



MERLIN ENTERTAINMENTS LIMITED
ANNUAL REPORT AND ACCOUNTS 2019

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At the end of 2019 Merlin
operated:

130

attractions

with

4,490

rooms

in

25

countries

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HIGHLIGHTS AND KPIs

67.0_m

VISITORS

+1.0%



How we report our results

Details on the period under review and the performance measures used are set out in the Financial and Operating Review on page 14, and terms used throughout this document are defined in the Glossary on pages 96 to 97.

During 2019 Merlin disposed of its Australian ski resorts, which have been accounted for as discontinued operations. The figures shown below for 2019 therefore reflect the continuing operations of the Group excluding the ski fields. The Group also adopted IFRS 16, the new accounting standard for leasing, adopting the 'fully retrospective' approach.

The 2018 balances reflect restatements to that year's results so that they are presented on a consistent basis with 2019.

£1,740_m

REVENUE

Reported growth +5.3%
Organic growth +3.6%
Like for like growth +0.8%



£342_m

UNDERLYING OPERATING PROFIT

Reported growth -4.3%
Organic growth -6.7%



£231_m

TOTAL OPERATING PROFIT

£133_m

PROFIT BEFORE TAX

94%

GUEST SATISFACTION

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



87%

EMPLOYEE ENGAGEMENT

Based on annual employee surveys (see page 20). Our target is a score over 80%.



0.02

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 2019 is therefore a positive outcome.



AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT

MERLIN IS EUROPE'S NUMBER ONE AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR AND NOW OPERATES 130 ATTRACTIONS, 20 HOTELS AND SIX HOLIDAY VILLAGES IN 25 COUNTRIES AND ACROSS FOUR CONTINENTS.

Our vision	To be the global leader in location based entertainment by number of visitors.
Our purpose	To deliver memorable experiences to our millions of visitors.
Our strategy	Merlin's strategy since its inception in 1999 has been 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.

Merlin operates two distinct types of visitor attraction, organised into three Operating Groups.

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. We have high quality, chainable brands and are the only company to successfully operate the Midway model on a global scale.

Theme Parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation.

- **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.
- **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.

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.

Our three Operating Groups are supported by our unique in-house business development, creative, project management and production group, Merlin Magic Making, which includes teams across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for driving innovation across our Group and creating high-class propositions for our attractions; developing new concepts into commercially viable attractions; producing compelling content such as wax figures and attraction theming; and constructing new attractions and investment projects, including new hotels and rides.

Our portfolio of assets and brands is highly diversified across geography, attraction type, brand and customer demographic and well balanced between indoor and outdoor attractions and international and domestic visitation.

Our footprint across 25 countries provides us with a strong platform to benefit from global growth in spending on travel and tourism, enabling us to attract both international tourists and domestic visitors.






We have demonstrated the strength of this diversified business model over many years, where the drivers of our performance have been;

- investment in our existing estate to increase capacity, provide compelling new propositions to guests, and improve customer satisfaction;
- rolling out new Midway attractions to drive organic revenue growth, often with a 'cluster' focus and in locations that continue our geographic diversification;
- developing new LEGOLAND parks, where we have parks currently under construction in Asia and in the USA; and
- transforming our theme parks into destination resorts by adding a broad range of themed accommodation to improve customer satisfaction and drive multi-day visitation.


AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT








A GLOBAL PORTFOLIO OF ATTRACTIONS AND ACCOMMODATION, REACHING ALL TARGET DEMOGRAPHICS

		UK	Continental Europe	Americas	Asia Pacific	Total	Brand Demographics
MIDWAY ATTRACTIONS							
Global brands							
SEA LIFE		10	18	8	10	46	Families and city centre tourists
Madame Tussauds		2	4	7	10	23	Families and city centre tourists
Dungeons		6	3	1	1	11	Teenagers and young adults and city centre tourists
LEGOLAND Discovery Centre		2	3	12	6	23	Families
Eye		2	-	-	1	3	City centre tourists
Other		2	1	2	5	10	
Total		24	29	30	33	116	

LEGOLAND PARKS

	Windsor, UK (209 rooms)	Billund, Denmark (578 rooms)	California, USA (500 rooms)	Dubai, UAE	
		Günzburg, Germany (461 rooms)	Florida, USA (318 rooms)	Johor, Malaysia (263 rooms)	
				Nagoya, Japan (252 rooms)	
Total				8 parks 2,581 rooms	Families

RESORT THEME PARKS

	Alton Towers Resort, UK (694 rooms)		Gardaland Resort, Italy (475 rooms)	Families, teenagers and young adults
			Heide Park Resort, Germany (329 rooms)	
	Chessington World of Adventures Resort, UK (254 rooms)			Families
	Warwick Castle, UK (67 rooms)			
	THORPE PARK Resort, UK (90 rooms)			Teenagers and young adults
Total				6 parks 1,909 rooms

CHIEF EXECUTIVE'S INTRODUCTION

INVESTING FOR THE LONG TERM

2019 trading overview

During 2019 Merlin made further strategic progress. We welcomed 67 million visitors to our attractions, reported a record revenue of £1,740 million, representing 3.6% organic growth, and again reported strong levels of guest satisfaction.

Like for like revenue growth of 0.8% was driven by a better performance in our Midway and Resort Theme Parks Operating Groups. Midway saw a gradual improvement in London visitation and trading elsewhere was also generally solid, whilst in Resort Theme Parks, we have delivered revenue growth, despite difficult comparatives. Offsetting this, trading in LEGOLAND Parks was more challenging, being affected by poor weather, difficult conditions in a number of markets and limited momentum from 'The LEGO Movie 2'.

We continued our strategy to develop our theme parks into destination resorts, opening 372 rooms across three parks. This included two LEGOLAND hotels together with the innovative and excellent value 'Stargazing Pods' extension to the holiday village at Alton Towers, where we now have six types of accommodation.

Underlying EBITDA increased by 0.5% to £569 million at actual foreign exchange rates but declined by 1.5% on an organic basis, reflecting the ongoing backdrop of significant cost pressures, particularly in employment costs. Over the last 18 months we have been focused on improving the operating efficiency of the business, investing in a number of Productivity Agenda initiatives. These include projects to further simplify the operations of our smaller Midway attractions, while in the theme parks, we are applying 'lean' principles to schedule staff rotas and build multi-skilled workforces. We have rationalised a number of central functions and launched our Shared Service Centre in Basingstoke, UK, to drive efficiency improvements within our back office finance functions.

Shareholder transaction

On 4 November 2019 the transaction to take the Merlin Group private became effective and Merlin's shares were delisted from the London Stock Exchange. We are now under the new ownership of a small group of investors comprising KIRKBI, Blackstone and CPP Investments (CPPIB) who share our long term strategic vision of becoming the global leader in location based entertainment.

The next chapter of the Merlin story has always been one where we are investing significantly behind future growth in the shape of new LEGOLAND resorts, new brands, accommodation and development in emerging markets. This requires patient owners who are prepared to take a longer term view of returns and not be distracted by short term volatility.

Strategic developments

We continued our expansion of the LEGOLAND resorts footprint, with construction progressing at the LEGOLAND New York Resort and LEGOLAND Korea sites. In September we announced our partnership agreement with Global Zhongjun Cultural Tourism Development Co., Ltd to build and operate a LEGOLAND resort in Sichuan Province in Western China, scheduled to open by 2023. Finally, in November we entered into an agreement with the Shanghai Jinshan District Government, CMC Inc. and KIRKBI to develop a LEGOLAND resort in the Jinshan District of Shanghai to open after 2023.

Across the theme park estate, Merlin's unique themed accommodation offering drives growth as we respond to the increasing demand for short break vacations, and we will continue to invest in this area.

Finally, within Midway Attractions, we opened two more Peppa Pig World of Play attractions in the USA, following our inaugural opening in Shanghai in 2018. We continue to develop partnerships with leading owners of intellectual property (IP) content, providing us with more ways to deliver memorable experiences to our guests.

Health, safety and security

The health, safety and security of our guests and employees remains our number one priority. We continue to invest in improving our already high standards and in 2019 renewed our focus on the important topics of mental health and wellbeing. We launched a range of new initiatives, learning programmes and support tools to better equip management teams and all employees in preventing, or responding to, the challenges associated with mental health.

Guest satisfaction

Our guest satisfaction scores remained strong, reflecting our relentless focus on creating memorable experiences for our guests – what we call our 'Guest Obsession'. While slightly down on 2018, the results of guest satisfaction surveys were again in excess of our 90% target and showed a 2% increase in our 'Top Box' measure, while 'Net Promoter' scores remained over the 50% level which is considered 'world class'. In 2019 there were just under half a million online reviews of Merlin attractions averaging over four stars. We have rolled out a new portal to analyse, respond to and take direct action from our guests that are communicating to us publicly across different channels.

Employee engagement

It is our team of engaged employees that drives such impressive guest satisfaction, so we are pleased that our staff surveys showed a global employee engagement index of 87%, up 1% from 2018 and again significantly above industry benchmarks. In 2019 we created our 'All.Together.' diversity and inclusion strategy that looks to celebrate and enhance further diversity within the business, and created our first 'Your Voice Counts' forum in the UK, which we plan to roll out globally from 2020. This forum gives us the chance for direct engagement with our teams, helping to support them as they deliver memorable guest experiences.

In this momentous year for Merlin, our team of 28,000 employees can be proud of what we have achieved, delivering another year of fun, safe, and memorable experiences for our millions of guests around the world. As we start this next phase of Merlin's remarkable journey, I am grateful for their continued dedication.

