversity and the potential impact of artificial intelligence on Merlin's business.

Board changes

During the year, the Committee oversaw the search for a new Non-executive Director. Following a rigorous search and interview process, Andrew Fisher OBE was appointed as a Non-executive Director of the Company and as a member of the Audit Committee and Remuneration Committee. The Committee retained the services of Korn Ferry to assist with this appointment.

During 2018, following the retirement of Ken Hydon, Trudy Rautio became a member of the Committee in his place and there were no other changes to the composition of the Committee. The external effectiveness review confirmed that the Committee remains effective.

Sir John Sunderland
Chairman of the Nomination Committee
27 February 2019

GOVERNANCE

HEALTH, SAFETY AND SECURITY COMMITTEE REPORT



Chairman
Sir John Sunderland

Membership
Charles Gurassa
Fru Hazlitt
Rachel Chiang
Nick Varney
Anne-Francoise Nesmes
Group HSS Director
Managing Director, RTP
Managing Director, Midway Attractions

THE APPOINTMENT OF AN INDEPENDENT ADVISER WITH PARTICULAR EXPERIENCE OF HEALTH, SAFETY AND SECURITY IN HIGH-HAZARD INDUSTRIES HAS CONTRIBUTED FURTHER ADVICE AND SUPPORT TO COMMITTEE MEMBERS, HELPING TO STRENGTHEN THE LEVEL OF OVERSIGHT AND CHALLENGE THE COMMITTEE PROVIDES.

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 to govern the safe management of HSS risks across the Group. This report describes the work of the Committee during 2018 and how it discharged its obligations.

Fiona Eastwood replaced Justin Platt as Managing Director of Resort Theme Parks and accordingly took up membership of the Committee in the second half of 2018. The Committee extends a warm welcome to Fiona and looks forward to her contributions to the vitally important work of the Committee.

The Committee believes it is important to look outside of the sector to understand how other leading organisations manage safety-critical and high-hazard/low-frequency accident risks. During 2018 the Company has drawn on the new partnerships it has fostered with a number of leading organisations, most notably in the aviation and rail sectors. The Committee was pleased to learn that one partnering organisation, from the rail sector in Japan, sent a delegation to the UK in order to share and acquire best practice with Company HSS representatives.

In 2018 the Committee encouraged the Company to continue its support to the development of international standards that are applicable to the sector – especially on ride safety. The Company's membership of UK, EU and USA technical committees has allowed Merlin to share with others in the industry new internal standards that have been designed and deployed within the Group.

The Committee was pleased to see the ongoing, positive and collaborative interactions between the various jurisdictional regulatory/enforcement agencies for HSS and Company representatives through the course of 2018. In many cases, progressive new HSS standards or programmes can only be designed, nurtured or deployed with the assistance of local agencies so continued strong relationships remain imperative.

Where the Committee has learned of incidents in 2018 occurring elsewhere, for instance involving fire safety, water quality or food safety, it has taken action to ensure that any necessary learnings are reviewed for applicability and enactment within the Company.

As part of the Committee's activities, members undertook familiarisation and evaluation site visits to a range of attractions within the Group. During the course of 2018, the Committee visited Chessington World of Adventures Resort, the Shanghai cluster of attractions, the SEA LIFE London Aquarium and the London Eye. Further information on these attraction visits can be found below.

Sir John Sunderland Chairman of the Health, Safety and Security Committee 27 February 2019

HSS governance

During 2018 the Committee undertook to receive detailed HSS reviews from key Operating Group Managing Directors. Their briefings and reports, during the course of the year, complemented the informative briefings that the Committee routinely receives and critiques from the Group's HSS Director. Such was the value-add of these comprehensive appraisals they will now become a routine feature of HSS Committee meetings going forward.

The Committee's Independent Adviser undertook a range of site visits and departmental meetings throughout the year in order to gain a fuller understanding of safety risk control processes and measures in place and, on behalf of the Committee, provided further scrutiny and counsel on how these may be enhanced.

Through the course of 2018, the Committee was kept abreast of HSS resourcing across the Group. The Committee was pleased with the level and quality of HSS resourcing within the Company and remains committed to ensuring this important support function remains effectively resourced as HSS risks evolve.

Leadership walks

As part of the Committee's activities, members undertook familiarisation and evaluation site visits to a range of attractions within the Group. During the course of 2018, the Committee visited Chessington World of Adventures Resort, the Shanghai cluster of attractions, the SEA LIFE London Aquarium and the London Eye.

During the visit to Chessington World of Adventures Resort, the Committee was particularly keen to understand more about the Company's project management practices and safety risk control measures for the new Tiger Rock attraction.

The Committee's trip to the Shanghai cluster, as part of a broader Board visit, allowed members to scrutinise the Company's arrangements for planned maintenance, fire safety, staff training and safety culture engagement by employees.

The safety leadership visit the Committee undertook to the SEA LIFE London Aquarium afforded the opportunity to witness the Company's recent investment in back-of-house facilities infrastructure and new safety measures introduced to support the interaction between aquarist employees and dangerous marine life.

During the Committee's final site visit of 2018 to the London Eye, members learnt more about the annualised maintenance and independent inspection programmes for the structure, as well as the evacuation procedures and drills in the event of a ride breakdown.

Risk profiling

Each year the Committee receives assurance that every attraction within the Group has completed a detailed risk register which seeks to identify and assess all significant HSS risks. Following the completion of these risk registers, the Committee received further information on, and evaluation of, the Company's overall risk profile and how any notable risk trends have evolved year on year.

All attractions within the Group are subsequently required to prepare an annual safety action plan. The contents of such plans are driven by the results of each attraction's risk register, safety inspections and audits, near-miss/

incident investigations and employee safety culture surveys. Progress against such plans in 2018 was monitored by HSS professionals across the Company and headline status updates were provided to the Committee.

Trend analysis

During the year the Committee requested and received detailed analyses on incident trends and organisational learnings across a broad range of topics and risk areas. These quantitative and qualitative evaluations, typically incorporating data going back six years, afforded the Committee the opportunity to assess the efficacy of existing risk control measures and discuss what further enhancements are planned for implementation in 2019 or beyond.

The Committee was also furnished with trend information pertaining to the findings from the Group's HSS audit programme. Where particular trends were identified in 2018 the Committee was briefed on how the Company was intending to provide inputs and initiatives to address any further enhancement opportunities. Such annual focus topics feed into relevant attraction's safety action plans and are subject to further assessment during the in-year audit regime.

New standards

During 2018 the Committee reviewed and supported the development and roll out of progressive new HSS standards across a range of risk topics. New or enhanced internal standards included those relating to rapids rides, workshop/plantroom safety, swimming pools and water parks, attraction theming, competency frameworks for ride engineers, diving and shark feeding, and aquarium tank integrity inspections.

The Committee learnt of the various consultations, employee briefings and training programmes that have been deployed to assist with the implementation of these new HSS standards. Further, the Committee was informed of how the Company's audit programme has evolved to reflect these new standards and associated requirements.

Security resilience

Thankfully the types of disturbing and challenging terrorist security incidents that blighted 2017 in a number of markets in which the Company operates did not manifest themselves again in 2018. The Company nevertheless has taken action in 2018 to further enhance both our active and passive security protocols in order to maintain the integrity of our physical boundaries and our operations and assets within.

The Committee was pleased to support the Company's sponsorship of the Police Bravery Awards in the UK. The Company continues to work closely with local police and governmental security agencies so the Company remains grateful to law enforcement officers for their ongoing conduct on duty.

The Committee also supported the Company's necessary but regrettable need to obtain a Trespass Injunction at the UK's High Court in London. Following several instances of repeated and reckless trespass at some of the Company's properties, principally by so-called 'Urban Climbers', the Court Order seeks to further deter unauthorised access. Breach of this injunction may amount to contempt of court and can now lead to imprisonment, a fine or seizure of assets.

Cultural engagement

Ensuring the Company maintains a positive, proactive and fair HSS culture is of crucial importance to the Committee. During 2018 the Committee was pleased to see new employee engagement and communication initiatives on matters relating to HSS, including for instance the publication of the Company's HSS magazine called 'The Shield', a new series of line manager-led briefings called the Safety Spells Toolkits, the 'You Said/We Did' follow-on process after the annual employee survey and another successful Safety Week campaign. New management guidance on how best to uphold a fair and positive safety culture was also reviewed by the Committee during the year.

Performance monitoring

In 2018 the Committee regularly reviewed HSS performance, including near-miss and incident reporting, with a particular focus on the Company's performance against the defined leading and lagging indicators. In addition, the Committee examined information and data pertaining to incidents that occurred both within the Company and across the wider sector. The Company's HSS performance information for 2018 is reported on page 51.

GOVERNANCE

AUDIT COMMITTEE
REPORT

Chairman
Trudy Rautio

Membership
Charles Gurassa
Rachel Chiang
Andrew Fisher

OUR PRIMARY FOCUS CONTINUES TO BE ON THE INTEGRITY OF OUR FINANCIAL REPORTING, IN A PERIOD OF CHANGE IN ACCOUNTING STANDARDS. WE ALSO APPRAISE THE GROUP'S APPROACH TO RISK MANAGEMENT AND INTERNAL CONTROL AS THE GROUP IMPLEMENTS ITS NEW FINANCIAL SYSTEMS.

Dear Shareholder

On behalf of the Board, I am presenting the Audit Committee (the Committee) Report for the financial year ended 29 December 2018.

In this, my fourth year of service, I became Chair of the Committee following Ken Hydon's retirement, and was then pleased to welcome Andrew Fisher as our new Committee member in July. Andrew's experience in digital consumer and technology markets adds to the breadth of skills the Committee holds.

The Committee's primary area of focus continues to be on financial reporting and the integrity of the Group's financial statements. We have therefore spent time reviewing two key significant focus areas. Firstly, in regard to asset valuation and impairment, we reviewed management's estimates of future trading and the calculations performed, together with the disclosures in the financial statements. Secondly, the Group implemented the new accounting standard IFRS 15 'Revenue from contracts with customers' in the year and we therefore monitored the approach adopted by management, and approved the Group's new revenue accounting policy. The other major accounting area we considered is the Group's upcoming implementation of IFRS 16 'Leases', together with the transitional disclosures in the financial statements.

We considered the Group's risk management environment and are satisfied that the Company has appropriate systems and procedures to identify, evaluate and manage material risks to the business. In making this assessment the Committee considered the Group's response to ongoing cyber risks as well as its response to the new compliance requirements of GDPR. We also considered risks when reviewing the Viability Statement, agreeing the stress testing parameters together with the period over which the assessment was made. The Group's internal audit team continues to provide valuable assurance on the operation of controls around the Group; the Committee agreed that this work provides appropriate coverage around the Group's operations and we continued to review the quality of the work performed and management's responses.

Regarding external audit, we are satisfied with KPMG's ongoing performance and their approach to the audit. We are however concerned by the findings of the recent FRC Audit Quality review of KPMG, and will continue to challenge KPMG as to how they will continue to ensure a quality audit for Merlin going

forward. Merlin is required to retender the audit no later than for the 2023 financial year and the Committee is mindful that the next regular KPMG partner rotation is after the 2019 audit.

During 2018 the Group's Productivity Agenda initiatives gathered momentum and the Committee received regular updates on the new finance system project's progress and its governance. This will be an increasing area of Committee focus as this project develops.

I thank my fellow Committee members for their support this year, and I welcome any comments or questions from shareholders.

Trudy Rautio

Chairman of the Audit Committee
27 February 2019

The role of the Audit Committee and its membership

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

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.

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.

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.

Membership and meetings

Details of the Committee's membership and meetings are outlined on pages 60 to 63. Of the current Committee members, Trudy Rautio and Andrew Fisher 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, KPMG and on a rotational basis with the CFO, General Counsel and other members of management as appropriate. 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.

Financial reporting

Significant focus areas

I. 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 most significant. For this asset, the Committee focused on how the value in use of assets is calculated, which involves judgements and estimates concerning forecast cash flows, discount rates, and long term growth rates that impact an asset's terminal value.

In reviewing these valuations we considered a range of potential future trading outcomes, taking into account management's growth forecasts together with appropriate sensitivity analysis which reflects the risks inherent in these forecasts.

2. Revenue

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. 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 Digital Marketing and 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 – by the end of 2018 the project was substantially complete. 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.

During the year IFRS 15 'Revenue from contracts with customers' became effective. The Committee reviewed the impact of this new standard and the Group's response. The Committee approved the updated revenue accounting policy.

The Committee considered the impact of this new accounting standard in the context of the Company's primarily 'cash-based' business model and the nature of the Company's revenue transactions. We concluded that the impact of IFRS 15 on the Group's financial results was low. This conclusion was reached following an assessment of management's diagnostic review of Merlin's various revenue streams, together with the sales channels and commercial relationships through which customers purchase access to Merlin's services and products. As noted on page 108 of the financial statements, the most significant area of change has been where a third party is involved, together with Merlin, in providing visitors to Merlin attractions with admission tickets and/or accommodation, or commercial offerings such as photos and games services once inside a Merlin attraction. We reviewed how the impact of this change was recorded in the Group's accounting systems.

GOVERNANCE

AUDIT COMMITTEE REPORT

CONTINUED

Brexit

The Committee reviewed the work undertaken by management in assessing the Group's approach to the risks that exist as a result of Brexit. More details in this area can be found in the Principal Risks section on page 36.

Going concern and viability review

In reviewing and approving the going concern and Viability Statements (see pages 91 and 41 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.

Merlin invests for the long term, with a portfolio of attractions that have demonstrated their longevity and ability to evolve over time. The Group is developing new brands and expanding into new markets and we are therefore confident as to its long term prospects. For the viability assessment we then 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. 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 41) 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. In addition to IFRS 15, the most significant of these are as follows:

- IFRS 9 'Financial instruments' became effective in 2018. The new standard has not materially changed 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 has been in progress since 2017. Substantially all of Merlin's lease commitments are in respect of property and infrastructure at its attractions and the lease portfolio is of a relatively 'high value, small volume' nature. Merlin is therefore adopting the 'fully retrospective' approach allowed by the standard, having performed the more onerous historical analysis required by this transition approach. The impact of this new standard is discussed more fully in the financial statements on pages 139 to 141. During the year we received updates from management on the project's progress that included discussion of relevant technical accounting areas and judgements, together with the processes by which lease data would be captured, reviewed and accounted for under the new rules. We also discussed these areas with KPMG.

Other matters

The Committee also reviewed other matters in relation to the Company's financial statements. In doing so we 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 (APMs) and key performance indicators (KPIs) within its financial reporting. This included the categorisation of transactions between underlying trading and exceptional items.
- Approval of the refinancing plan and its subsequent accounting once the refinancing had occurred.
- Those areas of the Group's financial reporting considered to have required most judgement or the use of estimates.
- The tax position of the Group, in particular the effective tax rate and the recognition of deferred tax assets. This included an assessment of the impact of legislative changes, including US tax reform.
- Key assumptions in relation to defined benefit pension schemes.
- The level of materiality used in the preparation of the financial statements.
- 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.

Risk management and internal control

Oversight of the overall risk management process

Merlin separates its oversight of risk management into three risk areas: health, safety and security; commercial and strategic; and financial process. The internal control and risk management section on pages 34 to 36 provides more information in this area. The Board has delegated oversight responsibility for the overall risk management process to the Committee. During the year the Committee therefore 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 41.

Management of financial process risk

The Board has delegated responsibility for financial process risk to the Committee. Management remains 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 self-certification by business unit finance heads.

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.

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.

Internal audit reviews the Group's risk management and internal controls, following a risk based internal audit plan developed in conjunction with management, and approved annually by the Committee. 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 80% of the Group's annual revenue streams. In addition to revenue generating locations, work was performed over other areas including the site search and project management activities in Merlin Magic Making, and the Group's management of property and leases.

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 2018 these related to tax and treasury matters, the accounting for project costs at new business development locations, GDPR, and the shift to less cash-based operations. In 2018 PricewaterhouseCoopers (PwC) continued to be our provider of in-territory support to Merlin's internal audit function for certain overseas audits.

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, who review the control environment and financial statements, assess and report on key areas of judgement and estimates and provide ongoing advice and training on technical matters.

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 mind-set and culture, skills and knowledge, judgement and quality control of the audit. The survey indicated 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 independence and objectivity, their internal quality procedures, and reports published by the FRC.

Audit quality

The quality of the external audit is a key topic the Committee discusses. During the year the FRC published the results of its Audit Quality Review of KPMG's work. This report noted significant issues within a number of areas of KPMG's work across a sample of FTSE 350 companies. In that light, while we are currently satisfied with KPMG's Merlin audit, we are concerned by the findings of the recent FRC report, and will continue to challenge KPMG as to how they will continue to ensure a quality audit for Merlin going forward.