Coronavirus (COVID-19) pandemic

We 'sign off' on 2019 in a period of uncertainty when all businesses are responding to the unprecedented challenge of the COVID-19 pandemic and most of our businesses are closed. Our primary objective has been to protect the wellbeing of our employees and guests. As such, we have followed government advice or, in some cases, gone beyond those requirements to ensure we had a socially responsible response. We started taking actions early on in the crisis as the coronavirus was emerging in Asia and we are taking every step possible to protect and manage the business, reduce our cost base and protect our operating cash flows. We have also reviewed and re-phased capital projects, where possible, to manage our cash flows but also to ensure we have exciting new products in the years to come as the business recovers steadily. The most significant capital project to be delayed is the LEGOLAND New York Resort, where it has been impossible to proceed with construction during the crisis period. We currently plan to open the attraction in Spring 2021.

These measures help us manage our liquidity. Given the uncertainty around the evolution of the pandemic, we drew down our revolving credit facility of £400 million in March. We are currently complying with, and expect to be able to continue to comply with, the covenants contained within our debt facilities and are monitoring these on a regular basis. Note 1.1 to the financial statements sets out the steps being taken should attraction closures be prolonged. All our teams across the Group are working incredibly hard to protect the business. Their dedication combined with our experienced leadership team and our committed shareholders means that we will be well placed to recover when this crisis ends.

Nick Varney
Chief Executive Officer

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

COMPETITIVE STRENGTHS IN AN ATTRACTIVE MARKET ENVIRONMENT

A unique portfolio of strong brands and iconic assets

We operate a unique global portfolio of brands and iconic assets which are widely recognised by consumers, enabling us to differentiate our attractions from unbranded operators. Our Midway attractions portfolio includes chainable brands while the Resort Theme Parks attractions are typically number one or two in their respective markets. Our LEGOLAND parks also benefit from a mutually synergistic relationship with LEGO, the world's leading toy brand.

Together, the strength and breadth of this portfolio enable us to offer compelling propositions through a wide variety of visitor experiences across a broad range of geographies. This allows us to attract target demographic groups ranging from families with young children, teenagers, young adults to older adults.

Intellectual Property (IP) partnerships

Merlin's global reach and multi-format expertise means we are well placed to benefit from the growing opportunities to partner with leading owners of intellectual property (IP) content, enabling us to deliver memorable experiences to our visitors and offer our partners opportunities to increase engagement with their customers.

Most significant is our core global, multi-product and exclusive relationship with the LEGO Group, where we hold the global, exclusive rights to the LEGOLAND brand under the licencing and co-operation agreement with KIRKBI, one of our major shareholders.

We have multiple other IP agreements ranging from local relationships for specific attractions, to global, multi-product relationships with some exclusivity as we establish and continue to develop, global, regional and local IP partnerships with brands such as Ghostbusters, The Gruffalo, Shrek, Kung Fu Panda and CBeebies, the latter through our partnership with BBC Studios. We continue to develop and strengthen new IP partnerships, most notably through our relationship with eOne, where we have a multi-territory exclusivity arrangement to develop a range of attractions based on the Peppa Pig brand, one of the most well-known pre-school IP's in the world.

Unique portfolio of skills

Our three Operating Groups are supported by other teams including our in-house innovation and product delivery group, Merlin Magic Making (MMM), which includes teams across Europe, North America and the Asia Pacific region, capturing a unique combination of skills, including research, creative, production and project management.

MMM includes experienced research teams who identify potential sites for new attractions and negotiate with local landlords, developers and civic bodies. They create high-class, compelling propositions and develop new concepts into commercially viable attractions. Our in-house production capabilities include compelling and bespoke content such as wax figures, attraction theming and LEGO model production, thereby creating efficiencies and reducing costs. Other teams in Merlin have world class animal welfare expertise and ethical animal husbandry skills.

We manage any scale of construction project ranging from individual rides and attractions in our existing estate, new Midway attractions across the globe, through to the development of full-scale LEGOLAND parks, the latter led by a senior management team who pursue new locations for potential parks through multiple ownership models.

Attractive market environment

Merlin operates in an attractive marketplace, benefiting from underlying growth characteristics and favourable dynamics. At its heart is increasing disposable income, most notably in emerging economies such as China, which are set to continue over the coming years.

International tourist arrivals have grown consistently over recent years. According to the UNWTO, 1.5 billion international tourist arrivals were recorded in 2019, a 4% increase on the previous year. We continue to see long term growth opportunities through international tourism.

We also benefit from the growing trend of short break holidays and are increasingly well-positioned to meet this demand through our offering of themed, on-site accommodation and second gate attractions that extend the duration of our visitors' stay. Accommodation offerings also enable greater cross-selling opportunities, drive improved levels of guest satisfaction, lead to increases in pre-bookings, revenue visibility and positive working capital.

Our resort positioning allows us to cater for both international and domestic visitation, providing a hedge against the impact of macro-economic volatility on tourist flows.

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

OUR CULTURE

Merlin's business model is underpinned by our entrepreneurial culture, approach to corporate governance and how we operate as a responsible business.

Corporate governance

Merlin believes that effective corporate governance is the foundation of a well-run company and maintains high standards of governance. We recognise 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.

Health, safety and security

Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group. This involves adopting industry leading standards, reinforcing a rigorous safety culture and demanding complete commitment from our teams. More details on HSS are on page 21.

Business responsibility

Merlin has an ethical operating culture and high animal welfare standards, with a commitment to managing environmental impacts. Our attractions operate responsibly at the heart of their communities and contribute to the local economy. We partner with two charities to provide children with memorable experiences and to protect the marine environment. More details are set out on pages 22 to 23.

DELIVERING FOR OUR STAKEHOLDERS

Customers

We constantly monitor the views of our guests and engage with them directly and on social media to measure the quality of their experience and drive improvements.

We measure the results of this engagement through a combination of guest satisfaction and 'Top Box' scores from touchscreen data at our attractions, and 'Net Promoter' scores which measure how willing a guest is to recommend a Merlin attraction. In 2019 our guest satisfaction scores remained well ahead of our 90% benchmark.

Employees

We have around 28,000 employees at peak season who are committed to delivering memorable experiences. Our staff survey, 'The Wizard Wants to Know', provides feedback on key engagement metrics and helps us drive future improvements. We believe that diverse teams are vital so are committed to increasing levels of diversity and inclusivity across the business. See more on page 20.

Investors

Merlin was listed on the London Stock Exchange from November 2013 until November 2019. During that time Merlin delivered on its strategy to grow and diversify the business, reporting significant revenue and profit growth, and delivering returns to shareholders both in dividends and an increase in the post-IPO share price. In 2019 a consortium of investors joined forces to take Merlin back into private ownership, with the capability to support Merlin's growth ambitions and invest for the long term. The consortium work together in accordance with the principles set out at the time of the transaction, that was completed under a court-sanctioned scheme of arrangement. The consortium partners are set out below. Details of their representation on Merlin's Board of Directors are set out on pages 26 to 27.

- **KIRKBI** – the private holding and investment company of the Kirk Kristiansen family, founded to manage, protect and develop the LEGO brand and its activities under long term family ownership. KIRKBI's strategic activities include a 75% ownership of the LEGO Group, a 100% ownership of the LEGO and LEGOLAND trademarks, and investments in renewable energy to off-set the energy consumption of the LEGO Group.

KIRKBI manages an international, diversified investment portfolio with a long term investment profile and is a responsible investor with high environmental, social and governance standards. At the end of 2019, KIRKBI's investment portfolio was valued at approximately €9 billion. KIRKBI was a strategic investor in Merlin while the Group was listed, holding 29.6% of Merlin's listed equity. Following the transaction their ownership in the Group has increased, being held through their investment in Merlin's ultimate parent company, Motion JVCO Limited, that was incorporated as the top company of the consortium's acquisition structure. At 28 December 2019 the other consortium investors comprised Blackstone and CPPIB.

- **Blackstone** – one of the world's leading investment firms, that seeks to create positive economic impact and long term value for investors, the companies in which it invests, and the communities in which it works. Blackstone's asset management businesses had \$571 billion in assets under management as at 31 December 2019 across a range of investment vehicles. Blackstone has long-standing experience investing in location based entertainment businesses, like Merlin, as well as the wider hospitality, travel and leisure sector. Blackstone's investment in Merlin has been made through its long-dated Core Private Equity Strategy, which invests in high-quality businesses for typically ten to 15 or more years.
- **CPP Investments (CPPIB)** – a professional investment management organisation that invests the excess funds of the Canada Pension Plan (CPP). CPP is the national pension plan committed to providing retirement security and pensions to over 20 million Canadian contributors and beneficiaries. CPPIB is governed and managed independently of CPP and at arm's length from governments. At 31 December 2019, the fund totalled C\$420 billion, including approximately C\$24 billion of assets invested in the United Kingdom, and net investments of C\$99 billion in private equity. CPPIB's private equity team is a committed long term investor with permanent capital, a focus on sizeable investments alongside aligned partners, the ability to invest across the full spectrum of ownership, and the ability to shape the duration and underwriting approach of investments to support longer-date returns on investment initiatives.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

CAPITAL EXPENDITURE

Existing estate

Part of Merlin's growth strategy is to make regular, targeted investments to update and refresh the existing estate in order to grow visitation to attractions, providing something new to market and a degree of pricing power.

Each attraction has a planned investment cycle with varying capex levels over a number of years. These help to smooth overall expenditure across the portfolio and ensure investments are funded from operating free cash flow. Midway attractions require relatively lower capital expenditure due to the smaller scale of the attractions and the higher proportion of 'first-time' tourist visitors, while our theme parks require relatively higher capital expenditure due to the scale and nature of new rides and attractions and the drive to attract repeat visitors.

New business development

Our business development and growth strategy has historically involved the roll out of our chainable Midway attractions in new locations and countries, often creating 'clusters', where we develop multiple attractions in one location. We continue to see the opportunity to open new Midway attractions globally, depending on the demographics, based on both our existing and new brands, and often using IP as a central element of the attraction. There are also ongoing opportunities to add visitor attractions that are located next to theme parks and for which additional admission fees are charged, referred to as 'second gates'.

New business development capex also includes the expansion of accommodation facilities at our theme parks and the development of new LEGOLAND parks that are described in more detail below.

TRANSFORMATION OF THEME PARKS TO DESTINATION RESORTS

We see a continued demand for our themed accommodation, where our investments continue to be very successful.

Our hotels and holiday villages provide an integral contribution to the overall customer experience, helping to drive pre-booking, increase multi-day ticket sales and improve guest satisfaction.

This 'destination positioning' extends the visitor market reach and enhances revenues from both primary admissions (including multi-day tickets and second gate admission fees), and commercial spend such as the sale of food and beverages, retail merchandise and souvenirs such as photos.

We are continuing our strategy of investing in second gate and 'up-sell' attractions.

LEGOLAND PARK DEVELOPMENTS

We have a proven track record of developing and operating LEGOLAND parks globally, have two sites currently under construction, and further development plans in China where we focus on operating parks under management contracts. Given the strength of the LEGO and LEGOLAND brands and the success of our existing LEGOLAND parks, we see significant scope for new LEGOLAND parks, particularly in Asia.

We have three operating and investment models with respect to the development of LEGOLAND parks. Firstly, in more proven locations, we follow an 'owned and operated' model, securing the land and developing the infrastructure ourselves. We have used this model in our European and North American LEGOLAND parks. LEGOLAND New York and LEGOLAND Korea are being developed under this model.

Secondly, in new and unproven locations, we use a low capital commitment model where the capital investment is provided by a third party and we operate the park under a management agreement. We operate LEGOLAND Malaysia and LEGOLAND Dubai under this model and the planned LEGOLAND Sichuan Resort will adopt a similar structure.

Thirdly, we can operate parks under a 'leased and operated' model, where the acquisition of the park site, the development of the infrastructure and the basic construction is funded by a third-party partner. We fund and build the rides and the necessary theming, lease the site on a long term basis, and operate the LEGOLAND park. LEGOLAND Japan, for example, was developed using this approach, with a subsidiary of KIRKBI as the lessor.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

LEVERAGING STRATEGIC SYNERGIES

We aim to leverage our scale in key markets to maximise our operational, marketing, product and cost synergies. Strategic initiatives include:

- **Merlin Annual Pass and Merlin Pass Monthly Membership** – where we offer customers a pass that enables them to visit all attractions within a particular country for one year.
- **Accesso ticketing** – the accesso® 'Passport' ticketing system has standardised ticketing across our estate, and gives us greater opportunities to up-sell and cross-sell tickets, with a particular focus on improving the customer 'digital journey'.
- **Group promotions and marketing** – where we apply flexible pricing and promotional strategies to manage visitor numbers through periods of high and low attendance volume, extend the length of stay, and encourage repeat visits and enhance overall revenue.
- **Procurement synergies** – our scale allows us to exploit procurement cost efficiencies within a country or region and where practical across clusters. We seek to achieve benefits from such savings as we increase our global scale.
- **Productivity Agenda** – our global Productivity Agenda is aimed at streamlining and evolving our back office and how we operate to provide long term sustainable savings in a number of areas, while better enabling our attraction staff and general managers to focus on delivering memorable experiences for our guests.

STRATEGIC ACQUISITIONS

We continue to consider acquisitions of, or investments in, visitor attractions, sites and brands that could strategically enhance our portfolio and enable us to grow into new geographies, and believe that there remain further attractive acquisition opportunities that would meet our investment criteria in the future.

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

	Total 52 weeks ended 28 December 2019 £m	Underlying 52 weeks ended 28 December 2019 £m	Underlying 52 weeks ended 29 December 2018 (restated) ⁽¹⁾ £m	Underlying growth (actual currency)	Underlying organic growth (constant currency) ⁽²⁾
Revenue	1,740	1,740	1,653	5.3%	3.6%
EBITDA	496	569	566	0.5%	(1.5)%
Depreciation and amortisation	(265)	(227)	(209)	(8.7)%	(7.4)%
Operating profit	231	342	357	(4.3)%	(6.7)%
Net finance costs	(98)	(108)	(89)	(20.8)%	
Profit before tax	133	234	268	(12.7)%	
Taxation	(53)	(67)	(49)	(36.1)%	
Profit for the year	80	167	219	(23.7)%	
Operating free cash flow		406	422	(3.7)%	

(1) Restated for the adoption of IFRS 16 as explained in note 1.1 and the presentation of discontinued operations as explained in note 2.5.

(2) Organic growth represents growth from like for like businesses and new business development at constant currency and excludes growth from acquisitions. See 'How we report our results' on page 14 for details of how we report our financial performance.

Presentation of results

Merlin Entertainments plc was listed on the London Stock Exchange between November 2013 and November 2019. In November 2019 a consortium of investors purchased the Group under a Scheme of Arrangement and the Company delisted, subsequently becoming a private limited company, Merlin Entertainments Limited (MEL). The results below reflect a full year of trading performance for the MEL Group (being MEL and its subsidiaries).

The acquisition was financed through a combination of investor equity and external debt finance effected by new companies set up for that purpose and which sit above MEL in the new enlarged group structure. These new companies have made loans to the MEL Group partly to enable repayment of certain elements of MEL Group's external debt. The increased level of financing therefore means that interest charges for the final months of the year are consequentially higher.

Certain accounting related matters have also affected how the 2019 results are reported and these are set out below. On page 14 we have also set out in more detail explanations of how we adopt certain alternative performance measures to help present our trading performance in the most helpful and meaningful way.

- **IFRS 16** – during the period the Group adopted IFRS 16, the new accounting standard for leasing, using the 'fully retrospective' approach. The 2018 results have therefore been restated to be on an IFRS 16 basis.
- **Australian ski resorts** – during 2019 the Group disposed of its two Australian ski resorts. These have been accounted for as discontinued operations in both periods and accordingly our results relate to the continuing operations of the Group excluding the ski resorts.
- **Underlying results and exceptional items** – in order to present the underlying performance of the business more accurately, the costs of certain activities are reported within exceptional items. More details on exceptional items can be found on page 12.

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

Performance summary

Reported revenue increased to £1,740 million. Organic revenue growth, which also includes the impact of our new business development programme, was 3.6%. On a like for like basis, revenue grew by 0.8%.

Organic revenue growth of 3.6% was driven by a combination of like for like growth, the contribution from the opening of new Midway attractions and the expansion of the accommodation offering at our theme parks. Like for like revenue growth of 0.8% was driven by a better performance in our Midway Attractions and Resort Theme Parks Operating Groups, both of which experienced headwinds in recent years. In Midway, we saw a gradual improvement in London visitation and trading elsewhere was also generally solid, whilst in Resort Theme Parks, we showed continued revenue growth, despite difficult comparatives. Offsetting this, trading in LEGOLAND Parks was however more challenging. Although we enjoyed a strong Easter and Spring Break performance, subsequent trading was affected by poor weather, difficult conditions in a number of markets and limited momentum from 'The LEGO Movie 2'.

The opening of eight new Midway attractions also contributed to growth in revenue, and includes two pilots of Peppa Pig World of Play – our first in the USA. The pilot openings of our three new brands – Peppa Pig World of Play, Little BIG City and The Bear Grylls Adventure – have received positive guest feedback and we are assessing their commercial performance as we refine the propositions.

We continued to implement our strategy to develop our theme parks into resorts with the opening of 372 rooms across three parks, including two hotels and the economy Stargazing Pods at the Alton Towers holiday village.

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

Against the backdrop of ongoing, significant cost pressures, we seek opportunities to improve the operating efficiency of the business. Our Productivity Agenda is well underway and we remain on track to deliver £35 million of savings by 2022. We have rationalised a number of our central functions and launched our Shared Service Centre in Basingstoke, UK which will reduce costs and change the way finance supports the business in the coming years. We went 'live' with our new cloud-based finance system across the North American Midway estate. Operationally, we seek to further simplify and streamline the operations of our smaller Midway attractions, and in the parks, we are implementing new rostering systems and multi-skilling staff by adopting lean practices.

The cost base at our attractions has historically been relatively fixed in the short term so any increases and decreases in revenue normally flow through to the operating result. Reflecting the current environment as a result of the impact of COVID-19, we are implementing cost management initiatives to protect profitability and liquidity, as far as possible.

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 £42 million were £3 million lower than in 2018. This reflects increased income in respect of study agreement and consultancy activities.

Midway Attractions

	2019	2018 (restated)	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	40.2	39.8	1.1%		
Revenue (£m)	674	642	5.1%	4.0%	0.7%
Underlying EBITDA (£m)	240	246	(2.5)%	(3.4)%	
EBITDA margin (%)	35.7	38.4			
Underlying operating profit (£m)	137	152	(10.1)%	(10.9)%	

Organic revenue grew by 4.0% in the Midway Attractions Operating Group reflecting like for like growth of 0.7% and the positive contribution from New Business Development.

As anticipated, trading in London, the largest of our five regional Divisions, continued to improve. The business grew steadily, benefiting from stronger inbound tourism as it recovered following the terrorist attacks of 2017, and as a result of weaker Sterling. The Operating Group's like for like performance was also boosted by the re-opening of the LEGOLAND Discovery Centre in Shanghai, following its temporary closure in 2018.

The adverse effect on visitation of the removal of the beluga whales from Chang Feng Ocean World in Shanghai was significant, albeit consistent with previous expectations, while trading in Hong Kong was also down, especially towards the end of the year, reflecting the ongoing civil unrest in that location.

Elsewhere across the Midway portfolio, revenue growth was solid.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2019 performance at 2018 rates would result in a £28 million decrease in revenue and an £11 million decrease in EBITDA. We set this out in more detail by major currency on page 98.

Operating profit

Depreciation and amortisation grew by 8.7% to £227 million reflecting the impact of continued investment in attractions and accommodation.