Appointment and governance

The Committee considered whether a retender during 2018 would be appropriate as part of its annual recommendation on the appointment of the external auditors. Having considered KPMG's performance as set out above, the Committee decided to recommend retaining KPMG for 2019.

In recommending the reappointment of external auditors at the AGM, the Committee also takes 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 and we also note that the next regular KPMG partner rotation will take place after the 2019 audit. The Committee has therefore started to consider the factors that would be taken into account in performing the tender process and ensuring that there would be a good choice of audit firms to consider.

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 regulatory reports where the work requires a detailed understanding of the Group. In 2018 the more significant matters were:

- The review of the Group's half year published results.
- Assurance procedures required for the partial refinancing in the year.
- 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 2018 fees for non-audit services were £0.4 million (2017: £0.3 million), a ratio of 21% (2017: 19%). 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.

To ensure ongoing compliance with the FRC's Ethical Standard 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.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT



Chairman
Charles Gurassa

Membership
Sir John Sunderland
Trudy Rautio
Fru Hazlitt
Andrew Fisher

WE CONTINUED TO REVIEW MERLIN'S REMUNERATION POLICIES AND THE PRINCIPLES THAT UNDERPIN THEM.

Responsibilities

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

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

The Committee's terms of reference are available on the Company's website.

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.

Dear Shareholder

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

- Statement from the Chairman of the Remuneration Committee that contains our remuneration principles and the key decisions reached by the Committee.
- Overview of Directors' Remuneration and extract of the Remuneration Policy that contains details applying to Executive Directors.
- Annual Report on Remuneration that contains details of pay received by Directors in 2018 and how we intend to implement our pay policy in 2019. The Annual Report on Remuneration will be subject to an advisory vote at the 2019 AGM.

Approach to remuneration and alignment to strategic objectives

A series of key principles underpin the Merlin remuneration structure. These principles and a summary of our remuneration strategy, together with an overview of the Remuneration Policy as it applies to the Executive Director remuneration framework, are set out on pages 76 to 79. In addition, we highlight how the Policy links to our strategy and summarise the key financial information that impacts on remuneration. I hope that you will find this useful. A full copy of the Remuneration Policy is available on our website.

Our approach remains consistent with prior years, reflecting our focus on investing for the long term. Our performance measures for the annual bonus are underlying operating profit (80% weighting) and key personal objectives (20% weighting) which ensures alignment with short term performance, and under the Performance Share Plan (PSP) a combination of EPS growth (40% weighting), ROCE (40% weighting) and long term strategic objectives (20% weighting) to ensure alignment over the long term.

Performance and reward outcomes in 2018

Overall, the Group reported revenue of £1,688 million and underlying operating profit of £327 million for the year. Midway London, Midway Attractions' largest division, returned to growth in the second half of the year and Resort Theme Parks reported strong growth from successful product investment and favourable weather. Within LEGOLAND Parks, there was a broadly flat like for like performance but a significant expansion of our accommodation portfolio drove growth from new business development.

Our performance resulted in Group operating profit exceeding the threshold for payment under the bonus plan and a high level of achievement against the individual targets set to support delivery of the Group's strategy. This has resulted in a bonus of 35.4% of maximum entitlement to the CEO and 36.1% to the CFO.

The PSP awards granted in April 2016 will vest at 36.5% of maximum on 1 April 2019. This was as a result of delivering 8.8% p.a. compound EPS growth across the three year performance period and an average ROCE of 9.4%. Details of the performance achieved against the targets set for these awards are set out on page 86 of this report.

Implementing the Policy in 2018 and 2019

At the start of 2018 the Committee reviewed the application of the 2017 Remuneration Policy in light of the Company's evolving strategy. The conclusion of the review was that while the application of Policy was generally aligned with the Company's key financial performance indicators, a better balance between incentivising long term planning and decision making with the delivery against financial targets could be achieved through introducing strategic targets in the long term incentive plan. Accordingly the Committee introduced structured strategic targets for 20% of the 2018 PSP awards. These strategic objectives cover productivity, new business development and customer satisfaction in support of delivering the strategy.

At the same time, the Committee reviewed the target ranges for the long term financial targets taking into account the internal business planning perspective, the market's expectations for our performance and the wider economic context. The financial targets for the 2018 PSP awards were therefore set as follows:

- EPS growth: 3% p.a. growth for threshold vesting (20% of maximum) rising to full vesting for achieving EPS growth of 10% p.a.; and
- ROCE: 8% average for threshold vesting (25% of maximum) rising to full vesting for achieving 10% average ROCE.

Additionally, the Committee considered the breadth of the Chief Financial Officer's role which also includes responsibility for implementing the Company's commercial agenda and concluded that she should be made a 2018 PSP award of 250% of salary with the additional 25% of salary being subject to targets directly relating to improvements in the Company's commercial operations.

The above changes were the subject of extensive shareholder consultation prior to implementation with the Company receiving over 97% support for its 2017 Directors' Remuneration Report.

The changes made to our application of Policy in 2018 are considered to better align the executive team with the current medium to long term priorities of the Company and recognise the breadth of their individual roles. Further details of the 2018 awards are provided on pages 83 to 84.

The Committee has continued to monitor the effectiveness of the Policy throughout 2018 and does not propose any material changes for 2019. The proposed pay structure for the Executive Directors for 2019 is outlined on pages 80 to 81.

Key decisions made by the Committee in relation to 2019 include:

- The Committee considered the competitiveness of the Executive Directors' salaries and performance of the Directors and concluded that an increase in line with the wider UK Merlin workforce will be awarded in April 2019.
- The Committee has agreed the same basic structure to the 2019 central bonus plan as 2018, with individual objectives for the Executive Directors appropriately reflecting Company priorities.
- No payment for personal objectives will be made if less than 85% of budgeted underlying operating profit is achieved.
- In line with the new Corporate Governance Code, the Committee will undertake a discretionary review of proposed payouts to ensure that they are commensurate with underlying performance.
- In light of the 2018 PSP award structure being considered to improve the balance between incentivising long term planning and decision making with the delivery against financial plans, the same general approach is to be

retained for the 2019 awards. In line with past practice, the Chief Executive will be granted a 250% of salary award in 2019. With regards to the Chief Financial Officer, in line with the approach adopted in 2018 detailed above, since her role at Merlin continues to operate in 2019 with a broader range of responsibilities than those more generally associated with a Group Finance Director or Chief Financial Officer role, she will continue to receive a 250% of salary award.

- The performance targets to apply to the 2019 awards will operate on a similar basis to those set for the 2018 awards (i.e. performance will be assessed based 40% on EPS growth, 40% on ROCE and 20% on strategic targets). However, work in relation to the range of targets remains ongoing in light of the uncertainties created by the UK leaving the European Union, expected changes to US and European tax rates in the next three year period and changes to accounting standards (i.e. changes in accounting for leases under IFRS 16). Overall, the range of targets to be set will be similarly challenging to those set for the awards granted in 2018 allowing for current commercial circumstances and outlook. The range of targets set will be the subject of discussions with our major shareholders and the leading shareholder advisory bodies prior to the grant of the awards at which time the targets will be disclosed (i.e. in the market announcement of the awards).

Committee activities during the year

Upon Ken Hydon's retirement during the year, Andrew Fisher joined the Remuneration Committee. Alongside his wealth of experience in digital consumer and technology he brings first-hand experience of PLC Remuneration Committee responsibilities.

During the year the Committee explored alternative mechanisms for engaging more directly with employees, in line with ensuring that the 'employee voice' is considered at Board level. As a result we are introducing a trial in 2019 which builds on our successful 'Your Voice Counts' forums in the UK. This will allow a Board Director to engage in person with employee representatives from our UK business. We will evaluate this trial later in the year to inform any future developments in terms of scope and geographic coverage.

Corporate governance developments

The publication of the 2018 UK Corporate Governance Code in July has introduced a number of matters which the Committee will consider in the coming months. In particular, this will include the enhancements to the remit of the Committee together with consideration of enhanced policy and reporting requirements. Since our current Remuneration Policy remains appropriate the Committee does not propose any changes in 2019. A full review of the Remuneration Policy will be undertaken in 2019 and subject to shareholder approval in 2020.

Shareholder engagement

In 2018 we undertook extensive consultation on the introduction of strategic objectives as part of the 2018 PSP award and recognising the Chief Financial Officer's increased responsibilities. This provided valuable input from our major shareholders. We will continue that dialogue as we develop our new policy proposals for approval in 2020.

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
27 February 2019

GOVERNANCE

DIRECTORS' REMUNERATION REPORT CONTINUED

KEY PRINCIPLES AND REMUNERATION STRATEGY

Remuneration principles

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

Performance orientated

- Rewarding performance is a core part of our ethos. About 90% 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.

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.

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.

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.

OVERVIEW OF EXECUTIVE DIRECTOR REMUNERATION FRAMEWORK

Base salary and benefits	<ul style="list-style-type: none"> Salaries set at competitive levels to attract and retain high calibre candidates Benefits include life, income protection and medical insurance and a car allowance Retirement benefit contribution of 25% of salary
Annual bonus Based on achievement of:	<ul style="list-style-type: none"> Underlying operating profit Personal objectives
Performance Share Plan	<ul style="list-style-type: none"> Adjusted EPS three year CAGR (40%) Average ROCE (40%) Strategic objectives (20%)
Shareholding guidelines	<ul style="list-style-type: none"> 200% of salary for CEO and CFO, targeted to be achieved over five years
Malus and clawback	<ul style="list-style-type: none"> The Remuneration Committee has wide-ranging discretion to adjust annual bonus and long term incentive plan (LTIP) outcomes to override formulaic outcomes Health and safety underpins and malus and clawback mechanisms are in place
Policy review	<ul style="list-style-type: none"> No policy changes have been made in 2018 or are proposed for 2019 The Policy will be reviewed for 2020 and be subject to shareholder vote at the 2020 AGM

HOW OUR REMUNERATION POLICIES SUPPORT OUR STRATEGY

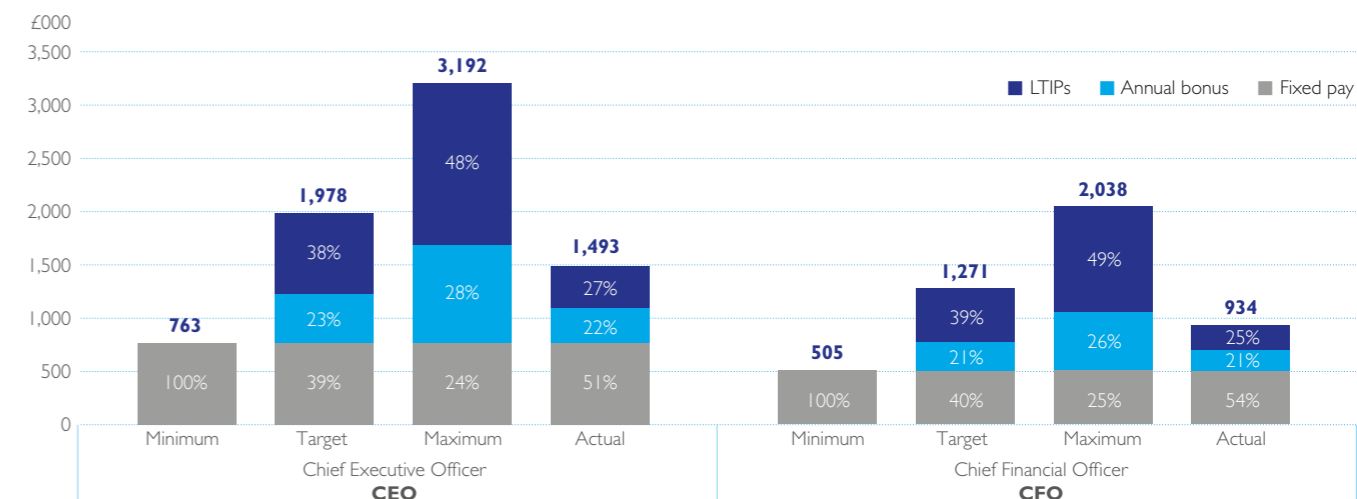
	Delivering growth Planned investments, Synergies, Strategic acquisitions	Driving innovation Destination resorts, New Midways, New LLPs	Culture The Merlin Way, Being a Force for Good	Long term shareholder return
Bonus (Underlying operating profit)	●	●	●	●
LTIP (EPS, ROCE, Strategic objectives)	●	●	●	●
Underpin (Health and safety, Remuneration Committee discretion)			●	●
Other (Shareholding requirements)				●

VARIABLE PAY REFLECTING PERFORMANCE

Annual Bonus ⁽¹⁾ Metric	Target	Actual	Outcome
Underlying operating profit	£333 million	£327 million	36.1% of maximum
Personal objective achievement • CEO • CFO			35.4% of maximum 36.1% of maximum
PSP (2016 award) ⁽²⁾	Targets (min x%, max y%)	Actual (2016-2018)	Outcome
Adjusted EPS growth	7% to 14% CAGR over 3 years	8.8%	36.5% of the awards made in 2016 will vest based on the combination of EPS and ROCE performance
Adjusted post tax ROCE	9% to 13% average ROCE over 3 years	9.4%	

(1) Organic growth
(2) Reported growth

REMUNERATION POLICY SCENARIOS AND ACTUAL OUTCOME FOR 2018



GOVERNANCE

DIRECTORS' REMUNERATION REPORT

CONTINUED

SUMMARY OF KEY REMUNERATION POLICIES FOR THE EXECUTIVE DIRECTORS

Operation	Maximum opportunity	Performance conditions
<p>Base salary To appropriately recognise responsibilities and attract and retain talent by ensuring salaries are market competitive.</p> <p>The review takes into consideration a number of factors, including (but not limited to):</p> <ul style="list-style-type: none"> The individual Director's role, experience and performance. Business performance. Market data for comparable roles in appropriate pay comparators. Pay and conditions elsewhere in the Group. 	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent 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 the Group). Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary. 	
<p>Benefits To provide market competitive benefits.</p> <p>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.</p>	<p>Benefits are role specific and take into account local market practice.</p> <p>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.</p>	
<p>Pension To provide market competitive retirement benefits.</p> <p>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.</p>	<p>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.</p>	
<p>Annual bonus To link reward to key business targets for the forthcoming year and to individual contribution. Also to provide additional alignment with shareholders' interests through the operation of bonus deferral.</p> <p>The Executive Directors are participants in the central bonus plan which is reviewed annually to ensure bonus opportunity, performance measures and targets are appropriate and supportive of the business strategy.</p> <p>Two-thirds of an Executive Director's annual bonus is delivered in cash following the release of audited results and the remaining third is deferred into an award over Company shares under The Merlin Entertainments plc Deferred Bonus Plan.</p> <ul style="list-style-type: none"> Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). Deferred awards usually vest three years after award although may vest early on leaving employment or on a change of control (see full Policy). 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. <p>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.</p>	<p>The maximum award that can be made under the central bonus plan is 150% of base salary.</p> <p>Each year the Remuneration Committee determines the maximum bonus opportunity for individual Executive Directors within this limit.</p> <p>The bonus is based on performance assessed over one year using appropriate financial, strategic and individual performance measures.</p> <p>The majority of the bonus will be determined by measure(s) of Group financial performance. The selected measure(s) for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>A sliding scale of targets is set for each Group financial measure with payout at zero for threshold financial performance increasing to 50% for meeting expectations and 100% for maximum performance.</p> <p>The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director. The selected measures for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>Any bonus payout is ultimately at the discretion of the Committee.</p>	

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

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DIRECTORS' REMUNERATION REPORT

CONTINUED

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2019 Annual General Meeting.

UNAUDITED INFORMATION

Implementation of Remuneration Policy in 2019

This section provides an overview of how the Committee is proposing to implement our Remuneration Policy, as set out in the Policy Report, in 2019 for the current Executive Directors.

Base salary

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

	Salary from 1 April 2018	Salary from 1 April 2019	Annualised % increase
Nick Varney (CEO)	£609,432	£621,620	2%
Anne-Francoise Nesmes (CFO)	£399,567	£407,558	2%

The average salary increase for the Merlin UK workforce effective from 1 April 2019 is 2% and both the CEO and CFO will receive this increase, as noted in the Chairman's Statement.

Pension and benefits

As in 2018, 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 2018.