On a constant currency basis, underlying operating profit decreased by 6.7% to £342 million. Exceptional items reported within operating profit totalled £111 million. These included expenses incurred in connection with the sale of the Group to the investor consortium in November 2019; certain staff related costs that primarily relate to employee share schemes that vested upon the sale; continued expenses relating to our Productivity Agenda; and impairment charges in respect of certain attractions. More details on exceptional items can be found on page 12. As a result of these charges, total operating profit was £231 million (2018: £353 million).

Profit before tax

There were exceptional net gains of £10 million within financing costs relating to the sale to the investor consortium. As a result of the factors noted above, underlying profit before tax was £234 million (2018: £268 million) while total profit before tax was £133 million (2018: £264 million).

Our Midway openings contributed an additional £26 million revenue in the year (of which £1 million related to Alton Towers Dungeon, which is included in the Resort Theme Parks Operating Group). This is a result of the earlier phasing of new site openings in the year, together with a full year of trading at sites opened in 2018.

Underlying EBITDA declined by 3.4% on a constant currency basis. The margin declined from 38.4% to 35.7% partly as a result of the significant ongoing cost pressures in the existing estate, but primarily due to the significant investment in openings of new brands or attractions in new markets. These attractions typically have lower rates of return at the outset as they establish themselves, contributing revenue, but limited profit.

The small decrease in EBITDA, combined with growth in depreciation driven by continued investment in the existing estate and new business development, resulted in a decline in operating profit of £15 million (10.9% at constant currency).

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

LEGOLAND Parks

	2019	2018 (restated)	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	15.7	15.6	0.5%		
Revenue (£m)	669	637	5.1%	1.9%	(1.1)%
Underlying EBITDA (£m)	243	248	(2.1)%	(5.4)%	
EBITDA margin (%)	36.3	39.0			
Underlying operating profit (£m)	183	196	(6.4)%	(9.5)%	

Organic revenue grew by 1.9% in the LEGOLAND Parks Operating Group, driven by the continued roll out of new accommodation offsetting a decline in like for like revenue.

142 accommodation rooms were added to the LEGOLAND estate with the opening of the Castle Hotel at LEGOLAND Billund Resort. Total accommodation revenue grew by 11.9% on a constant currency basis to represent 25% of LEGOLAND Parks revenue (2018: 22%).

Like for like trading was more challenging. Although the Operating Group delivered a strong Easter and Spring Break performance, subsequent trading was more challenging due to poor weather and difficult trading conditions in a number of markets. Additionally, whilst our new 'LEGO Movie World' land at LEGOLAND Florida enjoyed favourable guest feedback, there was otherwise limited trading momentum as a result of the film itself. This resulted in a full year like for like revenue decline of 1.1%.

Underlying EBITDA declined by 5.4% on a constant currency, representing a margin decline from 39.0% to 36.3%. This was the result of the decline in like for like revenue together with continued cost pressures and, to a lesser extent, increasing pre-opening costs related to LEGOLAND New York.

Operating profit declined by 9.5% on a constant currency basis due to the decline in EBITDA and increased depreciation associated primarily with the continued investment in accommodation.

Resort Theme Parks

	2019	2018 (restated)	Growth (actual currency)	Organic growth (constant currency)	Like for like growth
Visitors (m)	11.1	11.0	1.2%		
Revenue (£m)	388	367	5.7%	5.6%	4.1%
Underlying EBITDA (£m)	128	117	9.4%	8.6%	
EBITDA margin (%)	32.9	31.8			
Underlying operating profit (£m)	76	66	15.2%	13.5%	

Organic revenue grew by 5.6% in the Resort Theme Parks Operating Group, reflecting like for like revenue growth of 4.1% and the contribution from new accommodation.

230 rooms were opened during the period comprising the 128 room Magic Hotel at Gardaland Resort and 102 'Stargazing Pods' at Alton Towers Resort. Total accommodation revenue grew by 8.0% on a constant currency basis to represent 19% of Resort Theme Parks revenue (2018: 18%).

The strong like for like performance, despite challenging comparatives, was the result of favourable Easter weather in the UK, successful product launches such as the 'Colossos' ride at Heide Park and 'Room on the Broom' at Chessington World of Adventures Resort, and good summer trading.

As a result of the revenue growth, EBITDA improved by 8.6% on a constant currency basis.

Operating profit was £76 million, up against 2018 which reflected the trading performance above, offset by higher depreciation charges as we continued to invest in the estate.

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

Financing and tax

Finance costs

Net finance costs of £108 million were incurred in 2019 (2018: £89 million), primarily as a result of higher interest charges in the last two months of the year following the sale of the Group which resulted in higher levels of inter-company borrowings.

Taxation

The total tax charge of £53 million represents an effective tax rate of 28.6% of underlying profit before tax and 39.8% of profit before tax, largely due to exceptional items associated with the acquisition of the Group. The difference between the underlying ETR and the UK standard rate of 19% is attributable to a number of factors including the Group's geographic mix of profits, non-deductible interest expense in the UK and USA and the non-recognition of tax losses.

Significant factors impacting the Group's future ETR include the ability to obtain effective relief for interest expense; changes to local or international tax laws; and the geographic mix of profits.

In April 2019 the European Commission (EC) announced its final decision that certain elements of the UK's Controlled Foreign Company rules partially represent State Aid. The UK Government has made an annulment application against this decision. Separately, Merlin has made its own application. If the applications are ultimately unsuccessful then this could result in an increase in the Group's future effective tax rate.

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

Exceptional items

	2019 £m	2018 £m
Underlying profit for the year	167	219
<i>Exceptional items:</i>		
Within operating expenses	(73)	(4)
Within depreciation, amortisation and impairment	(38)	-
Within finance income and costs	10	-
Income tax credit on exceptional items above	14	-
Profit for the year	80	215

In order to present the underlying performance of the business more accurately, the impact of certain activities are reported within exceptional items as set out below.

Exceptional items include operating expenses incurred by the Group in connection with its sale to the investor consortium in November 2019; certain staff related costs that primarily relate to employee share schemes that vested upon the sale; and continued expenses related to our Productivity Agenda.

We incurred impairment charges of £38 million primarily in respect of certain Midway attractions.

Exceptional net gains of £10 million within financing costs relate to the sale to the investor consortium. They are made up of £47 million of foreign exchange movements on borrowings that were established with parent companies after the acquisition of the Group, offset by £37 million of one-off costs, primarily those incurred when repaying the €700 million bonds issued by the Company in 2015 and 2017.

Further details can be found in note 2.2 of the financial statements.

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

Cash flow

	2019	2018 (restated)
	£m	£m
Underlying EBITDA	569	566
Exceptional items	(73)	(4)
Working capital and other movements	37	4
Operating cash flows - discontinued operations	-	12
Tax paid	(73)	(46)
Net cash inflow from operating activities	460	532
Capital expenditure – existing estate	(163)	(144)
Capital expenditure – new business development	(216)	(183)
Capital expenditure – discontinued operations	-	(5)
Grants received	41	14
Disposal of subsidiaries	92	-
Proceeds from share capital	30	6
Interest paid, net of interest received and settlement of interest rate swaps	(97)	(97)
Dividends paid	(56)	(76)
Other	7	-
Net cash inflow before refinancing and repayment of borrowings	98	47
Refinancing and repayment of borrowings (net)	(793)	(218)
Proceeds from parent company loans	800	-
Capital repayment of leases	(48)	(31)
Net cash inflow/(outflow) for the year	57	(202)

Operating cash flow

Merlin continues to be highly cash generative, delivering operating free cash flow (being underlying EBITDA less existing estate capital expenditure) of £406 million in 2019 (2018 as restated: £422 million). Net cash flow from operating activities for the year was £460 million (2018: £532 million), lower than 2018 mainly as a result of exceptional costs incurred.

Investing activities

A total of £379 million was incurred on capital expenditure in 2019, £163 million relating to investments in the existing estate and £216 million on new business development (NBD).

NBD investment represented £40 million in developing new accommodation across our theme park estate, £41 million in respect of new Midway attractions that either opened in 2019 or will open in 2020, and £135 million on the longer term investments of developing new LEGOLAND parks, primarily LEGOLAND New York.

During 2019 we also received the second and final instalment of £41 million in respect of grants relating to LEGOLAND Korea, where the local government has agreed to support direct funding for the project. Grants received now total KRW 80 billion (£55 million).

Disposal of subsidiaries totalled £92 million in respect of the Australian ski resorts transaction that completed in April 2019.

During the year the Company received £30 million in relation to the issue of 14.5 million new shares and the vesting of share awards.

Financing activities

The financing activities undertaken during the year resulted from the acquisition of the Group in November 2019.

The Group received loans of £800 million from the new companies set up for the acquisition and used the proceeds to repay €700 million of bonds issued in 2015 and 2017, drawings from the Group's £600 million Revolving Credit Facility and transaction costs. The MEL Group's £600 million Revolving Credit Facility was subsequently cancelled. In September 2019 MEL announced that its solicitation of consents from holders of the \$400 million 2026 notes issued by MEL in 2018 had been successful and as a result the notes remain outstanding.

Dividends

A final dividend of 5.5 pence per share was paid in May in relation to the year ended 29 December 2018.

FINANCIAL AND OPERATING REVIEW

STRATEGIC PROGRESS AND STRUCTURAL CHANGE

Net assets

	2019	2018 (restated)
	£m	£m
Property, plant and equipment	2,263	2,169
Right-of-use assets	976	993
Goodwill and intangible assets	1,012	1,028
Investments and other non-current receivables	75	75
Working capital	(265)	(176)
Net external debt	(152)	(990)
Parent company loans	(758)	-
Amounts owed to parent company	(16)	-
Lease liabilities	(1,158)	(1,183)
Corporate and deferred tax	(150)	(157)
Employee benefits	(7)	(6)
Other liabilities	(121)	(114)
Net assets (excluding preference shares treated as liabilities)	1,699	1,639
Preference shares treated as liabilities	(2,120)	-
Net (liabilities)/assets	(421)	1,639

Property, plant and equipment increased by £94 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. The 2018 balance sheet has been restated to reflect the Group's adoption of IFRS 16 for lease accounting. The balance sheet now includes right-of-use assets together with the accompanying lease liabilities. Further analysis of the working capital movements of £89 million is provided in note 3.4 to the financial statements; the largest movements relate to timing differences within trade and other payables, including £38 million relating to the receipt of final grant monies in respect of LEGOLAND Korea.

Net external debt relates to the \$400 million 2026 notes offset by £160 million of cash and cash equivalents. Parent company balances comprise £758 million of loans and £2,120 million of preference shares issued to MEL's parent company which are accounted for as debt.

Further details are provided in the consolidated statement of financial position on page 38 and the notes to the financial statements on pages 41 to 87.

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. Following the implementation of IFRS 16, this measure no longer includes the cost of meeting the obligations under our leases, with the exception of performance-based rentals which continue to be reported within EBITDA.
- 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, meet the obligations under our leases, 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.
- 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.
- 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.
- 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.

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 reporting date stays in line with the end of December.

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 46 to 49. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 43.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Internal control and risk management

Merlin maintains effective internal control and risk management systems, with the Board sub-committees and executive management keeping them under regular review. These activities are supported by 'The Merlin Way', our corporate values, which we believe should drive good behaviours and actions by all employees.

Internal control framework

The creation of an effective internal control framework helps 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.

The key elements of the internal control framework are described below:

- **Management structure** – clearly defined reporting lines, accountabilities and authority levels.
- **Strategic planning, risk management and business performance monitoring** – reviewed by the Board annually, with our pipeline for the delivery of new attractions reviewed regularly to:
 - (i) assess whether new compelling experiences and attractions in development are progressing according to schedule;
 - (ii) identify new ideas and assess fit with our brand portfolio; and
 - (iii) assess the expected commercial returns.

Business objectives and performance measures are set annually together with budgets and forecasts. Regular business performance reviews are conducted at both Operating Group and individual attraction level.

- **Policies and procedures** – A portfolio of policies and procedures is in place for all areas of the business. The appropriateness and application of these is continuously monitored to ensure they are proportionate to the risk and complied with. Assurance comes from several sources that include HSS, financial and operational audit activities and self-certification.

Our key control activities include:

- **Operational** – there are a range of control measures and performance indicators in place to ensure the effective and efficient operation of our attractions and to give our guests safe and memorable visits.
- **Health, safety and security** – all our sites operate using a well-established Safety Management System designed to ensure that they operate in compliance with relevant regulatory and legislative requirements. Regular HSS internal audits are undertaken to confirm this is the case, ensuring that any safety and security matters are understood and dealt with promptly.
- **Information technology** – the Group has a wide range of IT technical, security, and disaster recovery controls to ensure that it has a stable infrastructure platform from which to operate.
- **Financial** – our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels. Oversight controls are typically performed by senior managers at Group and business unit level. Month end and year end procedures are performed as part of our regular financial reporting. Transactional level controls operate on a day-to-day basis. To specifically address potential fraud risks at a transactional level, a group of profit protection professionals are employed to support management in addressing these risks at an attraction level.

- **Business continuity planning** – disaster recovery plans and crisis management protocols are in place to allow attractions to reinstate performance in the event of adverse events.

Risk management framework

The risk management framework sets out the responsibilities together with the oversight, monitoring, reporting and management processes that support their fulfilment. The framework looks at both 'top down' and 'bottom up' approaches to risk management whereby the Board retains overall responsibility for risk management, while sites are responsible for identifying, assessing and mitigating operational risks. Risk oversight and monitoring is the responsibility of the following Committees:

- **Health, Safety and Security (HSS) Committee** – oversight and guidance on management of HSS risks. Responsible for ensuring compliance with legislation or industry standards in safeguarding guests, employees, visitors and contractors.
- **Audit Committee** – oversight and guidance on financial process risk. Responsible for assessing the effectiveness of the Group's overall approach to risk management and internal control.
- **Commercial and Strategic Risk Management Committee** – oversight and guidance on management of commercial and strategic risk. Responsible for the treatment of animals in our care.

Each committee reviews on a regular basis the principal risks and considers whether material changes in the external landscape or recent trading trends require alternative approaches to monitoring and managing risk. Committee members regularly receive deep dive updates on topics related to significant risks as well as regular reporting from internal and external assurance providers.

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 we are risk averse and do 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.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Brexit

We continue to keep the potential implications of Brexit under review during the transition period. While we are headquartered in the UK, most of our operating activities are in other countries. 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 we remain in a position to react to the outcome from the negotiation process, a cross-functional team, led by the Group CFO, will continue to monitor matters that might affect the Group's operations should no agreement be reached between the UK and the EU before 31 December 2020.

The areas being monitored relate to:

- **Structural issues** – issues that require bilateral or multilateral governmental agreement following changes to taxation and tariff levels; and restrictions on migration.
- **Transitory issues** – short term impacts arising from administrative, process or market changes, which will unwind quickly (for example delays in the movement, or restrictions on the actual availability, of goods and products).

Other areas being monitored relate to the macro-economic climate in which we operate, extreme movements in foreign exchange rates impacting visitation and underlying costs; and UK and European citizens staying at home because of anticipated travel friction within Europe.

Coronavirus (COVID-19) pandemic

We recognise the significant impact and potential implications of the COVID-19 pandemic and the greater level of risk this presents to all location based entertainment businesses. We remain resilient through diligent liquidity planning and the deferral of non-essential capital expenditure. At a time when substantially all of our attractions are closed, our teams continue to monitor the latest situation, and our business continuity planning processes also look to ensure that trading can restart smoothly once attractions are able to operate.

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 appropriate and those risks that have the potential to impact liquidity have been considered;
- 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.

Plans for 2020

The continuing drive for simplification and standardisation of business processes supported by the automation of transactional activities will help improve consistency and strengthen our internal control framework across the business.




PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Principal risks






Management has identified Merlin’s principal risks as set out below. The gross risk trend reflects the exposure before mitigation and is used to compare to the previous year as to whether significant risks are stable, increasing or decreasing.

-  Increasing risk
  Decreasing risk
  Stable

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; 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 by Board Committee with a specific mandate for this area. 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. Regular internal and independent external auditing and review regimes. Contractor selection, approval and monitoring by in-house qualified project managers.
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 individuals 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. Commercial impact of external threats to location based entertainment operations 	<ul style="list-style-type: none"> Personal health and security concerns that flow from terrorist activity, public health pandemics or climate change events, resulting in falling visitation to a location in which the Group operates, with displacement of both international and domestic tourists. In extremis, such events may lead to governmental or other regulatory instructions to close our attractions, including over multiple geographies. 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 reduce variable expenditure, for example in staffing, property and marketing costs. Ability to defer non-essential capital expenditure. Crisis management procedures for each attraction that set out the appropriate response. Ability to direct marketing and promotional activity towards domestic or international audiences depending on tourism trends. Ability to promote access to a wide portfolio of attractions using annual pass or cluster ticketing.





PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk	Description	How risks are managed
4. 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.
5. 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.
6. 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.
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, attractions and accommodation. 	<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. Dedicated resources used 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

Risk	Description	How risks are managed
<p>9. IT robustness, technological developments and cyber security</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. <p>In extremis, adverse events may lead to a requirement to seek extra sources of liquidity.</p>	<ul style="list-style-type: none"> • A committed £400 million multi-currency revolving credit facility assists with liquidity and seasonal cash flow requirements. • A committed \$173 million delayed draw down term loan facility. • 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 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.

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Our approach

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. We have robust governance standards and practices that extend throughout the business.

We set out our approach below, including 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.

Employees

Employee engagement

We are proud of our global team of employees who are the driving force behind our purpose – delivering memorable experiences for our guests. Therefore, employee engagement continues to be one of the key elements of our business model.

In order to understand better the levels of engagement and how we can improve our working environments, we run an annual 'Wizard Wants to Know' survey. In 2019 we updated the approach as a 'temperature check' pulse survey, focusing on the three core Merlin engagement areas – being a Great Place to Perform; a Great Place to Work; and a Great Place for Customers. Our latest results confirm that our levels of employee engagement remain significantly above global benchmarks. We're very proud of this achievement, especially our overall engagement level which at 87% showed an increase of 1% year on year.

'The Merlin Way' is the set of values which embody everything we do, and which provide the basis for our goals and objectives. We advocate The Merlin Way through many of our global engagement activities such as our STAR peer to peer recognition programme, our 'All.Together.' diversity and inclusion strategy and our employer brand ethos 'Love your Work. Work your Magic'.

We keep our teams up to date through the 'My Merlin' intranet, a quarterly groupwide newsletter 'The Wizard', our global People Portal, as well as using TV screens and noticeboards in staff rooms and other areas. In addition we have introduced 'Your Voice Counts' (YVC) forums in each attraction for discussing matters which affect the immediate working environment and to agree changes. From 2019 these local forums 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.

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.

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.

At December 2019, three of our ten Executive Committee members were women. Of our management positions (General Managers up to and including the Executive Committee) 149 (38%) are female and 243 (62%) are male. This is an increase from 2018 when 37% of management positions were held by women. We have once again increased the percentage of female permanent employees from 50% to 51% (2019: 4,815, 2018: 4,532).

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. 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.

Gender pay gap

Merlin has now completed its third gender pay gap report for UK employees, under the UK gender pay gap reporting rules. This identifies differences in pay between men and women.

For the latest available reporting period to 5 April 2019, 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 12.9%. 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 2.4%. Both figures were better than the UK average and an improvement on the prior year. 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.

Risk management

For details of how we manage the risks of people availability and their expertise, see pages 15 to 19.