Annual bonus

The structure of the annual bonus plan for 2019 remains broadly consistent with the 2018 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 2019 for Executive Directors will be determined as detailed below:

Measure (as a percentage of maximum bonus opportunity)	CEO	CFO
Underlying operating profit	80%	80%
Personal objectives	20%	20%
Total	100%	100%

Following a review of the structure of the plan, the Remuneration Committee has removed the previous dependency of personal objectives on the financial performance in the year in order to better reflect the achievement of medium to longer term goals. The targets themselves, as they relate to the 2019 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.

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 challenging three year performance conditions and is usually also conditional upon continued employment until the awards vest. In addition, 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.

A similar structure as operated for the 2018 awards is planned to operate for the 2019 awards (i.e. awards to Executive Directors at 250% of salary with challenging EPS (40% weighting), ROCE (40% weighting) and strategic targets (20% weighting)). With regard to the strategic targets to apply to the Chief Financial Officer's award, it is anticipated that these will mirror the form and structure of the strategic targets to apply to wider participants for the 2019 awards as opposed to including a specific element on her commercial role so that the team are similarly aligned to deliver the Company's strategy and the overall approach is simplified.

In light of factors detailed in the Chairman's introductory statement on pages 74 to 75, work remains ongoing as to the range of financial targets to apply to the 2019 awards with the Committee's intention being that the targets will remain similarly challenging to those set for the 2018 awards (see pages 83 to 84) allowing for the current commercial outlook. The range of targets set and the operation of the strategic targets for the 2019 awards will be the subject of discussions with our major shareholders and the leading shareholder advisory bodies prior to the grant of the awards at which time the targets will be disclosed (i.e. in the market announcement of the awards). It is expected that full details of next year's long term incentive awards will be included in the 2019 Directors' Remuneration Report prior to the grant of the awards.

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 2019.

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 2019	2019
Basic fee for UK-based Non-executive Director	£50,750
Basic fee for overseas-based Non-executive Director	£50,750 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	£11,000
Remuneration Committee Chairman additional fee	£10,000
Chairman of the Board all-inclusive fee	£253,750

Basic fees will be increased by 2% in April in line with the UK workforce.

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

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DIRECTORS' REMUNERATION REPORT

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AUDITED INFORMATION

The information provided in this section of the Directors' Remuneration Report up until the 'Unaudited information' heading on page 87 is subject to audit.

Single total figure of remuneration in 2018

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for 2018 with prior year comparatives for 2017.

All figures shown in £000	2018						Total
	Salary and fees ⁽¹⁾	Benefits ⁽²⁾	Annual bonus ⁽³⁾	Long term incentives ⁽⁴⁾	Other ⁽⁵⁾	Pension ⁽⁶⁾	
Executive Directors							
Nick Varney	607	22	322	408	–	134	1,493
Anne-Francoise Nesmes ⁽⁹⁾	398	18	194	231	4	89	934
Non-executive Directors							
Sir John Sunderland	253	–	–	–	–	–	253
Charles Gurassa	71	–	–	–	–	–	71
Ken Hydon ⁽⁷⁾	21	–	–	–	–	–	21
Fru Hazlitt	51	–	–	–	–	–	51
Trudy Rautio	58	–	–	–	–	–	58
Rachel Chiang	51	–	–	–	–	–	51
Andrew Fisher ⁽⁸⁾	25	–	–	–	–	–	25
Søren Thorup Sørensen	–	–	–	–	–	–	–

All figures shown in £000	2017						Total
	Salary and fees ⁽¹⁾	Benefits ⁽²⁾	Annual bonus ⁽³⁾	Long term incentives ⁽⁴⁾	Other ⁽⁵⁾	Pension ⁽⁶⁾	
Executive Directors							
Nick Varney	597	21	–	164	–	131	913
Anne-Francoise Nesmes ⁽⁹⁾	387	17	–	–	–	85	489
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	–	–	–	–	–	–	–

Notes to the table – methodology:

- 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.
- 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 allowance which was £14,000 for the CEO and £12,300 for the CFO.
- 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 2018 bonus are disclosed below.
- 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 figure for 2017 has been updated to reflect the vesting of the award based on the share price on the date of vesting (£3.4109). The long term incentive award granted in 2016 had a performance period that ended in 2018. The figure for 2018 reflects the vesting of the award based on the average closing share price for the final quarter of 2018 (£3.3901). Further details are given in the 'Outstanding awards under the PSP' note on page 86.
- Other – this column relates to the value of the grant of options under the UK Sharesave Plan. The grant has been valued for the 2018 grant at 22.7% 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 £3.5387 and the exercise price was £2.8309, being a 20% discount under the UK Sharesave Plan rules.
- 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.
- Ken Hydon retired on 27 April 2018 and the amount shown for 2018 reflects fees payable to that date.
- Andrew Fisher joined the Board on 1 July 2018. Fees shown in the table are from that date to 29 December 2018.
- Anne-Francoise Nesmes subscribed to the UK Sharesave Plan in April 2017 and then withdrew in 2018. As a result the data for 2017 has been restated. Anne-Francoise subsequently subscribed to the 2018 UK Sharesave Plan.

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 2018 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 2018 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 2018 annual bonus are set out below.

Based on this performance the CEO earned a bonus of £322,000 and the CFO a bonus of £194,000, of which one-third will be deferred into shares for three years.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Underlying operating profit	80%	£313 million (0% of bonus payable)	£333 million (40% of bonus payable)	£353 million (80% of bonus payable)	£327 million	28.9%
Individual objectives	20% ⁽¹⁾	Following the year end, the Committee assessed performance against the individual objectives for each Director for 2018.				
		CEO: The CEO met the large 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 (including targets for LEGOLAND New York and Korea, new brands and existing estate), health and safety, talent management (including succession planning) and visitor satisfaction.				6.5%
		CFO: The CFO met all of her personal objectives which comprised setting up the Finance 21 project, agreeing plans to deliver sustainable savings and simplification, introducing the new lease accounting standard, successfully delivering the refinancing strategy, improving retail and food and beverage performance and strengthening finance capabilities.				7.2%
					TOTAL	35.4% (CEO) 36.1% (CFO)

(1) For the 2018 bonus plan, the maximum annual bonus payout that could 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.

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 11 April 2018. These awards are subject to the performance conditions described below and will vest on 12 April 2021.

At the date of the Remuneration Report in 2017 the structure of the award to the CFO was subject to review given the new strategic plan and her specific responsibilities. Including the feedback from extensive consultation with key shareholders, the Committee concluded that the PSP award to the Chief Financial Officer should be set at the same level as the Chief Executive Officer, at 250% of salary (increased from 225% of salary). The increased award level reflected the enhanced role at Merlin of the Chief Financial Officer which includes operational responsibility for the commercial function. The targets applied to the enhanced award (25% of salary) were set exclusively against her commercial responsibilities within the strategic element of the award.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT

CONTINUED

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	438,819	1,523,579	250%	26 December 2020
Anne-Francoise Nesmes	Performance shares	287,706	998,915	250%	

(1) The maximum number of shares that could be awarded has been calculated using the closing share price on 10 April 2018 of £3.4720 and is stated before the impact of reinvestment of the dividends paid since grant.
(2) The vesting schedule is structured such that achieving the threshold strategic performance requirement results in 25% of this part of the award vesting (12.5% in the case of the CFO). Vesting then increases on a stepped basis subject to meeting the range of targets set. Full vesting requires all strategic targets to be met in full.

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 2018 targets were set to exclude the impact of LEGOLAND New York since this was 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.

Strategic performance condition (20% of award)

- **Productivity** – a range of targets were set for improving productivity. The targets measure the benefits from business simplification projects and efficiency improvements from investments in systems and processes.
- **New business development** – the targets were set for the delivery of new attractions and their subsequent performance. This includes new Midway attractions, new accommodation and new LEGOLAND parks.
- **Customer satisfaction** – customers are at the heart of our business. We set customer satisfaction targets and measure performance based on survey data.
- **Commercial objectives (CFO only)** – a range of targets including delivering margin improvement and range development in the key retail, food and beverage, photos, games and procurement businesses.

For the Chief Executive Officer, the vesting schedule is structured such that achieving the threshold performance requirement results in 25% of this part of the award vesting through to full vesting for meeting each of the targets in full. There is no ability to retest any element of the performance targets. With regard to the Chief Financial Officer, the same structure detailed for the Chief Executive Officer will apply to 50% of her strategic targets (i.e. 10% of her total award) with the balance subject to the targets relating to her commercial responsibilities. The same vesting profile also operates with respect to this part of her award (i.e. a sliding scale from 25% vesting at the threshold performance level through to full vesting for meeting each target in full). There is no ability to retest any element of the performance targets. The specific 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.

Payments to past Directors

There were no payments to past Directors during 2018 that had not been previously disclosed.

Payments for loss of office

There were no payments for loss of office to Directors during 2018.

Statement of Directors' shareholding and share interests

A shareholding guideline of 200% of base salary by the fifth anniversary of appointment applies to the Executive Directors. The CEO had a shareholding that exceeded that guideline at 29 December 2018. The CFO joined in August 2016 and is in the process of building up her shareholding to meet the guideline by her fifth anniversary.

Executive Directors are expected to achieve the shareholding guideline 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 guideline within five years of that individual becoming subject to the guideline. The Committee reviews ongoing individual performance against the shareholding guideline at the end of each financial year.

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

Director	Value of shareholding at 29 December 2018 as a % of salary (shareholding guideline target)	Shares owned outright at 29 December 2018	Number of shares		
			Sharesave	Deferred Bonus ⁽¹⁾	Interests in share incentive schemes, awarded subject to performance conditions at 29 December 2018 ⁽²⁾
Nick Varney ^{(3), (7)}	3,463% (200%)	6,680,697	–	–	1,104,320
Anne-Francoise Nesmes ^{(3), (5)}	8% (200%)	10,000	6,358	–	669,118
Sir John Sunderland ⁽⁴⁾	–	531,044	–	–	–
Charles Gurassa	–	101,250	–	–	–
Ken Hydon ⁽⁶⁾	–	62,233	–	–	–
Fru Hazlitt	–	31,746	–	–	–
Trudy Rautio ⁽⁶⁾	–	30,250	–	–	–
Rachel Chiang	–	–	–	–	–
Andrew Fisher	–	–	–	–	–
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).
- (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 2018 has been used (£3.159).
- (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 of 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) Of the total shares held by Trudy Rautio, 19,000 shares are held by a trust of which Trudy Rautio is a trustee and of which members of her family are beneficiaries.
- (7) Nick Varney exercised 2,780 options in the year under the UK Employee Sharesave Plan.
- (8) Ken Hydon retired on 27 April 2018 and on that date he held 62,233 shares.

Between 29 December 2018 and the date of this report there were no changes in the shareholdings outlined in the above table.

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 conditions
Nick Varney	1 April 2016	1 April 2019	313,592	15,965	2016-2018	The structure of the EPS, ROCE and strategic performance conditions for the 2018 PSP is set out on pages 83 to 84.
	30 March 2017	30 March 2020	315,947	11,252	2017-2019	
	11 April 2018	12 April 2021	438,819	8,745	2018-2020	
Anne-Francoise Nesmes	1 September 2016	2 September 2019	180,431	6,425	2016-2018	Full details of performance conditions for other years appear in the Directors' Remuneration Reports for the year in which the grants were made.
	30 March 2017	30 March 2020	182,330	6,493	2017-2019	
	11 April 2018	12 April 2021	287,706	5,733	2018-2020	

(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.

As disclosed in the 2016 Annual Report and Accounts, the performance period for the 1 April 2016 awards was the three financial years to 29 December 2018.

The calculation of the performance conditions is as follows:

- Adjusted EPS growth – by comparing EPS for the financial year ending 29 December 2018 with EPS for the financial year ending 26 December 2015. The Adjusted EPS for the financial year ended 26 December 2015 was 17.8 pence.
- Average ROCE – an average of ROCE for the three individual financial years ending 31 December 2016 (53 weeks), 30 December 2017 and 29 December 2018.

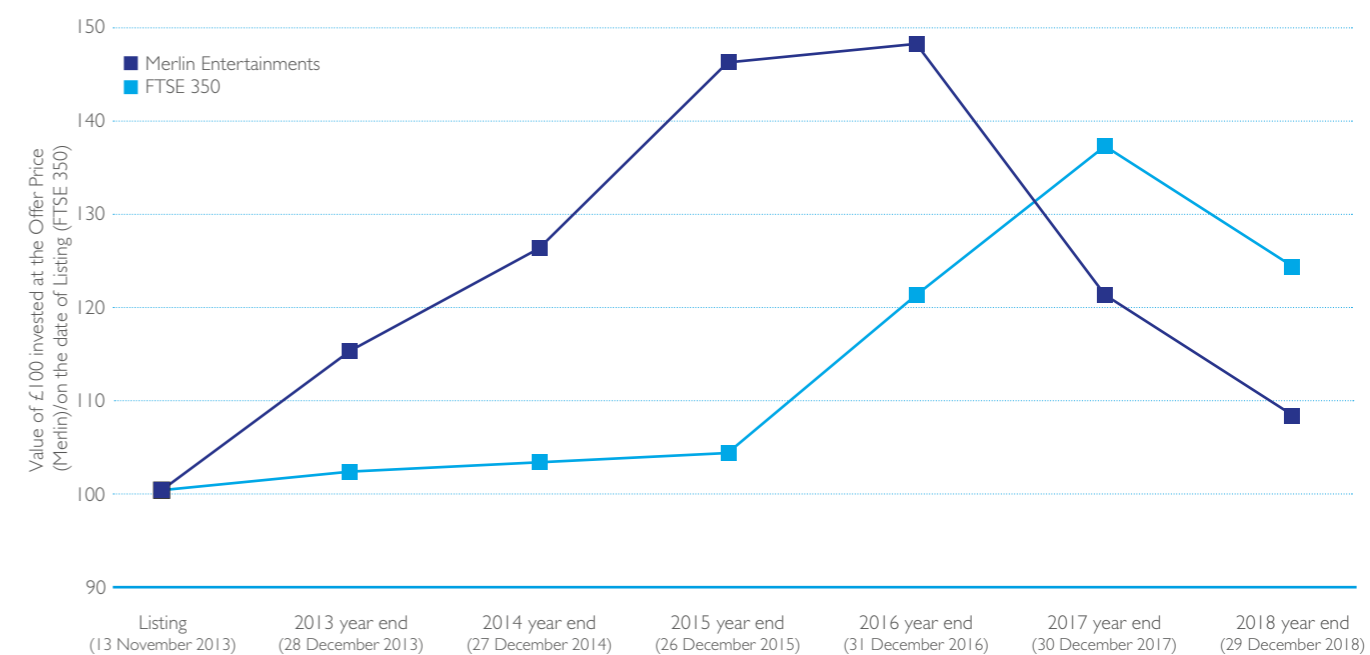
The compound annual growth rate of Adjusted EPS over the performance period was 8.8% and the average ROCE was 9.4%. The performance conditions set out above yield a vesting of 36.5% of maximum.

UNAUDITED INFORMATION

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

Performance graph

The chart below compares the Total Shareholder Return performance of the Company over the period from Listing to 29 December 2018 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.



GOVERNANCE

DIRECTORS' REMUNERATION REPORT

CONTINUED

CEO remuneration table

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	2018
Salary and benefits ⁽²⁾ £000	75	596	605	604	618	629
Pension £000	18	127	128	128	131	134
Bonus £000	58	859	–	–	–	322
Sub total £000	151	1,582	733	732	749	1,085
PSP Long Term Incentive Plan ⁽³⁾ £000	n/a	–	–	1,296	164	408
CEO single figure of remuneration £000	151	1,582	733	2,028	913	1,493
Annual bonus payout (as a % of maximum opportunity)	n/a (no maximum limit applied in 2013)	100%	0%	0%	0%	35.4%
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%	36.5%

(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.

Percentage change in remuneration of the CEO

The table below indicates the change in the CEO's remuneration between 2017 and 2018 and the change in average remuneration for other UK permanent employees between 2017 and 2018. The Committee believes that the UK workforce is the most appropriate comparator for this analysis for the UK based CEO.

	Salary increase ⁽¹⁾	Benefits increase ⁽²⁾	Annual bonus increase ⁽³⁾
CEO	1.5%	3.9%	35.4%
Average for all UK permanent employees	1.5%	2.8%	36.1%

(1) Nick Varney received an increase of 2.25% in April 2017 and an increase of 1.5% in 2018. In accordance with her contract Anne-Francoise Nesmes received a first review of her salary in October 2017, reflecting a 2.25% increase and an increase of 1.5% in 2018. Both of these increases were in line with the average increase for all UK permanent employees.

(2) The CEO's benefits grew by 3.9% (£820), predominantly driven by increases in income protection and medical insurance premiums versus the previous year. The increase for the UK permanent population is 2.8%.

(3) No bonus was payable for 2017. 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.