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Health, safety and security

Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group and ensure the safety and wellbeing of our guests, employees and contractors. To support this mission, the Company sets out its core HSS strategic initiatives and how these must direct and focus all efforts in a manner that is both systematic and progressive. To help communicate these to our key internal and external stakeholders, the Company publishes an 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 our dedicated HSS 'Protectingthemagic.com' website. Additional HSS news items and features are also published throughout the year on the Company's 'Backstage' website.

Our core strategic initiatives are as follows:

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. An example is 'safety leadership walks' which are 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.

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

Assessment and control of risk – identifying, understanding and controlling HSS risks effectively. For example in the area of fire safety, 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. With regard to 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.

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 and that no unacceptable or uncontrolled HSS risk is created. Maintenance systems and procedures comprise daily, weekly, monthly and annual maintenance programmes across Merlin's rides, buildings, facilities and estates.

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

This process includes the use of two types of performance metric, being:

- **Leading indicators** – which 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** – which capture incident rates for both guests and employees.

Leading indicators	2019	2018
Safety Inspection Certificates – Rides ⁽¹⁾	100%	100%
Safe Operating Procedures – Rides ⁽²⁾	100%	100%
Food Safety Audits ⁽³⁾	89%	95%
Safety Culture Survey Results ⁽⁴⁾	93%	87%
HSS Committee Meetings ⁽⁵⁾	100%	100%
Lagging indicators		
Medical Treatment Case Rate (Guests) ⁽⁶⁾	0.02	0.03
Medical Treatment Case Rate (Employees) ⁽⁶⁾	0.06	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. The reduction from 2018 reflects an enhanced audit proforma being used and additional scrutiny of new topics or issues.

(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. In 2019 an altered question-set was adopted, aligned to the Company's pulse survey approach for the year, whereby a narrower assessment was made of safety culture in this period. Under this revised approach, the 2018 equivalent score would have been 96%.

(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.

(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.

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Environmental matters

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 minimising the potentially harmful effects of such activity.

The Executive Committee is responsible for setting strategy, policy, principles and guidance with ultimate responsibility for our sustainability strategy resting with the Chief Executive Officer, ensuring that strategic policy is implemented and that our sites' sustainability objectives align to our corporate sustainability objectives. 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.

Each attraction has a sustainability champion or manager who is responsible for the delivery of our sustainability objectives at a local level. More details can be found on the environment page on our website where our environmental policy is published.

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 Istanbul SEA LIFE Aquarium where we optimised our aquarium life support systems to be more energy efficient.
- Weather – the risk of distortion in weather patterns. Merlin operates a balance of 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.

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. For example we continued to partner with Coca-Cola Great Britain to encourage more recycling through state of the art vending machines that reward those who deposited their empty plastic bottles with money off vouchers to 30 of our attractions.

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. Every year SEA LIFE aquariums across the globe host beach cleans to clear up litter and help prevent ocean pollution in their local area. We have 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.

Greenhouse gas (GHG) reporting

We set out in the table below our report on the Company's carbon dioxide emissions.

Carbon emission factors used in 2019 have changed due to a reduction in the use of coal for energy generation. At constant carbon factors our carbon emission intensity reduction would have been 14.0%. At new reported factor carbon rates the reduction was 16.4%.

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 2018 to 30 November 2019 in comparison to our financial year of January to December 2019.
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	21,142 tonnes of CO ₂ equivalent (2018: 22,768 tonnes)
Scope 2 (Localised Based)	101,431 tonnes of CO ₂ equivalent (2018: 109,923 tonnes)
Scope 2 (Market Based)	86,988 tonnes of CO ₂ equivalent (2018: 102,691 tonnes)
Group gross emissions	108,130 tonnes of CO ₂ equivalent (2018: 125,459 tonnes)
Intensity baseline (revenue)	£1,740 million (2018: £1,688 million)
Emissions intensity	62 tonnes of CO ₂ equivalent per £1 million of revenue (2018: 74 tonnes)

Table notes:

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

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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.

Animal conservation and welfare

We operate to world class welfare standards through our animal care network and support the work of the pioneering marine conservation partner charity the SEA LIFE Trust in its mission to protect marine life and habitats across the world. Our SEA LIFE Conservation, Welfare and Engagement team continues to help SEA LIFE to focus on delivering world class animal welfare throughout our animal care network, as well as developing new and exciting guest experiences which will inspire future generations to care for our oceans and all marine life.

In June 2019, the SEA LIFE Trust, together with expert support from Cargolux Airlines International, successfully transferred the two beluga whales, Little Grey and Little White, from Shanghai to their new home on the island of Heimaey on the southern coast of Iceland. The ground-breaking journey saw the whales transported over 6,000 miles via air, land and sea to a purpose-built care pool ahead of their introduction to the Beluga Whale Sanctuary in Klettsvik Bay later in the year. We have been pleased to see such positive social media response in China to our project, and we hope the establishment of this world-first facility will encourage other entertainment operators to review their policies towards keeping cetaceans in captivity.

We support additional animal welfare initiatives that are not connected to the marine environment. Chessington World of Adventures Resort in the UK and WILD LIFE Sydney Zoo in Australia both maintained their long-standing commitment to animal breeding or managed species programmes.

For details of how we manage the risks regarding animal welfare, see page 18.

Merlin's Magic Wand

Now in its twelfth year of operation, in 2019 our partner children's charity Merlin's Magic Wand (MMW) continued 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 730,000 children and their families (over 105,000 in 2019), launched 48 Magic Spaces projects globally, and taken the magic of Merlin 'on tour' to thousands of children in hospitals all over the world.

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.

We continue to be 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. In 2019 Merlin became the first company in the leisure sector to join the 'Valuable 500', the global initiative aimed to raise awareness and unlock the business, social and economic value of people living with disabilities across the world.

Other areas

Anti-corruption and anti-bribery matters

Merlin's approach regarding the management of anti-bribery and corruption risks is set out on page 19. Merlin has a zero tolerance approach in this area, with regular reports on whistleblowing being provided to the Audit Committee.

Ethical sourcing

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

Further details and Merlin's Modern Slavery and Human Trafficking Statement can be found on Merlin's website.

GOVERNANCE

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GOVERNANCE**Overview**

Merlin continues to believe that effective corporate governance is the foundation of a well-run company and is committed to maintaining the highest standards of governance throughout the Company. 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 long term value for our investors. Our corporate governance framework has been designed to safeguard these. The Board is committed to ensuring that the procedures, policies and practices of the business continue to be effective.

Corporate governance framework

Merlin applied the provisions of the UK Corporate Governance Code up to the date of delisting (having adopted the revised provisions of the Code, as published in July 2018).

Until the date of delisting the Company's shares from the London Stock Exchange, Merlin's Board of Directors included Non-executive Directors who provided insight and challenge. In line with the requirements of the Code, at least half the members of the Board of Directors (excluding the Chairman) were independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

As a result of the change in ownership of the Company the usual annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors that is normally performed towards the end of the year was not undertaken. The Board's focus remained concentrated on their other obligations together with ensuring the best interests of stakeholders were met throughout the transaction process.

The Board have recently concluded that the appropriate approach to corporate governance for the Company is to adopt the Wates Corporate Governance Principles for Large Private Companies, which in many respects follow similar principles to the Code.

On 7 April 2020 Roland Hernandez was appointed as Merlin's independent Chairman. Assessing our current compliance with the Wates Principles and embedding these principles will be an area of focus for him and the Board during 2020.

Governance priorities in 2019**Culture**

The Board recognises the importance of culture in ensuring Merlin's long term success. In 2018 an externally facilitated review of Merlin's culture determined that our culture was results-oriented, with fun, customer-centricity and safety at its core and the Board had further discussions regarding the evolution of this culture in 2019. The 'Merlin Way' values are embedded throughout the business from day-to-day management to Board reviews.

General Data Protection Regulation (GDPR)

GDPR came into force in May 2018, introducing a new data protection framework across Europe. The Board oversaw the implementation of the Company's GDPR compliance programme including the roll out of policies, procedures and related staff training and, most importantly, the creation of a groupwide culture of awareness of privacy and data protection. The Board continued to monitor this programme actively in 2019.

Cyber security

Cyber security continues to be a significant risk area and the Board has therefore continued to carefully consider the potential impact of this threat on Merlin. In previous years this has included independent reviews of the cyber security controls in place across the business and Merlin's cyber security maturity levels. In 2019 we took further actions to further strengthen Merlin's resilience as part of a long term cyber security strategy.

Board and Committee composition

Following the acquisition of the Group by the consortium of investors and the subsequent delisting of the Company's shares from the London Stock Exchange, a new Board has been created with representatives of each of the consortium of investors together with the two Executive Directors of Merlin. Details of the Board members can be found on pages 26 to 27.

These changes have led to amendments to the Committees that support the Board, as set out below. The Nomination Committee and Remuneration Committee are currently not in place, with the responsibilities previously discharged to these Committees remaining with the Board.

Board and Committee responsibilities**The Board**

The responsibilities of the pre and post-acquisition Boards have remained consistent in certain areas, with responsibilities in the following areas;

- 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 including:
 - Board membership
 - Board and senior management remuneration
 - Succession planning
 - Diversity
 - Financial reports

Board Committees

The following Board Committees have been in operation during the year and unless otherwise stated, remain.

Health, Safety and Security Committee

This Committee ensures that health, safety and security matters are managed effectively and proactively throughout the Group, by overseeing our policies and procedures for HSS, monitoring our processes for identifying and managing risks and monitoring the skills, effectiveness and levels of resource within our HSS teams.

As a listed business, its membership included four Non-executive Directors, the Group CEO and CFO, together with the Group HSS Director and the Managing Directors of the Resort Theme Parks and Midway Attractions Operating Groups. Following the resignation of the Non-executive Directors, representatives from each of the consortium of investors have joined the Committee.

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This Committee assists the Board in discharging its responsibilities with regard to financial reporting by monitoring the integrity of our financial statements including considering whether the financial statements are 'fair, balanced and understandable'. It assists the Board in relation to external and internal audits, including monitoring and reviewing the effectiveness of the internal audit function and overseeing the performance and independence of external auditors. It also assists the Board in matters of risk management and internal controls, including monitoring and reviewing the effectiveness of our whistleblowing and fraud policies and our internal control and risk management.

As a listed business, the Audit Committee's membership consisted of four independent Non-executive Directors. Now Merlin is privately owned, the Committee consists of representatives from two of the consortium of investors, including one Board member.

Remuneration Committee

Until the delisting, the Remuneration Committee assisted the Board in determining its responsibilities in relation to remuneration, including making recommendations on our policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and the fees of the Chairman and recommending and monitoring the remuneration of senior management below Board level. The Committee considered all material elements of Merlin's remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice and made recommendations on the framework for executive remuneration. The Committee was also responsible for making recommendations for the grants of awards under our share incentive plans and approving the vesting levels of such awards while the Group was listed, including those awards that vested prior to the sale of the Group.

As a listed business, the Remuneration Committee's membership consisted of four independent Non-executive Directors and the Chairman of the Board.

Nomination Committee

Until the delisting, this Committee assisted the Board in discharging its responsibilities relating to the composition of the Board and diversity within the business.

The Committee was also responsible for ensuring the Group continued with the commitment to its diversity and inclusion strategy, retaining focus on gender diversity and the incorporation of all aspects of overall diversity including cultural and ethnic leadership and disability.

As a listed business, the Nomination Committee's membership consisted of three independent Non-executive Directors.

Other Committees

In addition to the Board Committees, there are three non-Board Committees:

- **Executive Committee** – chaired by the Chief Executive Officer, this Committee is responsible for managing the Group's day to day operations and the development of strategic plans for consideration by the Board.

Two operational committees have specific areas of responsibility as follows:

- **Commercial and Strategic Risk Management Committee** – maintains oversight and guidance on management of commercial and strategic risk.
- **Development Board** – appraises significant capital expenditure and development projects.

Section 172 statement

Pre and post-acquisition Boards have remained consistent in their approach to stakeholder engagement and acknowledging the need to maintain high standards of business conduct. During the decision-making process the Board continues to have regard for the impact of their decisions on the Company's stakeholders as required in section 172 of the Companies Act 2006, taking into account the likely consequences of any decision in the long term. The Board takes their responsibility to understand the views of those stakeholders seriously and strives to build productive business relationships with them. During 2019, Merlin has engaged significantly with our stakeholders throughout the year and in 2020 the Board will look to further the inclusion of stakeholders' interests within the Board decision-making processes.

Employees

During the year the Board has considered engagement with our employees in a constructive way to enable consideration of employees effectively when making decisions and designing strategies. As set out in more detail on page 20, these activities include Merlin's annual global employee engagement survey, the creation of a Group Diversity and Inclusion Council and the new regional 'Your Voice Counts' forum, which has been successfully piloted in the UK. This forum has direct engagement with the CEO (and whilst Merlin was listed, the involvement of a Non-executive Director). Merlin plans to roll out the forum globally from 2020.

During Merlin's period as a listed Company the Board oversaw the introduction of global all employee Sharesave plans that delivered significant value to employees.

Suppliers

Merlin believes a collaborative approach with suppliers enables the most mutually beneficial relationship, allowing us to engage on matters that affect both Merlin's and our supplier's key strategies. An example is the return in 2019 of our partnership with Coca-Cola Great Britain which offers consumers 50% off entry to Merlin attractions, in exchange for their used plastic bottles.

Guests

The satisfaction of our guests is consistently monitored at each attraction with a centralised product excellence team who help to drive improvements. Merlin targets a minimum 90% satisfaction rate, with a focus on 'Top Box' and 'Net Promoter' scores. This score was exceeded in 2019. The Board understands that the key to Merlin's continued success is to maintain high levels of guest satisfaction. This is therefore monitored by the Board through business updates at every Board meeting and a detailed annual report on guest satisfaction being presented to the Board by Merlin's customer excellence team.

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Merlin aims to provide magical and memorable days out for everyone, including the many guests with disabilities that visit our attractions. This is something the Board take very seriously with inclusivity already a regular Board agenda item. In May 2019 Merlin became the first company in the leisure sector to join the 'Valuable 500' campaign which aims to raise awareness and unlock the business, social and economic value of people living with disabilities across the world. We work with many local charities including our charity partner Merlin's Magic Wand to create memorable days out for guests and to work collaboratively to enhance the accessibility of our sites.

Communities and the environment

Merlin understands that our business has an impact on communities, and we engage with them in a number of different ways. One of the most successful means of engagement is through 'open houses', where for each of our new LEGOLAND parks we endeavour to engage with the local community as much as possible to minimise any negative effects on them. At LEGOLAND New York we rented an office in Goshen where local residents could come and discuss any concerns they had regarding the project. This project is of strategic significance to the Group and the Board receives regular updates from senior operational directors including the concerns from the local community. This information is used to monitor the project and improve other new developments.

As set out on page 22, Merlin recognises that our operations impact upon the environment and we are committed to minimising the potentially harmful effects of our activities.

Board membership

The members of the Board during the year and at the date of this report are set out below.

The Group Chief Executive Officer and the Group Chief Financial Officer are executive roles and these positions do not have voting rights at Board meetings. The other Directors currently serving represent the members of the investor consortium, who also have the right to appoint observers to Board and Committee meetings. Each Director from the consortium of investors has one vote at the Board.

Nick Varney, Group Chief Executive Officer

Nick has nearly 30 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999. He was appointed a Director of the Company on 20 October 2013.

Nick started his career in FMCG marketing, first with Rowntree and then with Reckitt Colman. He went on to hold senior positions within The Tussauds Group (Pearson PLC), including Marketing Director of Alton Towers and Head of Group Marketing, before becoming Managing Director of Vardon Attractions and a main Board Director of Vardon plc. In 1999 Nick led the management buyout of Vardon Attractions to form Merlin Entertainments and, in 2005, initiated the process which led to its acquisition by Blackstone.

Nick is a Board member of UK Hospitality, the trade body representing the UK's hospitality and tourism industry with a membership of over 45,000 companies.

Anne-Francoise Nesmes, Group Chief Financial Officer

Anne-Francoise was appointed Chief Financial Officer in August 2016. With over 25 years' experience in finance across international organisations, Anne-Francoise brings a strong focus on strategy execution, M&A, process improvement and governance.

Anne-Francoise started her career in the UK as a finance graduate trainee at John Crane, before moving to Tetra Pak, then ADP and later Caterpillar UK. In 1997, she joined GlaxoSmithKline and held a variety of increasingly senior roles across the organisation in the UK and overseas, including Senior Vice President of Finance for Vaccines. In April 2013, Anne-Francoise joined Dechra Pharmaceuticals PLC as Chief Financial Officer, where she was instrumental in transforming Dechra into a successful pharmaceutical company specialising in animal health. She led the expansion of its international footprint through acquisitions and delivered significant efficiencies through modernising finance and R&D processes. Anne-Francoise is a Non-executive Director of Compass Group PLC.

On 9 April 2020 it was announced that Anne-Francoise had been appointed as Chief Financial Officer of Smith+Nephew, the global medical technology business. She will remain as Merlin's Chief Financial Officer until the end of June 2020.

Søren Thorup Sørensen

Søren was appointed as a Non-executive Director of Merlin in 2013, prior to Merlin's IPO, representing KIRKBI. Søren has over 25 years' experience in finance and is currently the Chief Executive Officer of KIRKBI A/S and Director of various entities in the KIRKBI Group. Søren is currently Chairman of the Board of Boston Holding A/S and a Non-executive Director of Falck A/S and a Non-executive Director of Landis & Gyr. Søren was formerly a Partner, Chief Financial Officer of A.P. Moller – Maersk Group and Managing Partner of KPMG Denmark.

Søren chairs the Audit Committee.

Sidsel Marie Kristensen

Sidsel was appointed as a Director on 4 November 2019. She is also a member of the Health and Safety Committee, representing KIRKBI. Sidsel has almost 20 years' experience as a lawyer. Sidsel joined KIRKBI A/S in 2016 and is currently Senior Vice President and Head of Legal at KIRKBI A/S and Director of various entities in the KIRKBI Group. Sidsel was formerly a Partner of the Danish law firm Bech-Bruun.

Jørgen Vig Knudstorp

Jørgen was appointed as a Director on 4 November 2019, having previously been an observer at the Board while Merlin was listed. Since May 2017, Jørgen has been the Executive Chairman of LEGO A/S and since January 2017, Jørgen has been the Executive Chairman of LEGO Brand Group. Jørgen is a member of the Board of Starbucks. Jørgen was formerly President and Chief Executive Officer of the LEGO Group from 2004 to 2016.

GOVERNANCE

CORPORATE
GOVERNANCE**Joseph Baratta**

Joseph was appointed as a Director on 4 November 2019. Joseph Baratta is Global Head of Private Equity at Blackstone and a member of the firm's Management Committee. He also serves on many of the firm's investment committees.

Mr Baratta joined Blackstone in 1998 and in 2001 he moved to London to help establish Blackstone's corporate private equity business in Europe. Since 2012, Mr Baratta has served as the firm's Global Head of Private Equity and is located in New York.

Mr Baratta has served on the Boards of many past Blackstone portfolio companies and currently serves as a member or observer on the Boards of First Eagle Investment Management, Refinitiv, and SESAC. He is also a member of the Board of Trustees of Georgetown University; is a trustee of the Tate Foundation; serves on the Board of Year Up, an organisation focused on youth employment; and serves on the Board of Trustees of Trinity School in New York City.

Before joining Blackstone, Mr Baratta was with Tincum Incorporated and McCown De Leeuw & Company. Mr Baratta also worked at Morgan Stanley in its mergers and acquisitions department. Mr Baratta graduated magna cum laude from Georgetown University.