	2017 £m	2018 £m	Increase
Employee costs	420	448	6.7%
Distribution to shareholders	74	76	2.9%
Underlying operating profit	323	327	1.3%

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 (part-year), Fru Hazlitt, Trudy Rautio and Andrew Fisher (part-year).

The Committee met three times during 2018. 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.

Korn Ferry was appointed after a competitive tender by the Remuneration Committee on 7 November 2017 to replace Deloitte LLP. During 2018 Korn Ferry was paid £158,630 in fees (charged on a time plus expenses basis). Korn Ferry is a member of the Remuneration Consultants Group and operates under its code of conduct in relation to executive remuneration consulting in the UK. In addition to the remuneration advice provided to the Committee, a separate part of Korn Ferry provided recruitment services to the Company. The Committee is comfortable that the advice provided to the Committee is independent.

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 (2018)	791.9 million (97.7%)	18.7 million (2.3%)	21.4 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, Nick Varney held no external appointments for which he received a fee.

Anne-Francoise Nesmes holds an external Non-executive Director appointment for which she received a fee of £42,500 in gross pay in 2018.

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 3 May 2019.

On behalf of the Board

Charles Gurassa

Chairman of the Remuneration Committee
27 February 2019

GOVERNANCE

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 29 December 2018. Comparative figures relate to the 52 weeks ended 30 December 2017.

In order to make our Annual Report and Accounts more accessible, we have set out below where certain required disclosures can be found in other areas of this Annual Report.

Strategic Report**Non-financial reporting**

Information regarding Merlin's approach to the five topics required by the Companies Act is set out in the non-financial reporting statement on pages 48 to 49. This includes information on how we engage with employees, our approach to persons with disabilities, and mandatory greenhouse gas reporting.

Other information

Other information is set out as follows:

- Business review and future developments – see pages 6 to 57.
- Research and development – details about Merlin Magic Making and New Openings are located on pages 24 to 25.

Governance**Alignment with the UK Corporate Governance Code**

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.handbook.fca.org.uk). 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 how clear divisions of responsibilities are maintained at the head of the Company see pages 58 to 65.
- **Effectiveness** – for how the Board ensures it remains effective see pages 62 to 65.
- **Accountability** – for how the Board presents a fair, balanced and understandable assessment of Merlin's position and prospects see pages 70 to 73.
- **Remuneration** – for more information on Directors' remuneration and how it is designed to promote the long term success of the Group see pages 74 to 89.
- **Relations with shareholders** – for how the Board maintains a dialogue with its shareholders based on the mutual understanding of objectives see page 65.

Other information

Other information is set out as follows:

- Corporate Governance Statement – see pages 58 to 59.
- Corporate Governance Report – see pages 62 to 65.
- Relationship agreements – details of the agreements with KIRKBI are on page 65.
- Share capital, substantial holdings and related matters – see pages 64 to 65.
- Related parties – see page 65.
- Audit information – see page 73.
- Internal controls and risk management systems in relation to the preparation of accounts – see pages 70 to 73.

Financial statements

The financial statements contain information in the following areas:

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

Directors' Report

The Directors' Report itself contains the sections detailed below.

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 of 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.

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.

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 its rights to appoint Directors are set out in the Corporate Governance Report on page 65.

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, 2,500,000 ordinary shares of one pence each were issued.

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.

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 65.
- A Multi-currency Facilities Agreement entered into by the Group dated 25 February 2015, as amended from time to time, 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 a £600 million revolving credit facility to mature in 2023.
- 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 Euro notes) under which, in the event of a change of control of the Company and a ratings event, the holders of the Euro 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.
- An Indenture dated as of 9 May 2018 in relation to an issue of \$400 million 5.75% fixed rate notes due in 2026 (the US Dollar notes) under which, in the event of a change of control of the Company and a ratings event, the holders of the US Dollar 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.

Branches outside the UK

Merlin Entertainments plc has no branches outside the UK.

Dividend

An interim dividend of 2.5 pence per share was paid on 24 September 2018 to shareholders on the Register on 17 August 2018. A final dividend for the year ended 29 December 2018 of 5.5 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 41.

Subsequent events

On 21 February 2019, the Company entered into an agreement to sell its Australian ski resorts at Mount Hotham and Falls Creek to Vail Resorts Inc. for a cash consideration of A\$174 million, subject to certain adjustments related to the timing of completion. These attractions form part of the Midway Attractions Operating Group. In 2018 revenue and underlying EBITDA for the two sites were £35 million and £11 million respectively.

Political donations

No political donations were made during the year.

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 2019 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.

Approval of Annual Report

The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 27 February 2019.

For and on behalf of the Board

Matthew Jowett

General Counsel and Company Secretary
27 February 2019

Merlin Entertainments plc
Registered number 08700412

GOVERNANCE

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 comply 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
27 February 2019

Anne-Francoise Nesmes
Chief Financial Officer
27 February 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments plc



1 Our opinion is unmodified

We have audited the financial statements of Merlin Entertainments plc (the Company) for the 52 weeks ended 29 December 2018 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 29 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- 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 first appointed as auditor by the Directors on 30 September 2013. The period of total uninterrupted engagement is for the six financial years ended 29 December 2018. 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:	£14.3 million (2017: £14.5 million)
Group financial statements as a whole	5.0% (2017: 5.4%) of Group profit before tax
Coverage:	86% (2017: 82%) of total profits and losses ⁽¹⁾
by full scope audit procedures	
Risks of material misstatement vs 2017	
Risks	
The impact of uncertainties due to the UK exiting the European Union on our audit	
Carrying value of Resort Theme Parks (RTP) goodwill	↔
Visitor and accommodation revenue recognition	↔
Recoverability of parent Company's investment in and amounts owed by Group undertakings	↔

(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 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. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

To the Members of Merlin Entertainments plc

	The risk	Our response
<p>The impact of uncertainties due to the UK exiting the European Union on our audit</p> <p>Refer to page 36 (Principal Risks), pages 70 to 73 (Audit Committee Report).</p>	<p>Unprecedented levels of uncertainty: All audits assess and challenge the reasonableness of estimates, in particular as described in Carrying value of Resort Theme Parks goodwill and Recoverability of the parent Company's investment in and amounts owed by Group undertakings below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the Viability Statement and to consider the Directors' statement that 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.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits.</p> <p>Our procedures included:</p> <p>Our Brexit knowledge: we considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks;</p> <p>Sensitivity analysis: when addressing Carrying value of Resort Theme Parks goodwill and Recoverability of the parent Company's investment in and amounts owed by Group undertakings and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and</p> <p>Assessing transparency: as well as assessing individual disclosures as part of our procedures on Carrying value of Resort Theme Parks goodwill and Recoverability of the parent Company's investment in and amounts owed by Group undertakings we considered all of the Brexit-related disclosures and disclosures in relation to going concern together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks.</p> <p>Our results</p> <ul style="list-style-type: none"> As reported under Carrying value of Resort Theme Parks goodwill and Recoverability of the parent Company's investment in and amounts owed by Group undertakings, we found the resulting estimates and related disclosures of Brexit and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
<p>Carrying value of Resort Theme Parks (RTP) goodwill</p> <p>£212 million (2017: £209 million)</p> <p>Refer to pages 70 to 73 (Audit Committee Report), page 121 (accounting policy) and pages 122 to 123 (financial disclosures).</p> <p>Risk vs 2017: ↔</p>	<p>Forecast based valuation: A history of business combinations results in significant goodwill balances. The 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.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting future cash flows and determining the most appropriate rate at which to discount them.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of Resort Theme Parks has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.3) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <p>Historical comparisons:</p> <ul style="list-style-type: none"> 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; evaluating expected changes in site-level cash flows (from activities such as new promotions and customer experience improvements) and the planned cost base, in light of the past results of similar activities carried out by the Group; <p>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;</p> <p>Sensitivity analysis: assessing the reasonableness of management's sensitivity analysis, including 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;</p> <p>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</p> <p>Assessing transparency: assessing whether the Group's sensitivity disclosures regarding the impairment testing adequately reflects the risks inherent in the valuation of goodwill.</p> <p>Our results</p> <ul style="list-style-type: none"> We found the resulting estimate of the recoverable amount of RTP goodwill to be acceptable (2017: acceptable).

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Members of Merlin Entertainments plc

	The risk	Our response
<p>Visitor and accommodation revenue recognition</p> <p>£1,617 million (2017: £1,529 million)</p> <p>Refer to pages 70 to 73 (Audit Committee Report), page 110 (accounting policy).</p> <p>Risk vs 2017: ↔</p>	<p>Risk of processing error: Merlin's revenue comes from a number of different channels, locations and systems, sometimes featuring manual processes to match past purchases and deferred revenue to redemptions, or to transfer data to the finance systems.</p> <p>The low value of individual transactions means individual errors would be insignificant, however the high volume of transactions mean systematic failure could lead to difficulty in detecting errors that, in aggregate, may have a material balance.</p>	<p>Our procedures included:</p> <p>Control design: at certain sites, where we anticipated being able to rely on such systems, 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;</p> <p>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;</p> <p>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</p> <p>Tests of detail: agreeing a sample of revenue transactions to bank statements or other supporting documentation. Testing of deferred revenue balances through agreeing back to ticketing system records and re-computing specific manual calculations. The extent of this testing reflected the outcome of our controls testing at each location.</p> <p>Our results</p> <ul style="list-style-type: none"> We found the revenue amounts recognised to be acceptable (2017: acceptable).
<p>Recoverability of the parent Company's investment in and amounts owed by Group undertakings</p> <p>Investments in subsidiary £3,137 million (2017: £3,129 million), amounts owed by Group undertakings £4 million current, £1,260 million non-current (2017: £3 million current, £1,449 million non-current)</p> <p>Refer to pages 70 to 73 (Audit Committee Report) and pages 150 to 154 (accounting policy and financial disclosures).</p> <p>Risk vs 2017: ↔</p>	<p>Low risk, high value: The carrying amount of the parent Company's investment in and amounts owed by Group undertakings represents 99.9% (2017: 99.8%) 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 has had the greatest effect on our overall parent Company audit.</p>	<p>Our procedures included:</p> <p>Tests of detail: for the investment and amounts owed by Group undertakings where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment and amounts owed by Group undertakings 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.</p> <p>Our results</p> <ul style="list-style-type: none"> We found the Group's assessment of the recoverability of the investment in and amounts owed by Group undertakings to be acceptable (2017: acceptable).

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 £14,300,000 (2017: £14,500,000), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0% (2017: 5.4%).

Materiality for the parent Company financial statements as a whole was set at £4,500,000 (2017: £4,500,000), determined with 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 (2017: 0.1%).

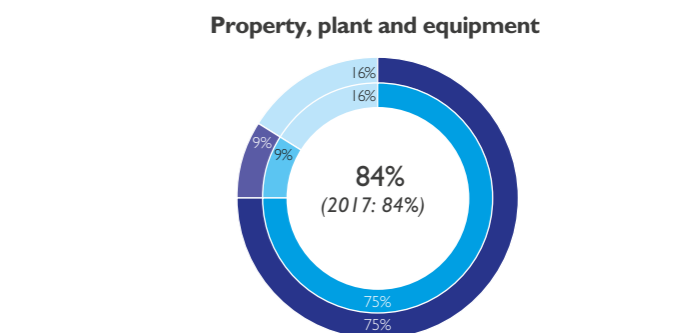
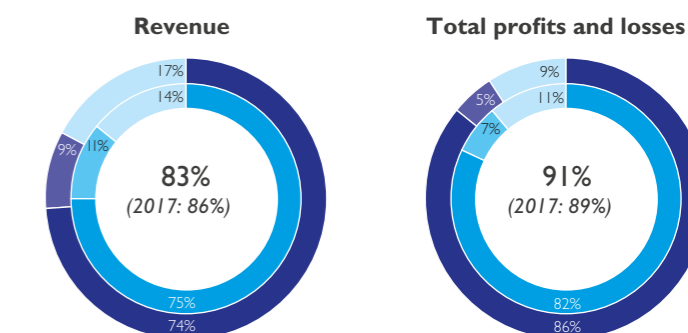
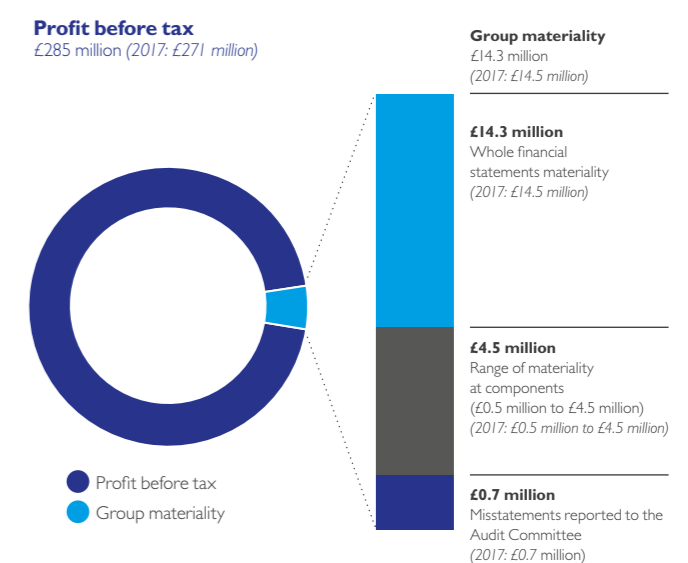
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements affecting profit exceeding £715,000 (2017: £725,000) or otherwise exceeding £2,000,000 (2017: £2,000,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

This also includes procedures on finance costs and assets established on consolidation; the total of these balances were audited at Group level. Full scope audits for Group reporting purposes were performed at 33 components in the following countries: Australia, China (including Hong Kong), Denmark, Germany, Italy, Japan, Thailand, UK and USA. The components for which we performed specified risk-focused audit procedures or analysis at an aggregated Group level were not individually significant but were included in the scope of our Group reporting work to provide further coverage. 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 components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 9% of total Group profit before tax, 17% of Group revenue and 16% of Group property, plant and equipment is represented by a large number of smaller reporting components, none of which individually represented more than 0.8% 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 these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved each component materiality, which ranged from £500,000 to £4,500,000, having regard to the mix of size and risk profile of the Group across the components. The Group audit team carried out audits for Group reporting purposes of the financial information of components covering 19% (2017: 33%) 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% (2017: 4%) of total profits and losses that made up Group profit before tax.



Key:

- Full scope for Group audit purposes 2018
- Specified risk-focused procedures 2018
- Full scope for Group audit purposes 2017
- Specified risk-focused procedures 2017
- Analysis at an aggregated Group level

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the Members of Merlin Entertainments plc

The Group team visited one (2017: two) overseas component location in California (2017: Germany and Japan) to assess the audit risk and strategy. Additionally we performed inspection of the work covering the key audit matters at all component audit teams performing audits for Group reporting purposes. Teleconference meetings were held with all component auditors. At these meetings, the Group audit team provided further input to audit risk and strategy, and the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- ride safety incidents;
- acts of terrorism and/or the impact of the threat of terrorism on consumer behaviours.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence or a broad economic downturn, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 41 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer term viability.

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 92, 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 (see below), 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.

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) and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. 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.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following area as that most likely to have such an effect: health and safety, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remains a higher risk of non-detection of irregularities arising from fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

27 February 2019

PRIMARY STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	2018		2017	
		Underlying trading £m	Exceptional items ⁽⁴⁾ £m	Total £m	Total £m
Revenue	2.1	1,688	–	1,688	1,594
Cost of sales	2.1	(298)	–	(298)	(255)
Gross profit		1,390	–	1,390	1,339
Staff expenses	2.1	(448)	–	(448)	(420)
Marketing		(84)	–	(84)	(85)
Rent		(105)	–	(105)	(104)
Other operating expenses		(259)	(4)	(263)	(256)
EBITDA⁽¹⁾	2.1	494	(4)	490	474
Depreciation and amortisation	3.1, 3.2	(167)	–	(167)	(151)
Operating profit		327	(4)	323	323
Finance income	2.3	10	–	10	3
Finance costs	2.3	(48)	–	(48)	(55)
Profit before tax		289	(4)	285	271
Taxation	2.4	(55)	–	(55)	(62)
Profit for the year⁽²⁾		234	(4)	230	209
Earnings per share					
Basic earnings per share (p)	2.5			22.5	20.5
Diluted earnings per share (p)	2.5			22.5	20.5
Dividend per share⁽³⁾ (p)	4.5			8.0	7.4

(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 2018 and 2017 is wholly attributable to the owners of the Company.

(3) Dividend per share represents the interim paid and final proposed dividend for the year.

(4) Details of exceptional items are provided in note 2.2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	2018 £m	2017 £m
Profit for the year		230	209
Other comprehensive income			
<i>Items that cannot be reclassified to the consolidated income statement</i>			
Defined benefit plan remeasurement gains and losses	5.2	(1)	2
		(1)	2
<i>Items that may be reclassified to the consolidated income statement</i>			
Exchange differences on the retranslation of net assets of foreign operations		14	3
Exchange differences relating to the net investment in foreign operations		(5)	(15)
Cash flow hedges – effective portion of changes in fair value		1	4
Income tax on items relating to components of other comprehensive income	2.4	–	(1)
		10	(9)
Other comprehensive income for the year net of income tax		9	(7)
Total comprehensive income for the year		239	202
Total comprehensive income attributable to:			
Owners of the Company		238	202
Non-controlling interest		1	–
Total comprehensive income for the year		239	202

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 29 December 2018 (2017: 30 December 2017)

	Note	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	3.1	2,344	2,092
Goodwill and intangible assets	3.2	1,028	1,018
Investments	5.1	61	59
Other receivables	3.4	14	11
Deferred tax assets	2.4	35	33
		3,482	3,213
Current assets			
Inventories	3.4	47	37
Trade and other receivables	3.4	125	100
Derivative financial assets		3	5
Cash and cash equivalents	4.1	110	309
		285	451
Total assets		3,767	3,664
Current liabilities			
Interest-bearing loans and borrowings	4.2	8	7
Finance leases	4.4	1	1
Derivative financial liabilities		4	3
Trade and other payables	3.4	353	306
Tax payable		43	37
Provisions	3.5	7	5
		416	359
Non-current liabilities			
Interest-bearing loans and borrowings	4.2	1,092	1,271
Finance leases	4.4	199	190
Other payables	3.4	47	28
Provisions	3.5	81	72
Employee benefits	5.2	6	6
Deferred tax liabilities	2.4	182	171
		1,607	1,738
Total liabilities		2,023	2,097
Net assets			
		1,744	1,567
Issued capital and reserves attributable to owners of the Company		1,739	1,563
Non-controlling interest		5	4
Total equity	4.5	1,744	1,567

The financial statements were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	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 1 January 2017		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		–	8	–	–	–	8	–	8
Equity dividends	4.5	–	–	–	–	(74)	(74)	–	(74)
Equity-settled share-based payments	4.6	–	–	–	–	3	3	–	3
At 30 December 2017		10	10	(18)	1	1,560	1,563	4	1,567
Profit for the year		–	–	–	–	230	230	–	230
Other comprehensive income for the year net of income tax		–	–	8	1	(1)	8	1	9
Total comprehensive income for the year		–	–	8	1	229	238	1	239
Shares issued	4.5	–	6	–	–	–	6	–	6
Equity dividends	4.5	–	–	–	–	(76)	(76)	–	(76)
Equity-settled share-based payments	4.6	–	–	–	–	8	8	–	8
At 29 December 2018	4.5	10	16	(10)	2	1,721	1,739	5	1,744

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		230	209
<i>Adjustments for:</i>			
Depreciation and amortisation	3.1, 3.2	167	151
Finance income	2.3	(10)	(3)
Finance costs	2.3	48	55
Taxation	2.4	55	62
		490	474
Profit on sale of property, plant and equipment		–	(3)
Working capital changes		(22)	1
Changes in provisions and other non-current liabilities		28	5
		496	477
Tax paid		(46)	(64)
Net cash inflow from operating activities		450	413
Cash flows from investing activities			
Interest received		1	1
Acquisition of investments		–	(12)
Purchase of property, plant and equipment		(332)	(336)
Disposal of property, plant and equipment		–	4
Grants received	5.3	14	–
Net cash outflow from investing activities		(317)	(343)
Cash flows from financing activities			
Proceeds from issue of share capital	4.5	6	8
Equity dividends paid	4.5	(76)	(74)
Proceeds from borrowings		651	178
Repayment of borrowings		(863)	(43)
Capital repayments of finance leases		(2)	(1)
Interest paid		(50)	(46)
Financing costs		(6)	(2)
Settlement of interest rate swaps		5	–
Net cash (outflow)/inflow from financing activities		(335)	20
Net (decrease)/increase in cash and cash equivalents		(202)	90
Cash and cash equivalents at beginning of year	4.1	309	215
Effect of movements in foreign exchange		3	4
Cash and cash equivalents at end of year	4.1	110	309

NOTES TO THE ACCOUNTS

SECTION 1 BASIS OF PREPARATION

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

I.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 29 December 2018 (2017: 52 weeks ended 30 December 2017). 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 £230 million (2017: £209 million) and generated operating cash inflows of £450 million (2017: £413 million).

Following refinancing activities that completed in May 2018, the Group is now funded by senior unsecured notes due for repayment in 2022 and 2026 and a multi-currency revolving credit facility maturing in April 2023. 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, 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 1

BASIS OF PREPARATION CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

I.1 BASIS OF PREPARATION (CONTINUED)

Classification of financial instruments issued by the Group

Financial instruments are recognised on the statement of financial position when the Group becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant note.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Group's interest-bearing loans and borrowings, are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Group's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are dealt with as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Group after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Where financial instruments consist of a combination of debt and equity, the Group will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

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 considers 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 brands have been recognised as part of an acquisition, they have been assessed as having indefinite useful lives and management have considered that this judgement remains appropriate.
- Goodwill impairment reviews (note 3.3) – the level at which goodwill is initially allocated and thereafter monitored.

Estimates

Management considers 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 fair value.
- 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.

Those areas that require significant judgements or include estimation uncertainty on adoption of IFRS 16 'Leases' are set out in note 5.5.

New standards and interpretations

The standards that have been implemented in the year that have had the most significant impact are IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', as explained below. A full list of new accounting standards and interpretations that have been implemented in the year, including those which have had no significant impact, can be found in note 5.5. It also includes those standards that will be implemented next year or in future years, including our assessment of the potential impact of IFRS 16 'Leases'.

I.1 BASIS OF PREPARATION (CONTINUED)

IFRS 9 'Financial instruments'

IFRS 9 has been adopted by the Group in 2018. The new standard replaces IAS 39 'Financial instruments: Recognition and measurement' and sets out requirements for recognising and measuring financial assets and financial liabilities. The new requirements of the standard have been applied retrospectively, taking advantage of the exemption to not restate comparative information with respect to classification and measurement changes.

The impact of IFRS 9 has not seen material changes to the financial statements for the Group. 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. Areas to note following the adoption of IFRS 9 are:

- There has not been a change to the Group's trade and other receivables balances as a result of the classification changes.
- The election available under IFRS 9 has been taken, allowing minority equity investments to continue to be held at fair value with changes going through other comprehensive income (FVOCI). These equity investments were previously held as available-for-sale, with changes in fair value being recognised through equity. Under IFRS 9 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.
- The classification for financial liabilities is largely similar under the new standard. The Group has not had to adjust any classifications for financial liabilities.

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 are calculated using both actual credit loss experience and forward looking projections and do not result in material changes to the impairment of trade and other receivables.
- Cash and cash equivalents are held with banks and financial institutions. The estimated ECLs are 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 ECL is not significant 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. There has not been a material adjustment to trade and other receivables or cash as a result of the new methodology.

Hedging

As allowed on initial application, 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.

All of the Group's existing hedge relationships that were previously designated as effective hedging relationships have continued to qualify for hedge accounting under IFRS 9 and are aligned to the Group's risk management strategy and objective. The new standard is applied prospectively and therefore there are no adjustments on transition.

Additional disclosures or amendments have been provided where required.

NOTES TO THE ACCOUNTS

SECTION 1

BASIS OF PREPARATION CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

1.1 BASIS OF PREPARATION (CONTINUED)**IFRS 15 'Revenue from contracts with customers'**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). This approach requires the effect of applying this standard to be recognised at the date of initial application (i.e. 31 December 2017). There is no impact to retained earnings on transition because the timing of recognition of each category of Merlin's revenue under the transfer of risks and rewards principles in IAS 18 matches the timing under the control principles in IFRS 15. In line with adopting IFRS 15 using the cumulative effect method, the information presented for 2017 has not been restated.

Impact

IFRS 15 requires Merlin to make an assessment, considering the control principles of IFRS 15, as to whether parties involved in providing goods or services to a customer are acting as a principal (if they control delivery to the customer) or, if they are arranging for those goods or services to be provided by the other party, as an agent. Under IAS 18 this assessment was made based on which entity had the exposure to the significant risks and rewards associated with the transaction.

We have reviewed how this change affects situations where a third party is involved, together with Merlin, in providing visitors to Merlin attractions with admission tickets and/or accommodation, or commercial offerings such as photos and games services once inside a Merlin attraction. There is no difference in the pattern of revenue recognition arising from this change.

- Trade partners – Merlin engages with trade partners (such as online travel agents) in selling admission tickets and accommodation to the visiting customer. In instances where this leads to trade partners being considered Merlin's agent, Merlin records revenue at the amount paid by the visiting customer ('gross') and records the amount of underlying commission retained by the agent within cost of sales.
- Commercial offerings – Merlin partners with third parties in the operation of commercial offerings within theme park resorts and Midway attractions. The most significant of these are photo and games operations where the Group has analysed which party is considered to control the relevant operation. The nature of the operations concerned, and the judgements made, impact each Operating Group in different ways.

The following table summarises the impacts of adopting IFRS 15 on the Group's consolidated income statement for the 52 weeks ended 29 December 2018 and each of the line items affected. There was no material impact on the Group's statement of financial position, statement of cash flows or statement of comprehensive income:

	As reported £m	Adjustment £m	Amounts without adoption of IFRS 15 £m
2018			
Revenue	1,688	(35)	1,653
Cost of sales	(298)	35	(263)
Gross profit	1,390	–	1,390

Disaggregation of revenue

The following categories of revenue (all excluding VAT and similar taxes) have been disaggregated:

- Visitor revenue – which represents admissions tickets, retail, food and beverage sales and other commercial offerings such as photos and games experiences inside a Merlin attraction. Ticket revenue is recognised at point of entry. Revenue from annual passes and other tickets that entitle a customer to continued visits over a period of time is deferred and then recognised evenly over the period that the pass is valid. Retail and food and beverage revenue, along with other similar commercial offerings, is recognised at point of sale.
- Accommodation revenue – which represents overnight stay and conference room revenue along with food and beverage revenue earned within our hotels and other accommodation offerings. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation.
- Other revenue – which represents sponsorship, function, management and service contract revenue along with other sundry items. Sponsorship revenue is recognised over the relevant contract term. Function revenue is recognised at the time of the event. Management and service contract revenue is recognised in line with the performance obligations in the specific contract.

Information regarding the Group's results including this disaggregation of revenue by nature as required by IFRS 15 is included in note 2.1.

SECTION 2

RESULTS FOR THE YEAR

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

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.

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items ⁽⁴⁾ £m	Exceptional items ⁽⁵⁾ £m	Total £m
2018							
Visitor revenue	651	469	287	1,407	–	–	1,407
Accommodation revenue	–	142	68	210	–	–	210
Other revenue	26	26	12	64	7	–	71
Revenue⁽¹⁾	677	637	367	1,681	7	–	1,688
EBITDA⁽²⁾	210	242	88	540	(46)	(4)	490
Depreciation and amortisation	(71)	(48)	(37)	(156)	(11)	–	(167)
Operating profit ⁽²⁾	139	194	51	384	(57)	(4)	323
2017⁽³⁾							
Visitor revenue	627	481	259	1,367	–	–	1,367
Accommodation revenue	–	102	60	162	–	–	162
Other revenue	29	26	10	65	–	–	65
Revenue⁽¹⁾	656	609	329	1,594	–	–	1,594
EBITDA⁽²⁾	220	230	72	522	(48)	–	474
Depreciation and amortisation	(68)	(39)	(36)	(143)	(8)	–	(151)
Operating profit ⁽²⁾	152	191	36	379	(56)	–	323

(1) Revenue is disaggregated into the three categories described in note 1.1.

(2) Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included for information purposes.

(3) The Group has initially applied IFRS 15 and IFRS 9 at 31 December 2017. Under the transition methods chosen, comparative information is not restated.

(4) Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

(5) Details of exceptional items are provided in note 2.2.

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 2018 £m	Non-current assets 2018 £m	Revenues 2017 £m	Non-current assets 2017 £m
United Kingdom	527	939	486	921
Continental Europe	413	1,031	389	986
North America	453	748	438	620
Asia Pacific	295	668	281	594
	1,688	3,386	1,594	3,121
Deferred tax (note 2.4)		35		33
Investments (note 5.1)		61		59
		3,482		3,213

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.1 PROFIT BEFORE TAX (CONTINUED)**Revenue accounting policy**

Revenue represents the amounts received from customers (excluding VAT and similar taxes) for admissions tickets, accommodation, retail, food and beverage sales, other commercial offerings, and sponsorship. From time to time, the Group also enters into service contracts for attraction development.

Tickets, annual passes and other services can be bought in advance, generally online, in which case these advanced revenues are held in deferred revenue until the visitor uses those tickets or services. Visitor revenue is then recognised when the visitor enters the attraction. 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. Revenue for attraction development is recognised as performance obligations under the contract are met. Service contract revenue in 2018 and 2017 is not material.

IFRS 15 requires Merlin to make an assessment, considering the control principles of IFRS 15, as to whether parties involved in providing goods or services to a customer are acting as a principal (if they control delivery to the customer) or, if they are arranging for those goods or services to be provided by the other party, as an agent. The impact of adopting IFRS 15 in the 52 weeks ended 29 December 2018 is detailed in note 1.1.

Cost of sales

Cost of sales of £298 million (2017: £255 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:

	2018	2017
Operations	19,057	17,834
Attraction management and central administration	2,066	2,037
	21,123	19,871

The aggregate payroll costs of these persons were as follows:

	2018 £m	2017 £m
Wages and salaries	381	360
Share-based payments (note 4.6)	8	3
Social security costs	46	44
Other pension costs	13	13
	448	420

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 74 to 89.

The remuneration of key management was as follows:

	2018 £m	2017 £m
Key management emoluments including social security costs	6.7	4.8
Contributions to money purchase pension schemes	0.1	0.1
Share-based payments and other related payments	2.0	1.5
	8.8	6.4

2.1 PROFIT BEFORE TAX (CONTINUED)**Auditor's remuneration**

	2018 £m	2017 £m
Audit of these financial statements	1.5	1.4
Audit of financial statements of subsidiaries	0.4	0.4
Other assurance services	0.2	0.2
Services relating to corporate finance transactions	0.2	0.1
	2.3	2.1

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.

Exceptional items

The following items are exceptional and have been shown separately on the face of the consolidated income statement.

	2018 £m	2017 £m
Within other operating expenses:		
Productivity Agenda activities ⁽¹⁾	4	–
Exceptional items included within EBITDA and operating profit	4	–
Income tax credit on exceptional items above	–	–
Exceptional items for the year	4	–

(1) Certain one-off operational costs have been incurred in 2018 as part of the Group's Productivity Agenda initiatives that are expected to continue through to 2021, as well as exit costs in respect of certain small, non-core Midway sites. They are separately presented as they are not part of the Group's underlying operating expenses.

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.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.3 FINANCE INCOME AND COSTS (CONTINUED)**Finance income**

	2018 £m	2017 £m
<i>In respect of assets not held at fair value</i>		
Interest income	1	3
<i>In respect of assets held at fair value</i>		
Cash flow hedges – reclassified to profit and loss ⁽¹⁾	4	–
<i>Other</i>		
Net foreign exchange gain	5	–
	10	3

Finance costs

	2018 £m	2017 £m
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	46	47
Re-measurement of financial liabilities measured at amortised cost ⁽²⁾	–	4
Other interest expense	2	2
<i>Other</i>		
Net foreign exchange loss	–	2
	48	55

Capitalised borrowing costs amounted to £6 million in 2018 (2017: £3 million), with a capitalisation rate of 3.4% (2017: 2.9%). Tax relief on capitalised borrowing costs amounted to £2 million in 2018 (2017: £1 million).

(1) As part of the refinancing undertaken during the year (see note 4.2), the Group restructured its interest rate swaps and was paid a net £5 million to cash-settle certain swaps. The swaps had previously been hedge accounted through equity and £4 million has therefore been recycled through the income statement in the period to 29 December 2018 with the remainder to be recycled in the period to 2020. Further details of the Group's debt are presented in note 4.2.

(2) In 2017 the Group estimated that a refinancing of the bank facilities and multi-currency revolving credit facility was likely within the next 18 months, which was earlier than that previously assumed for accounting purposes. As a result the Group accelerated the amortisation of financing costs in respect of these facilities and the resulting adjustment was recognised as a loss on re-measurement and presented in the income statement as a charge of £4 million.

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.

2.4 TAXATION (CONTINUED)

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

	2018 £m	2017 £m
<i>Current tax expense</i>		
Current year	55	65
Adjustment for prior periods	(3)	(3)
Total current income tax	52	62
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	12	24
Changes in tax rate	(6)	(25)
Adjustment for prior periods	(3)	1
Total deferred tax	3	–
Total tax expense in income statement	55	62

Reconciliation of effective tax rate

	2018 %	2018 £m	2017 %	2017 £m
Profit before tax		285		271
Income tax using the UK domestic corporation tax rate	19.0%	54	19.3%	52
Effect of tax rates in foreign jurisdictions		15		22
Non-deductible expenses		5		8
Income not subject to tax		(11)		(14)
Effect of changes in tax rate		(6)		–
Unrecognised temporary differences		4		4
Effect of recognising deferred tax assets previously unrecognised		–		(1)
Effect of USA tax reform		–		(7)
Adjustment for prior periods		(6)		(2)
Total tax expense in income statement	19.2%	55	22.9%	62

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 19.2% and the UK standard tax rate of 19.0% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, particularly the USA. 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.

The Group's ETR has fallen from 22.9% to 19.0% (based on underlying results). This is primarily driven by the ongoing impact of a package of measures enacted in the Tax Cuts and Jobs Act (USA tax reform) in the USA on 22 December 2017. In particular, the reduction in the US federal tax rate, effective in the 2018 period, has driven a significant reduction in the effect of tax rates in foreign jurisdictions (2018: 5.2%; 2017: 8.2%). In 2017 the transitional impact of USA tax reform was separately disclosed.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.4 TAXATION (CONTINUED)

The net £7 million (2.4%) reduction in the prior year ETR comprised:

- the effect of changes in tax rates (£25 million) as deferred tax liabilities were revalued due to the federal tax rate reducing from 35% to 21% effective 1 January 2018; offset by
- an increase in unrecognised temporary differences (£9 million) resulting from new restrictions on interest deductibility; and
- other tax charges and deductions (£9 million) originating from revisions to the USA taxation of foreign investments.

Significant factors impacting 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 finding relating to the UK's Controlled Foreign Company rules is further detailed in note 5.4.

The Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 19 September 2016.

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

	2018 £m	2017 £m
Foreign exchange translation differences relating to the net investment in foreign operations	–	1
Total tax expense in statement of other comprehensive income	–	1

Deferred tax assets and liabilities**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Property, plant and equipment	20	19	(143)	(130)	(123)	(111)
Other short term temporary differences	29	29	(6)	(8)	23	21
Intangible assets	–	–	(49)	(50)	(49)	(50)
Tax value of loss carry-forwards	2	2	–	–	2	2
Tax assets/(liabilities)	51	50	(198)	(188)	(147)	(138)
Set-off tax	(16)	(17)	16	17	–	–
Net tax assets/(liabilities)	35	33	(182)	(171)	(147)	(138)

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.

2.4 TAXATION (CONTINUED)**Movement in deferred tax during the current year**

	31 December 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	29 December 2018 £m
Property, plant and equipment	(111)	–	(7)	–	(5)	(123)
Other short term temporary differences	21	–	2	–	–	23
Intangible assets	(50)	–	2	–	(1)	(49)
Tax value of loss carry-forwards	2	–	–	–	–	2
Net tax assets/(liabilities)	(138)	–	(3)	–	(6)	(147)

In 2018 movements recognised in the income statement were principally due to tax allowances utilised in the UK and USA exceeding depreciation.

Movement in deferred tax during the previous 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.

Unrecognised deferred tax assets

	2018 £m	2017 £m
Property, plant and equipment	2	–
Other short term temporary differences	22	22
Tax value of loss carry-forwards	64	61
Net unrecognised tax assets	88	83

The unrecognised deferred tax assets relating to loss carry-forwards include £1 million (2017: £2 million) expiring in 0–5 years and £8 million (2017: £6 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.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

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.

Adjusted earnings per share is calculated in the same way except that the profit for the year attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

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:

	2018 £m	2017 £m
Profit attributable to ordinary shareholders	230	209
Exceptional items net of tax (see note 2.2)	4	–
Adjusted profit attributable to ordinary shareholders	234	209

	2018	2017
Basic weighted average number of shares	1,021,234,537	1,018,610,976
Dilutive potential ordinary shares	1,778,532	2,083,168
Diluted weighted average number of shares	1,023,013,069	1,020,694,144

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 2018 and 2017, 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

	2018 Pence	2017 Pence
Basic earnings per share on profit for the year⁽¹⁾	22.5	20.5
Exceptional items net of tax	0.4	–
Adjusted earnings per share on adjusted profit for the year⁽¹⁾	22.9	20.5

Diluted earnings per share

	2018 Pence	2017 Pence
Diluted earnings per share on profit for the year⁽¹⁾	22.5	20.5
Exceptional items net of tax	0.4	–
Diluted adjusted earnings per share on adjusted profit for the year⁽¹⁾	22.9	20.5

(1) Earnings per share is calculated based on figures before rounding and is then rounded to one decimal place.

SECTION 3

OPERATING ASSETS AND LIABILITIES

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

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, or enhances existing items, of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and useable state and to maintain the useful life of items of PPE is charged to the income statement as incurred. Examples of such expenditure include regular servicing and maintenance of buildings, rides and displays and ongoing repairs to items of PPE.

Depreciation

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

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

3.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
At 1 January 2017	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	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
Additions – owned assets	43	37	270	350
Movements in asset retirement provisions (note 3.5)	8	(2)	–	6
Disposals	–	(5)	–	(5)
Transfers	153	104	(257)	–
Effect of movements in foreign exchange	49	28	7	84
Balance at 29 December 2018	1,588	1,684	225	3,497
Depreciation				
At 1 January 2017	281	563	–	844
Depreciation for the year – owned assets	36	105	–	141
Depreciation for the 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
Depreciation for the year – owned assets	39	117	–	156
Depreciation for the year – leased assets	5	4	–	9
Disposals	–	(5)	–	(5)
Effect of movements in foreign exchange	11	12	–	23
Balance at 29 December 2018	366	787	–	1,153
Carrying amounts				
At 31 December 2016	905	746	190	1,841
At 30 December 2017	1,024	863	205	2,092
At 29 December 2018	1,222	897	225	2,344

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 2017 or 2018.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. Additions of leased assets in 2017 were in respect of the LEGOLAND Japan finance lease entered into on the opening of the park in April 2017 (note 4.4).

At 29 December 2018 the net carrying amount of leased buildings was £106 million (2017: £103 million) and the net carrying amount of leased plant and equipment was £35 million (2017: £38 million). Further details in respect of leases and lease obligations are provided in note 4.4.

3.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital commitments

At the year end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions (including accommodation), as well as for Midway attractions and LEGOLAND parks that are under construction. These commitments are expected to be settled within two financial years of the reporting date. These amount to £142 million (2017: £143 million) for which no provision has been made.

At year end foreign exchange rates, the Group is intending to invest £148 million in LEGOLAND Korea (2017: £73 million), net of project funding from LL Developments (see note 5.3).

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)

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 CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)**Goodwill and intangible assets**

	Goodwill £m	Intangible assets		Total £m
		Brands £m	Other £m	
Cost				
At 1 January 2017	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
Additions	–	–	1	1
Effect of movements in foreign exchange	10	2	–	12
Balance at 29 December 2018	1,002	200	37	1,239
Amortisation				
At 1 January 2017	177	13	15	205
Amortisation for the year	–	–	2	2
Effects of movements in foreign exchange	1	–	–	1
Balance at 30 December 2017	178	13	17	208
Amortisation for the year	–	–	2	2
Effect of movements in foreign exchange	1	–	–	1
Balance at 29 December 2018	179	13	19	211
Carrying amounts				
At 31 December 2016	816	183	18	1,017
At 30 December 2017	814	185	19	1,018
At 29 December 2018	823	187	18	1,028

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 (2017: £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.

	2018 £m	2017 £m
Midway Attractions	568	563
LEGOLAND Parks	43	42
Resort Theme Parks	212	209
	823	814

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.

	2018 £m	2017 £m
Midway Attractions		
Madame Tussauds	28	28
SEA LIFE	17	17
London Eye	10	10
Other	8	8
	63	63
Resort Theme Parks		
Gardaland Resort	52	51
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	13	12
Other	12	12
	124	122
	187	185

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.

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

3.3 IMPAIRMENT TESTING (CONTINUED)

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, derived from the Group's post-tax weighted average cost of capital. 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. The Group's internally approved five year business plans, being the current year and four future years, are used as the basis for these calculations, with cash flows beyond the four year outlook period then extrapolated using a long term growth rate.

Common assumptions have been adopted for the purpose of testing goodwill across the business and for testing brand values 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. Projections of operating costs 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% (2017: 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	
	2018	2017	2018	2017
Midway Attractions	9.2%	9.8%	7.5%	7.8%
LEGOLAND Parks	9.2%	10.2%	7.3%	7.6%
Resort Theme Parks	9.8%	10.2%	7.9%	8.3%

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.

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 £93 million (2017: £32 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 level of growth within RTP, which may be affected by factors such as weather patterns and the wider economic trading environment. While in the short term slower growth 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 9% (2017: 3%) lower than currently anticipated for 2023 (2017: than anticipated for 2022), headroom would be absorbed in full.

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 future. If the discount rate used across RTP had been higher by a factor of 8% to 10.6% (2017: 3% to 10.5%), headroom would have been absorbed in full.

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. If circumstances caused the rate to lower to 1.4% (2017: 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 and other receivables are recognised and carried at the original invoice amount less a loss allowance calculated using the simplified expected credit loss (ECL) model approach. Trade receivables are written off when there is no reasonable expectation of recovery. Other receivables are stated at their amortised cost less any impairment losses. Estimated ECLs are calculated using both actual credit loss experience and forward looking projections.

Inventories

	2018 £m	2017 £m
Maintenance inventory	11	9
Goods for resale	36	28
	47	37

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 CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

3.4 WORKING CAPITAL (CONTINUED)**Trade and other receivables**

	Current assets		Non-current assets	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade receivables	29	24	–	–
Other receivables	45	36	2	–
Prepayments and contract assets	51	40	12	11
	125	100	14	11

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for non-recoverable amounts, is as follows:

	2018 £m	2017 £m
Neither past due nor impaired	16	18
Up to 30 days overdue	6	5
Between 30 and 60 days overdue	3	1
Between 60 and 90 days overdue	2	–
Over 90 days overdue	2	–
	29	24

Information about the Group's exposure to credit risk is included in note 4.3.

Trade and other payables

	Current liabilities		Non-current liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade payables	47	44	–	–
Accruals	173	149	–	1
Deferred income	119	99	–	–
Other payables	14	14	47	27
	353	306	47	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. In 2018 this also includes £14 million received in respect of the development of LEGOLAND Korea, which is described further in note 5.3.

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 31 December 2017	56	21	77
Provisions made during the year	10	6	16
Utilised during the year	–	(3)	(3)
Unused amounts reversed	(4)	–	(4)
Unwinding of discount	1	–	1
Effect of movements in foreign exchange	1	–	1
Balance at 29 December 2018	64	24	88
2018			
Current	–	7	7
Non-current	64	17	81
	64	24	88
2017			
Current	–	5	5
Non-current	56	16	72
	56	21	77

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.

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CAPITAL STRUCTURE AND FINANCING

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

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.

	31 December 2017 £m	Net cash flows ⁽¹⁾ £m	Non-cash movements ⁽²⁾ £m	Effect of movements in foreign exchange ⁽³⁾ £m	29 December 2018 £m
Cash and cash equivalents	309	(202)	–	3	110
Interest-bearing loans and borrowings (note 4.2)	(1,278)	259	(45)	(36)	(1,100)
Finance leases (note 4.4)	(191)	10	(9)	(10)	(200)
Net debt	(1,160)	67	(54)	(43)	(1,190)

(1) Net cash flows include the net drawdown of loans and borrowings and cash interest paid relating to loans and borrowings.

(2) Non-cash movements include the finance costs relating to loans and borrowings from the income statement, together with the fair value movement in relation to the hedged debt (see note 4.2).

(3) As disclosed in notes 4.2 and 4.4 a substantial proportion of the Group's net debt is 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 IFRS 9.

Interest-bearing loans and borrowings

	2018 £m	2017 £m
<i>Non-current</i>		
Floating rate bank facilities due 2020	–	649
£600 million (2017: £300 million) floating rate revolving credit facility due 2023 (2017: 2020)	148	–
€700 million fixed rate notes due 2022	631	622
\$400 million fixed rate notes due 2026	313	–
	1,092	1,271
<i>Current</i>		
Interest payable	8	7
	1,100	1,278

During the year the Group refinanced a significant portion of its long term debt. The Group issued \$400 million US Dollar denominated 5.75% senior notes due 2026 and increased its revolving multi-currency credit facility from £300 million to £600 million with the repayment date extended to April 2023. The proceeds, together with surplus cash, were used to repay £250 million of Sterling and \$540 million of US Dollar denominated term loans due to mature in March 2020.

The Group's facilities are:

- A £600 million multi-currency revolving credit facility of which £148 million had been drawn down at 29 December 2018 (2017: £nil). The margin on this facility is dependent on the Group's adjusted leverage ratio and at 29 December 2018 was at a margin of 1.25% (2017: 1.75%) over the floating interest rates when drawn. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.73% (2017: 0.51%), and 2.64% (2017: 1.61%) respectively at 29 December 2018.
- A bond in the form of €700 million seven year notes with a coupon rate of 2.75% to mature in March 2022.
- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.

4.2 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The interest-bearing loans and borrowings are initially recognised at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is amortised through the income statement over the period of the borrowings using the effective interest method. Fixed rate borrowings, which have been hedged to floating rates, are measured at amortised cost adjusted for changes in the value attributable to the hedged risk arising from the changes in underlying market interest rates.

The interest-bearing loans and borrowings are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain customary 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 and \$400 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 £110 million of cash and cash equivalents (2017: £309 million) and a £600 million revolving credit facility, of which £148 million was drawn down (2017: £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 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2018					
Floating rate bank facilities due 2023	(5)	(5)	(163)	–	(173)
€700 million fixed rate notes due 2022	(18)	(18)	(657)	–	(693)
\$400 million fixed rate notes due 2026	(18)	(18)	(55)	(371)	(462)
Finance lease liabilities	(10)	(10)	(32)	(308)	(360)
Derivatives	–	–	–	1	1
Trade payables	(47)	–	–	–	(47)
	(98)	(51)	(907)	(678)	(1,734)
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)

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 29 December 2018 the Group had €700 million and \$400 million of fixed rate debt (2017: €700 million). Interest rate swaps are used to maintain a balance between fixed and floating rate debt. In aggregate 77% (2017: 79%) of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 4.6 years (2017: 3.4 years). To achieve the desired balance of fixed and floating interest rates across currencies, the Group uses both floating to fixed interest rate swaps (which are part of cash flow hedging relationships) and fixed to floating interest rate swaps (which are part of fair value hedging relationships).

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 would 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 29 December 2018 the Group had €40 million (2017: €40 million) of fair value interest rates swaps with a value of less than £1 million (2017: less than £1 million), and \$120 million (2017: \$nil) of fair value interest rates swaps with a value of £2 million (2017: £nil). A 100 basis points fall in the interest rates with a similar duration as the swaps would lead to an increase in value of £8 million (2017: £1 million) and a 100 basis points rise in the interest rates with a similar duration as the swaps would lead to a decrease in value of £7 million (2017: £1 million).

All interest rate swaps held by the Group are hedge accounted.

Sensitivity analysis

Based on the net debt position as at 29 December 2018, 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 £2 million (2017: less than £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 29 December 2018 the fair value of foreign currency swap assets was less than £1 million (2017: £2 million) and the foreign currency swap liabilities was £4 million (2017: £1 million), none of which are hedge accounted.

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 29 December 2018 consisted of €700 million, \$540 million and £38 million and there are forward foreign exchange contracts in place in respect of JPY 13,404 million.

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2016	Weighted average rate for 2017	Closing rate for 2017	Weighted average rate for 2018	Closing rate for 2018
US Dollar	1.24	1.29	1.35	1.34	1.27
Euro	1.17	1.14	1.13	1.13	1.11

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies were:

	Carrying value				Total £m
	Sterling £m	Euro £m	US Dollar £m	Other £m	
2018					
Cash and cash equivalents	18	13	15	64	110
Floating rate bank facilities due 2023	(38)	–	(110)	–	(148)
€700 million fixed rate notes due 2022	–	(631)	–	–	(631)
\$400 million fixed rate notes due 2026	–	–	(313)	–	(313)
Finance lease liabilities	(53)	(37)	–	(110)	(200)
	(73)	(655)	(408)	(46)	(1,182)
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)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £111 million (2017: £105 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 £9 million (2017: £6 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.

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 (2017: £nil).

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.

	Fair value hierarchy	2018		2017	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Held at amortised cost</i>					
Floating rate bank facilities due 2023 (2017: 2020)	Level 2	(148)	(148)	(649)	(649)
€700 million fixed rate notes due 2022	Level 1	(631)	(641)	(622)	(652)
\$400 million fixed rate notes due 2026	Level 1	(313)	(313)	–	–
Finance lease liabilities	Level 3	(200)	(200)	(191)	(191)
<i>Held at fair value</i>					
Derivative financial instruments	Level 2	(1)	(1)	2	2
Investments	Level 3	61	61	59	59
		(1,232)	(1,242)	(1,401)	(1,431)

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 2018 or 2017.

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.

4.4 LEASE OBLIGATIONS (CONTINUED)

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 2017. 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 was underpinned by a review of the cost of construction by asset type together with estimates of the lives of the assets concerned.

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.

The impact of the adoption of IFRS 16 is explained in note 5.5.

Lease costs and commitments

During 2018 £107 million (2017: £106 million) was recognised as an expense in the income statement in respect of operating leases. Of this £18 million (2017: £18 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	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Less than one year	10	9	1	10	9	1
Between one and five years	42	35	7	40	34	6
More than five years	389	197	192	385	201	184
	441	241	200	435	244	191

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CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.4 LEASE OBLIGATIONS (CONTINUED)

	Currency	Nominal interest rate	Year of maturity	2018 £m	2017 £m
Finance lease liabilities	GBP	5.64%	2042	53	53
Finance lease liabilities	EUR	9.11%	2042	37	36
Finance lease liabilities	JPY	1.65%	2067	110	102
				200	191

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:

	2018 £m	2017 £m
Less than one year	92	88
Between one and five years	367	353
More than five years	1,393	1,456
	1,852	1,897

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 ensure that 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

	2018 Number	2018 £m	2017 Number	2017 £m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,019,572,449	10	1,015,809,266	10
Issued in the year	2,500,000	–	3,763,183	–
On issue and fully paid at end of year	1,022,072,449	10	1,019,572,449	10

4.5 EQUITY AND CAPITAL MANAGEMENT (CONTINUED)

Issue of new shares

During the year the Company issued 2,500,000 ordinary shares at nominal value of one pence each in connection with the Group's employee share incentive schemes (note 4.6). At 29 December 2018, 1,136,636 shares were held in an employee benefit trust in order to help settle the Group's equity-settled share schemes.

The Company also received £6 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.

	2018 £m	2017 £m
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
Final dividend for the 52 weeks ended 30 December 2017 of 5.0 pence per share	51	–
Interim dividend for the 52 weeks ended 29 December 2018 of 2.5 pence per share	25	–
Total dividends paid	76	74

The Directors of the Company propose a final dividend of 5.5 pence per share for the year ended 29 December 2018 (2017: 5.0 pence per share), amounting to £56 million (2017: £51 million). The total dividend for the current year, subject to approval of the final dividend, will be 8.0 pence per share (2017: 7.4 pence per share).

Translation reserve

The translation reserve of £(10) million (2017: £(18) million) comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, primarily relating to the statement of financial 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 £2 million (2017: £1 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.

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

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

	2018 £m	2017 £m
PSP	5	–
CSOP	1	1
AESP	2	2
	8	3

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2018	Number of shares 2017
PSP	April 2015 – September 2018	–	2019–2021	1.5	8,152,506	6,547,590
DBP	March 2015 – March 2017	–	2019–2020	0.4	34,296	315,461
CSOP	November 2013 – September 2018	3.15–4.81	2019–2028	7.6	5,808,839	4,305,685
AESP	February 2014 – April 2018	2.83–4.10	2019–2021	2.3	6,615,393	5,385,690
Total					20,611,034	16,554,426

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

	PSP ⁽¹⁾		CSOP		AESP	
	Number	Number	Number	WAEF (£)	Number	WAEF (£)
At 1 January 2017	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
Granted during the year	3,898,736	673	2,134,615	3.47	4,546,781	2.83
Forfeited during the year	(252,950)	(66)	(474,242)	4.13	(1,424,138)	3.55
Exercised during the year	(458,256)	(281,772)	(148,254)	3.15	(1,507,489)	3.24
Lapsed during the year	(1,582,614)	–	–	–	–	–
Expired during the year	–	–	(8,965)	4.52	(385,451)	3.24
At 29 December 2018	8,152,506	34,296	5,808,839	4.00	6,615,393	3.10
<i>Exercisable at end of year</i>						
At 30 December 2017	–	–	1,055,910	3.19	18,898	3.11
At 29 December 2018	–	–	1,613,014	3.76	68,052	3.25

(1) Nil-cost options

4.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2017 and 2018 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	30 March 2017	–	4.72	4.72	n/a	n/a	3.0	n/a
PSP	11 April 2018	–	3.43	3.43	n/a	n/a	3.0	n/a
CSOP	30 March 2017	4.74	4.72	0.85	1.5%	21%	4.6	0.4%
CSOP	11 April 2018	3.47	3.43	0.65	2.2%	23%	4.5	1.0%
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%
AESP	9 April 2018	2.83	3.46	0.79	2.1%	24%	3.2	0.9%
AESP	9 April 2018	2.97	3.46	0.65	2.1%	24%	2.1	0.8%

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.

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5.1 INVESTMENTS

Accounting policy

The Group holds investments in two forms.

Minority equity investments are accounted for as 'fair value through other comprehensive income' (FVOCI), having taken the election available under IFRS 9. This applies to the investments in LEGOLAND Malaysia, LEGOLAND Korea and Big Bus Tours Group Holdings Limited. 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.

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 31 December 2017	9	3	35	12	59
Effects of movement in foreign exchange	–	–	2	–	2
At 29 December 2018	9	3	37	12	61

Minority equity investments

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 LL Developments, the local investment company providing support to LEGOLAND Korea (see note 5.3).

Big Bus Tours Group Holdings Limited

The Group has an investment 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. The transaction also provided Merlin with a minority equity investment valued at £nil (2017: £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. At 29 December 2018 the investment is held at £37 million (2017: £35 million), and there have been no fair value movements recognised (2017: £nil).

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.

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.

5.2 EMPLOYEE BENEFITS (CONTINUED)

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 (2017: £13 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 next triennial valuation is as at 31 December 2018 and is in progress.

The Group expects less than £1 million in ongoing contributions to be paid to its defined benefit schemes in 2019. The weighted average duration of the defined benefit obligation at 29 December 2018 was 19 years (2017: 21 years).

The assets and liabilities of the schemes are:

	2018 £m	2017 £m
Equities	23	25
Corporate bonds and cash	4	7
Property	5	5
Fair value of scheme assets	32	37
Present value of defined benefit obligations	(38)	(43)
Net pension liability	(6)	(6)

Movement in the net pension liability

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2017	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)
Net interest	1	(1)	–
Contributions by employer	1	–	1
Benefits paid	(1)	1	–
Remeasurement loss	(2)	1	(1)
Assets distributed on settlement	(4)	–	(4)
Liabilities extinguished on settlement	–	4	4
At 29 December 2018	32	(38)	(6)

The amount recognised in the income statement was £nil (2017: £nil). The amount recognised in the statement of other comprehensive income was a loss of £1 million (2017: gain of £2 million).

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5.2 EMPLOYEE BENEFITS (CONTINUED)

During the year certain members were given the option to transfer their benefits out of the scheme by way of either a Flexibility at Retirement exercise or an Enhanced Transfer Value exercise. The settlement loss arising from this was £nil.

Actuarial assumptions

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

	2018	2017
Discount rate	2.8%	2.5%
Future salary increases	n/a	3.5%
Rate of price inflation	3.3%	3.2%

The scheme closed to future accrual for active members on 31 May 2018, therefore the link to future salary increases has been severed.

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 other co-investors. The defined benefit pension scheme for certain former UK employees of The Tussauds Group is also a related party (see note 5.2).

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, royalties and rent, and trading balances outstanding at 29 December 2018 and 30 December 2017, were as follows:

	Goods and services			
	Sales £m	Amount owed by related party £m	Purchases, royalties and rent £m	Amount owed to related party £m
2018				
KIRKBI Invest A/S	–	–	13	3
LEGO Group	1	2	63	3
LLJ Investco K.K.	–	–	8	–
	1	2	84	6
2017				
KIRKBI Invest A/S	–	–	12	3
LEGO Group	1	1	61	2
LLJ Investco K.K.	–	4	10	–
	1	5	83	5

During 2017 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.

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.

5.3 RELATED PARTY TRANSACTIONS (CONTINUED)**Transactions with key management personnel**

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.2% (2017: 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 74 to 89. The remuneration of key management is disclosed in note 2.1.

Transactions with other related parties**LEGOLAND Malaysia**

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 29 December 2018 and 30 December 2017, are as follows:

	2018 £m	2017 £m
Sales to related party	4	5
Amounts owed by related party	3	3

LEGOLAND Korea

During the year the Group entered into transactions with LL Developments, a Korean company which acts under the direction of the Gangwon Province and which will provide funding and infrastructure support of KRW 80 billion to the development of LEGOLAND Korea. Before the end of the reporting period LL Developments provided KRW 20 billion (£14 million) to the Group as the first tranche of this support, which the Group has committed to spend on costs associated with the project. This has been recorded within deferred income (see note 3.4). The funding and infrastructure support will be accounted for as a capital grant and offset against the total project costs within property, plant and equipment. The conditions of the funding require that Merlin completes the park's construction and operates the park for a period of time post-opening.

5.4 CONTINGENT LIABILITIES

In 2017 the European Commission (EC) published a preliminary finding that certain elements of the UK's Controlled Foreign Company rules amount to unlawful State Aid. If the EC confirms its preliminary finding and there are no successful appeals, the Group calculates the maximum potential liability, excluding penalties and interest, to be £36 million. Based upon advice taken, the Group does not consider any provision is necessary at this time. The Group continues to monitor developments and a final EC decision is expected in early 2019, but is subject to possible appeal.

5.5 NEW STANDARDS AND INTERPRETATIONS

The following standards, amendments to standards and interpretations have been issued in the year in addition to the ones covered in note 1.1. There has been no significant impact to the Group as a result of their issue.

- IFRIC 22 'Foreign currency transactions and advance consideration'
- Amendments to IAS 40 'Transfers of investment property'
- Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'
- Amendments to IFRS 4 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'
- Amendments to IAS 28 'Investments in associates and joint ventures'

EU endorsed IFRS and interpretations with effective dates after 31 December 2018 relevant to the Group will be implemented in the financial year when the standards become effective.

IFRS 16**Background**

IFRS 16 'Leases' is effective for 2019 reporting periods onwards and introduces a single, on-balance sheet lease accounting model for lessees. IFRS 16 replaces existing leases guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease', SIC-15 'Operating leases – incentives' and SIC-27 'Evaluating the substance of transactions involving the legal form of a lease'. Under IFRS 16 the Group, as the lessee, will recognise an asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. The Group will elect to take recognition exemptions for short term leases and leases of low-value items. Leases that fall within the Group's defined parameters for these exemptions will be excluded from the IFRS 16 lease accounting requirements and be expensed on a straight-line basis over the life of the lease.

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

5.5 NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

The Group has considered its entire lease portfolio which substantially relates to land, buildings and infrastructure assets, as follows:

- For leases previously classified as operating leases, the Group will recognise a new asset in the form of a right-of-use (ROU) asset, together with an associated lease liability. The income statement will then reflect a depreciation charge for the ROU asset and an interest expense on the lease liability. This will replace the previous accounting for operating leases that were expensed within operating expenses on a straight-line basis over the term of the lease.
- Existing finance leases have also been reviewed against the new standard. As a result a number of leases entered into under historic sale and leaseback transactions have been re-assessed due to differences in the accounting treatment between IAS 17 and IFRS 16 of unguaranteed residual values. This has required re-assessment of the values of leased assets at inception and their treatment under IFRS 16 in subsequent periods. Regarding classification, these assets were accounted for as PPE under IAS 17 but are treated as ROU assets under IFRS 16.

Judgements and estimates

IFRS 16 requires certain judgements and estimates to be made. The most significant of these relate to the following:

- The discount rate used in the calculation of the lease liability, which involves estimation. Discount rates are calculated on a lease by lease basis. For the property leases that make up substantially all of the Group's lease portfolio this results in two approaches. For a small volume of high value leases, the rate implicit in the lease can be calculated and is therefore adopted. Otherwise, for the majority of leases the rate used is based on estimates of incremental borrowing costs. These will depend on the territory of the relevant lease and hence the currency used; the date of lease inception; and the lease term. As a result, reflecting the breadth of the Group's lease portfolio; the transition approach adopted which has required estimation of historic discount rates; and estimations as to lease lives, there are a large number of discount rates within a wide range.
- IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of time remaining before the option is exercisable; current trading; future trading forecasts as to the ongoing profitability of the attraction; and the level and type of planned future capital investment. This judgement will require review at each reporting period. A small number of large leases held by the Group came into effect as part of a sale and leaseback transaction that occurred in 2007. These leases have an initial lease period of 35 years, with an option to extend for two further periods of 35 years, subject to an adjustment to market rates at that time. As the Group is currently less than 12 years into this period its assessment is that at this point, it is not reasonably certain that these leases will be renewed, taking into account the factors noted above. This judgement will be reassessed at each reporting period. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

Impact assessment

As at 29 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to £1,852 million (2017: £1,897 million) on an undiscounted basis (see note 4.4). Of these commitments an insignificant value relates to short term and low value leases which will continue to be recognised on a straight-line basis as an expense within the income statement.

For leases within the scope of IFRS 16 the nature of expenses will change from a straight-line operating lease expense to a depreciation charge and an interest expense. Under existing accounting standards, during 2018 £107 million was recognised as an expense in respect of operating leases. Where the Group's rental expense is linked to turnover or other performance criteria, or relates to short term and low value leases, these elements will continue to be recorded as rent within operating expenses. Based on 2018 results the impact on EBITDA of adopting IFRS 16 would therefore have been an increase of approximately £85 million. Due to the Group's most significant leases being in their earlier stages, the 'front loading' impact of the finance costs results in an initial reduction in reported earnings. There would therefore have been a decrease in reported profit before tax of approximately £15 million.

As at 30 December 2018, the Group expects to recognise ROU assets of approximately £1,020 million, including ROU assets in respect of existing finance leases and asset retirement provisions on leased properties, both previously classified under property, plant and equipment. The Group expects to recognise total lease liabilities of approximately £1,200 million, including existing finance lease liabilities of £200 million. The impact of adopting IFRS 16 on net debt would therefore be approximately £1,000 million.

A net accruals and prepayments adjustment will reduce liabilities by approximately £30 million, primarily resulting from the derecognition of balances in relation to IAS 17 lease accounting where leases were expensed to the income statement on a straight-line basis. An increase in deferred tax assets of approximately £30 million is also anticipated. Based on information currently available the adjustments will in aggregate result in a decrease in net assets of approximately £100 million. The numbers above are approximate as there has been a need to re-assess the accounting treatment for leases which contained elements of both operating leases and finance leases. This has involved reviewing the historic values of leased assets at inception and their treatment under IFRS 16 in subsequent periods on an asset by asset basis. We will refine these approximate numbers as we embed the processes for accounting under IFRS 16 into the business.

The Group's leverage threshold loan covenants 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 IFRS 16 initially on 30 December 2018, using the fully 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.

5.5 NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

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.

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 2019. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IFRS 17 'Insurance contracts'
- IFRIC Interpretation 23 'Uncertainty over income tax treatment'
- Amendments to IFRS 9 'Prepayment features with negative compensation'
- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture'
- Amendments to IAS 19 'Plan amendment, curtailment or settlement'
- Amendments to IAS 28 'Long-term interests in associates and joint ventures'
- Annual Improvements to IFRS Standards 2015–2017 Cycle (issued in December 2017)

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 SUBSEQUENT EVENTS

On 21 February 2019, the Company entered into an agreement to sell its Australian ski resorts at Mount Hotham and Falls Creek to Vail Resorts Inc. for a cash consideration of A\$174 million, subject to certain adjustments related to the timing of completion. These attractions form part of the Midway Attractions Operating Group. In 2018 revenue and underlying EBITDA for the two sites were £35 million and £11 million respectively.

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
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	64.7%	64.7%
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 Management Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia ⁽¹⁾	–	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%

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52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
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%
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	82.2%	82.2%
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 ⁽¹³⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Shanghai) Company Limited	China ⁽⁵⁴⁾	Ordinary	100.0%	–
Merlin Exhibition (Chongqing) Company Limited	China ⁽¹⁴⁾	Ordinary	100.0%	100.0%

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
Merlin Exhibition (Shenyang) Company Limited	China ⁽¹⁵⁾	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China ⁽¹⁶⁾	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China ⁽¹⁷⁾	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark ⁽¹⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark ⁽¹⁸⁾	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy	Finland ⁽¹⁹⁾	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France ⁽²⁰⁾	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany ⁽²³⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany ⁽²³⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany ⁽²⁴⁾	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany ⁽²⁴⁾	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany ⁽²³⁾	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany ⁽²²⁾	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%
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 ⁽³⁵⁾	Ordinary	100.0%	100.0%

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5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia ⁽³⁴⁾	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands ⁽³⁶⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Scheveningen B.V.	Netherlands ⁽³⁷⁾	Ordinary	100.0%	–
Madame Tussauds Amsterdam B.V.	Netherlands ⁽³⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands ⁽³⁹⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands ⁽⁴⁰⁾	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand ⁽⁴¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand ⁽⁴¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal ⁽⁴²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore ⁽⁴³⁾	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea ⁽⁴⁴⁾	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea ⁽⁴⁵⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea ⁽⁴⁴⁾	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain ⁽⁴⁶⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand ⁽⁴⁷⁾	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey ⁽⁴⁹⁾	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE ⁽⁵⁰⁾	–	(c) 48.0%	(c) 48.0%
Merlin Holdings Limited	UAE ⁽⁵¹⁾	Ordinary	(c) 1.0%	(c) 1.0%
Alton Towers Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited (company limited by guarantee)	UK ⁽⁵²⁾	–	100.0%	100.0%
Charcoal CLG 2 Limited (company limited by guarantee)	UK ⁽⁵²⁾	–	100.0%	100.0%
Charcoal Holdco Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
London Dungeon Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
Madame Tussauds Touring Exhibition Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 1A Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 2A Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Pirate Adventure Golf Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Tussauds Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA ⁽⁵³⁾	–	100.0%	100.0%
LEGOLAND California LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center Columbus LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5
OTHER NOTES CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
LEGOLAND Discovery Centre (Dallas) LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Center San Antonio LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
LEGOLAND New York LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussauds Nashville LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussaud's New York LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussauds Orlando LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Madame Tussauds Washington LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA ⁽⁵⁴⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA ⁽⁵⁴⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments North America LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
San Francisco Dungeon LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Center San Antonio LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Charlotte LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Michigan LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Minnesota LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE Orlando LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
SEA LIFE US LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%
The Tussauds Group LLC	USA ⁽⁵⁴⁾	–	100.0%	100.0%

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Joint venture undertaking	Country of incorporation	Class of share held	Ownership 2018	Ownership 2017
LL Dubai Hotel LLC	UAE ⁽⁵⁵⁾	Ordinary	40.0%	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.

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) No. 2 Jia-1, Bolan Road, Heping District, Shenyang, China
- (16) L2–25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
- (17) 189, Dadhue Road, Pu Tuo District, Shanghai, 200062, China
- (18) Aastvej 10, 7190 Billund, Denmark
- (19) Tivolitie 10, Helsinki 00510, Finland
- (20) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 77111 Marne-La-Vallée, France
- (21) Kehrwieler 5, 20457 Hamburg, Germany
- (22) Heidenhof 1, 29614 Soltau, Germany
- (23) Legoland Allee, 89312, Gunzburg, Germany
- (24) Prinzregentenstrasse 18, 80538 Munich, 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, Kinjoutou 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) No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor, Malaysia
- (36) Fred. Roeskestraat 123, 1076 EE Amsterdam, Netherlands
- (37) Gevers Deynootweg 970, 2586 BW Den Haag, Netherlands
- (38) Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
- (39) Croeselaan 18, Utrecht, Netherlands
- (40) Rokin 78, 1012 KW Amsterdam, Netherlands
- (41) Level 12, 55 Shortland Street, Auckland 1010, New Zealand
- (42) Avenida Da Boavista 3265, 7th Floor, 4100–137 Porto, Portugal
- (43) 10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore
- (44) 1411-4, Jung 1-dong, Haenudee-Gu, Busan, Republic of Korea
- (45) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
- (46) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
- (47) 989 Siam Discovery Center 6, 6A, 7 and 8th Floors, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok 10330, Thailand
- (48) B1–B2 Floor Siam Paragon, 991 Rama I Road, Khweng Patumwan, Bangkok 10330, Thailand
- (49) Kocatepe Mah. Pasa Cad. Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
- (50) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
- (51) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates
- (52) Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
- (53) 80 State Street, Albany, New York 12207–2543, United States
- (54) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
- (55) 201-01 Emaar Square, PO Box 123311, Dubai, United Arab Emirates
- (56) Room 01b&32&K1, Third Floor of LC Mall, No. 1-2, 2389 Zhangyang Road, Shanghai Pilot Free Trade Zone, China

MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

Company statement of financial position at 29 December 2018 (2017: 30 December 2017)

	Note	2018 £m	2017 £m
Non-current assets			
Investments	iii	3,137	3,129
Other receivables	iv	1,260	1,449
		4,397	4,578
Current assets			
Other receivables	iv	4	3
Cash and cash equivalents		2	7
		6	10
Total assets		4,403	4,588
Current liabilities			
Interest-bearing loans and borrowings	vi	7	7
Other payables	v	9	8
Tax payable		1	–
		17	15
Non-current liabilities			
Interest-bearing loans and borrowings	vi	942	1,271
Other payables	v	201	–
		1,143	1,271
Total liabilities		1,160	1,286
Net assets		3,243	3,302
Issued capital and reserves attributable to owners of the Company	vii	3,243	3,302
Total equity		3,243	3,302

The notes on pages 150 to 154 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity at 29 December 2018 (2017: 30 December 2017)

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2017		10	2	3,178	3,190
Profit for the year		–	–	175	175
Total comprehensive income for the year		–	–	175	175
Shares issued		–	8	–	8
Equity dividends	vii	–	–	(74)	(74)
<i>Share incentive schemes:</i>					
– movement in reserves for employee share schemes	iii	–	–	3	3
At 30 December 2017		10	10	3,282	3,302
Profit for the year		–	–	3	3
Total comprehensive income for the year		–	–	3	3
Shares issued	vii	–	6	–	6
Equity dividends	vii	–	–	(76)	(76)
<i>Share incentive schemes:</i>					
– movement in reserves for employee share schemes	iii	–	–	8	8
At 29 December 2018	vii	10	16	3,217	3,243

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

i ACCOUNTING POLICIES

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

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;
- 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;
- 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 29 December 2018 (2017: 52 weeks ended 30 December 2017).

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.

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.

i ACCOUNTING POLICIES (CONTINUED)

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 are recognised on the statement of financial position when the Company becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant note.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Company's interest-bearing loans and borrowings, are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Company's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are dealt with as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Company after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Where financial instruments consist of a combination of debt and equity, the Company will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

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 Company'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 (2017: 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 74 to 89. One Director accrued benefits under defined contribution schemes during the year (2017: 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).

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

iii INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 1 January 2017	3,126
Capital contributions to subsidiaries	3
At 30 December 2017	3,129
Capital contributions to subsidiaries	8
At 29 December 2018	3,137

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution of 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 5.8 of the consolidated financial statements on pages 141 to 147.

iv OTHER RECEIVABLES

	Current assets		Non-current assets	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts owed by Group undertakings	4	3	1,260	1,449

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

	Current liabilities		Non-current liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts owed to Group undertakings	8	7	201	–
Accruals	1	1	–	–
	9	8	201	–

Amounts owed by Group undertakings comprise funds loaned to the Company by fellow Group undertakings. The non-current loans have a maturity date of 2027 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

vi INTEREST-BEARING LOANS AND BORROWINGS

	2018 £m	2017 £m
Non-current		
Floating rate bank facilities due 2020	–	649
£600 million (2017: £300 million) floating rate revolving credit facility due 2023 (2017: 2020)	–	–
€700 million fixed rate notes due 2022	631	622
\$400 million fixed rate notes due 2026	311	–
	942	1,271
Current		
Interest payable	7	7
	949	1,278

During the year the Group refinanced a significant portion of its long term debt. The Group issued \$400 million US Dollar denominated 5.75% senior notes due 2026 and increased its revolving multi-currency credit facility from £300 million to £600 million with the repayment date extended to April 2023. The proceeds were used to repay £250 million of Sterling and \$540 million of US Dollar denominated term loans due to mature in March 2020.

The Group's facilities are:

- A £600 million multi-currency revolving credit facility of which £148 million had been drawn down by a Group undertaking at 29 December 2018 (2017: £nil). The margin on this facility is dependent on the Group's adjusted leverage ratio and at 29 December 2018 was at a margin of 1.25% (2017: 1.75%) over the floating interest rates when drawn. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.73% (2017: 0.51%), and 2.64% (2017: 1.61%) respectively at 29 December 2018.
- A bond in the form of €700 million seven year notes with a coupon rate of 2.75% to mature in March 2022.
- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.

The interest-bearing loans and borrowings are initially recognised at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is amortised through the income statement over the period of the borrowings using the effective interest method. Fixed rate borrowings, which have been hedged to floating rates, are measured at amortised cost adjusted for changes in the value attributable to the hedged risk arising from the changes in underlying market interest rates.

The interest-bearing loans and borrowings are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain customary 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 and \$400 million notes. All covenant requirements were satisfied throughout the year.

vii EQUITY**Share capital**

	2018 Number	2018 £m	2017 Number	2017 £m
<i>Ordinary shares of £0.01 each</i>				
At beginning of the year	1,019,572,449	10	1,015,809,266	10
Shares issued	2,500,000	–	3,763,183	–
At end of the year	1,022,072,449	10	1,019,572,449	10

Issue of new shares

During the year the Company issued 2,500,000 ordinary shares at nominal value of one pence each in connection with the Group's employee share incentive schemes (note 4.6 in the consolidated financial statements). The Company also received £6 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.

NOTES TO MERLIN ENTERTAINMENTS PLC

COMPANY FINANCIAL STATEMENTS

CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

vii EQUITY (CONTINUED)

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 £3 million (2017: profit after tax of £175 million). All of the Company's retained earnings are distributable (with the exception of those movements in reserves for employee share schemes).

Dividends

	2018 £m	2017 £m
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
Final dividend for the 52 weeks ended 30 December 2017 of 5.0 pence per share	51	–
Interim dividend for the 52 weeks ended 29 December 2018 of 2.5 pence per share	25	–
Total dividends paid	76	74

The Directors of the Company propose a final dividend of 5.5 pence per share for the year ended 29 December 2018 (2017: 5.0 pence per share), amounting to £56 million (2017: £51 million). The total dividend for the current year, subject to approval of the final dividend, will be 8.0 pence per share (2017: 7.4 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 105.

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 (notes iv and v).

During the financial year the Company received a dividend from Merlin Entertainments Group Luxembourg 3 S.à r.l. of £nil (2017: £174 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

	2018 £m	2017 £m	2016 ⁽¹⁾ (52 weeks) £m	2016 ⁽¹⁾ (53 weeks) £m	2015 £m	2014 £m
Results						
Revenue	1,688	1,594	1,428	1,457	1,278	1,249
Underlying EBITDA	494	474	433	451	402	411
Underlying operating profit	327	323	302	320	291	311
Operating profit	323	323	302	320	291	311
Profit before tax	285	271	259	277	237	226
Adjusted earnings per share (p)	22.9	20.5	19.5	20.8	17.8	17.7
Dividend per share (p)	8.0	7.4	7.1	7.1	6.5	6.2
Consolidated statement of financial position						
Property, plant and equipment	2,344	2,092	n/a	1,841	1,495	1,410
Intangible assets	1,028	1,018	n/a	1,017	923	942
Cash and cash equivalents	110	309	n/a	215	152	285
Non-current interest-bearing loans and borrowings	1,092	1,271	n/a	1,147	1,003	1,131
Total equity	1,744	1,567	n/a	1,428	1,149	1,063
Consolidated statement of cash flows						
Net cash flow from operating activities	450	413	n/a	433	325	357
Changes in working capital	(22)	1	n/a	23	(19)	(4)
Net (decrease)/increase in cash and cash equivalents	(202)	90	n/a	40	(137)	16

(1) In 2016 the 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. The '52 week' information for 2016 is also presented here to provide a more direct comparison of performance. The difference between the two periods is the week ending 31 December 2016.

GLOSSARY

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.
CWE	Conservation, Welfare and Engagement. The SEA LIFE team that focuses on delivering world class animal welfare throughout our animal care network and developing new guest experiences.
DreamWorks Tours – Shrek’s Adventure!	This attraction 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.
IP	Intellectual Property.
IPO	Initial Public Offering.
KIRKBI	KIRKBI owns 75% of LEGO A/S and owns 29.64% of the share capital of Merlin Entertainments plc.
KPI	Key Performance Indicator.
LBC	Little BIG City attractions. These are part of the Midway Attractions Operating Group.
LCA	Licence and Co-operation agreement. This agreement sets out the rights granted to the Group to use the LEGO and LEGOLAND brands.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Like for like (LFL)	2018 LFL growth refers to the growth between 2017 and 2018 on a constant currency basis using 2017 exchange rates and includes all businesses owned and operated before the start of 2017.
Listing	Listing on the London Stock Exchange.
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 partner children’s charity delivers magical experiences around the world to children who are facing challenges of serious illness, disability or adversity.
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.
Non-core	Attractions which Merlin has ceased the operation of during the period.
Operating free cash flow	Underlying EBITDA less existing estate capex.

Organic growth	Growth from like for like businesses and new business development at constant currency and accounting standards 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.
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.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
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.

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 2018 revenues and EBITDA of re-translating them at 2017 foreign exchange (FX) rates.

Currency	2017 average FX rates	2018 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.29	1.34	3.9%	17
EUR	1.14	1.13	(0.8)%	(2)
AUD	1.68	1.78	5.7%	6
Other				4
Increase in 2018 revenues at 2017 FX rates				25

Currency	2017 average FX rates	2018 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.28	1.34	4.0%	6
EUR	1.13	1.13	0.0%	–
AUD	1.67	1.78	5.9%	2
Other				1
Increase in 2018 EBITDA at 2017 FX rates				9

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 (2018: 19.0%, 2017: 22.9%) 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.

	2018 £m	2017 £m
Underlying operating profit	327	323
Taxation	(62)	(74)
Return	265	249
Net assets	1,744	1,567
Less:		
Deferred tax assets	(35)	(33)
Deferred tax liabilities	182	171
Net debt (note 4.1)	1,190	1,160
Derivative financial assets	(3)	(5)
Derivative financial liabilities	4	3
Net operating assets at the period end	3,082	2,863
Capital employed	2,973	2,730
ROCE	8.9%	9.1%

SHAREHOLDER INFORMATION

Share listing

The Company's shares are listed on the London Stock Exchange.

Share register and registrars

The Company's share register is maintained and administered in the UK by Computershare Investor Services PLC (Computershare) at the following address:

Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ	Telephone: +44 (0)370 703 6259 Investor Centre: www.investorcentre.co.uk/ contactus Website: www.computershare.com
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Computershare operates a portfolio service for Merlin shareholders called Investor Centre. This provides our shareholders with online access to information about their investments as well as a facility to help manage their holdings online, such as being able to:

- Update dividend mandate bank instructions and review dividend payment history.
- Update member details and address changes.
- Register to receive Company communications electronically.

Computershare also offers an internet and telephone share dealing service to existing shareholders which can also be accessed through the Investor Centre.

Dividends

An interim dividend of 2.5 pence per share was paid on 24 September 2018 to shareholders on the share register on 17 August 2018.

A final dividend for the year ended 29 December 2018 of 5.5 pence per share will be recommended to shareholders for approval at the 2019 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 2019 Annual General Meeting.

Financial calendar

The principal dates in our financial calendar for 2019 are as follows:

Preliminary Announcement of Results	28 February
Annual General Meeting	3 May
Interim Results Announcement	1 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.

Annual General Meeting (AGM)

The AGM of the Company will be held on 3 May 2019 at the offices of LEGOLAND Windsor Resort Hotel, Winkfield Road, Windsor, SL4 4AY 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
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NOTES

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Registered number: 08700412
 Registered in England and Wales

www.merlinentertainments.biz

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