Peter Wallace

Peter was appointed as a Director on 4 November 2019. Peter is a Senior Managing Director and serves as co-head of U.S. Acquisitions for Blackstone's Private Equity Group. Peter leads Blackstone's private equity investments in the business services, leisure and consumer/retail sectors.

Since joining Blackstone in 1997, Peter has led or been involved in Blackstone's investments in Alight Solutions, AlliedBarton Security Services, Allied Waste, American Axle & Manufacturing, Centennial Communications, Centerplate (formerly Volume Services America), CommNet Cellular, GCA Services, LocusPoint Networks, Merlin Entertainments, Michaels Stores, New Skies Satellites, Outerstuff, Ltd., Pinnacle Foods/Birds Eye Foods, PSAV, PSSI, SeaWorld Parks & Entertainment (formerly Busch Entertainment Corporation), Service King, Servpro, Sirius Satellite Radio, Tradesmen International, Universal Orlando, Vivint, Vivint Solar and The Weather Channel Companies. He currently serves on the Board of Directors of Alight Solutions, Merlin Entertainments, Michaels Stores, Outerstuff, Ltd., PSAV, PSSI Service King, Servpro, Tradesmen International, Vivint and Vivint Solar. Peter received a BA from Harvard College, where he graduated magna cum laude.

Lori Hall-Kimm

Lori was appointed as a Director on 4 November 2019. Since 2018, Lori has been a Managing Director of Direct Private Equity at CPPIB, where she was previously Senior Principal of Secondaries and Co-Investments from 2016 to 2018. She was a Director of Private Capital at Ontario Teachers' Pension Plan from 2005 to 2015. Lori is currently also on the Board of Nord Anglia Education. Lori was formerly on the Board of 99 Cents Only Stores from 2018 to 2020, Gruppo Coin and OVS SpA from 2013 to 2015 and Alexander Forbes Pty from 2007 to 2014.

Roland Hernandez

Roland was appointed as a Director and independent Chairman on 7 April 2020. He is the Founding Principal and Chief Executive Officer of Hernandez Media Ventures, a privately held company engaged in the acquisition and management of media assets. He has served in this capacity since January 2001.

Before founding Hernandez Media Ventures, Roland served as Chairman of Telemundo Group, Inc., a Spanish-language television and entertainment company, from 1998 to 2000 and as President and Chief Executive Officer from 1995 to 2000. He serves as a member of the Boards of US Bancorp, Fox Corporation, MGM Resorts International, and Take-Two Interactive Software, Inc. He serves on the advisory board of Harvard Law School and previously served on the Board of Directors of Belmond Ltd, Sony Corporation, Walmart Inc, and Vail Resorts, Inc.

Roland received an A.B. in economics from Harvard College and a J.D. from Harvard law school.

Resignations in the year:

The following Board members resigned during the year on 4 November 2019 as a result of the delisting;

Sir John Sunderland – Chairman
Charles Gurassa – senior independent Non-executive Director
Trudy Rautio – independent Non-executive Director
Fru Hazlitt – independent Non-executive Director
Rachel Chiang – independent Non-executive Director
Andrew Fisher – independent Non-executive Director

GOVERNANCE

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 28 December 2019. Comparative figures relate to the 52 weeks ended 29 December 2018.

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 Responsible Business section on pages 20 to 23.

Other information

Other information is set out as follows:

- Business review and future developments – see pages 2 to 23.
- Research and development – details about Merlin Magic Making are located on page 5.
- Directors – details are on pages 26 to 27.
- Employees – details on how we communicate with employees are on page 20.
- Directors' responsibilities statement – see page 30

Governance

Alignment with the UK Corporate Governance Code (the 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).

Until November 2019 (when the Group delisted from the London Stock Exchange), the Group was aligned with the five core principles in the Code which can be summarised as follows:

- **Leadership** – through clear divisions of responsibilities at the head of the Company with an independent Chairman and Non-executive Directors.
- **Effectiveness** – through annual evaluations of the Board and its Committees.
- **Accountability** – through the operations of the Audit Committee including its oversight of the processes to support the Group's 'fair, balanced and understandable' assessments of Merlin's position and prospects.
- **Remuneration** – through the key principles of Merlin's remuneration strategy and how it is designed to promote the long term success of the Group.
- **Relations with shareholders** – through regular dialogue with shareholders based on the mutual understanding of objectives.

Wates Principles

The Board are adopting the Wates Corporate Governance Principles for Large Private Companies which in many respects follow similar principles to the Code. Details of the Wates Principles framework can be viewed on the website of the Financial Reporting Council (www.frc.org.uk).

Other information

Other information is set out as follows:

- Corporate Governance – see pages 24 to 27.
- Section 172 statement – see pages 25 to 26.

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.
- Related parties – see note 5.3.
- Subsidiaries and joint ventures – see note 5.8.

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. 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 and the Companies Act and related legislation, with regard to the appointment and replacement of Directors.

Power of Directors in respect of share capital

The Directors may exercise all the powers of the Company. During the year, in connection with the Company's employee share incentive plans while listed on the London Stock Exchange, 14,521,909 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.

GOVERNANCE

DIRECTORS' REPORT

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.

Branches outside the UK

Merlin Entertainments Limited has no branches outside the UK.

Dividend

A final dividend for the year ended 29 December 2018 of 5.5 pence per share was paid on 16 May 2019.

Subsequent events

Subsequent to the year end, and in response to the COVID-19 pandemic, the Group has drawn down all the £400 million RCF available under the Motion JVCO Limited Group's financing facilities.

For further details on how the pandemic has affected the Group's going concern assessment, see the section below and note 1.1 to the financial statements.

Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In making this statement the Directors have satisfied themselves that based on its current base case projections, the Group 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.

This assessment also takes into account an assessment of the impact of the COVID-19 pandemic and the need for the Group to seek extra sources of liquidity should attraction closures be prolonged, which results in a material uncertainty to going concern. For further details see note 1.1 to the financial statements.

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. 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 Report and the Directors' Report were approved by the Board on 16 April 2020.

For and on behalf of the Board

Matthew Jowett

General Counsel and Company Secretary
16 April 2020

Merlin Entertainments Limited
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 and as permitted by the Luxembourg Stock Exchange (Euro MTF) the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they 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 and reliable;
- 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; and
- 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 and a Directors' Report that complies with that law and those regulations.

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

1 Our opinion is unmodified

We have audited the financial statements of Merlin Entertainments Limited (the Company) for the 52 weeks ended 28 December 2019 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 Company's affairs as at 28 December 2019 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 (IFRSs as adopted by the EU);
- the 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.

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 have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Material uncertainty related to going concern

We draw attention to note 1.1 to the financial statements which indicates that the challenges posed by the COVID-19 pandemic mean that the Group's and the Company's ability to continue as a going concern in a severe but plausible downside scenario are dependent on cash injections from the consortium of investors in the Company's ultimate parent company (Motion JVCO Limited), the confirmation (already received) that Motion JVCO Limited will not seek the repayment of preference shares held as debt and parent company loans and/or the extension of further bank facilities. These events and conditions, along with the other matters explained in note 1.1, constitute a material uncertainty that may cast significant doubt on the Group and the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The risk: disclosure quality

There is little judgement involved in the Directors' conclusion that risks and circumstances described in note 1.1 to the financial statements represent a material uncertainty over the ability of the Group and Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.

However, clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.

Our response:

Our procedures included:

Assessing transparency: assessing the completeness and accuracy of the matters covered in the going concern disclosure by;

- Evaluating the processes and models used by management in its assessment;
- Evaluating whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit;
- Evaluating management's assessment of the entity's compliance with debt covenants; and
- Assessing the reasonableness of management's budgets/forecasts including comparisons to past performance and the evaluation of downside sensitivities.

Our results

We found the disclosure of the material uncertainty to be appropriate.

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

3 Other 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
<p>Carrying value of Resort Theme Parks (RTP) goodwill</p> <p>£202 million (2018: £212 million)</p> <p>Refer to pages 60 to 61 (accounting policy) and pages 61 to 62 (financial disclosures)</p> <p>Risk vs. 2018: decreasing</p>	<p>Forecast based valuation: A history of business combinations has resulted 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 a forecast based valuation, particularly the estimate of forecast cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the forecast future cash flows used in calculating 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 sensitivities estimated by the Group.</p>	<p>Our procedures included:</p> <p>Historical comparisons:</p> <ul style="list-style-type: none"> assessing the historical accuracy of the Group's forecasting over a five year period 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>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 with the expected value of the business based on a recently observable sale of the Group; 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 We found the resulting estimate of the recoverable amount of RTP goodwill to be acceptable (2018: acceptable).</p>

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

	The risk	Our response
<p>Visitor and accommodation revenue recognition:</p> <p>£1,672 million (2018: £1,586 million)</p> <p>Refer to page 47 (accounting policy) and pages 46 to 47 (financial disclosures).</p> <p>Risk vs 2018: <i>stable</i></p>	<p>Processing error:</p> <p>Merlin's revenues come from a number of different channels, locations and systems, sometimes featuring manual processes to match past purchases to redemptions or to transfer data to the finance systems.</p> <p>The low value of individual transactions means individual errors would be insignificant, however the high volume of transactions mean systemic failure could lead to difficulty in detecting errors that, in aggregate, may have a material impact.</p>	<p>Our procedures included:</p> <p>Control design and 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>IT controls: 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>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:</p> <ul style="list-style-type: none"> • agreeing a sample of revenue transactions to bank statements or other supporting documentation. • testing deferred revenue balances through agreement to ticketing system records and re-performing specific manual calculations. The extent of this testing reflected the outcome of our controls testing at each location. <p>Our results</p> <p>We found the revenue amounts recognised to be acceptable (2018: <i>acceptable</i>).</p>
<p>Recoverability of the parent Company's investment in and amounts owed by Group undertakings</p> <p>Investments in subsidiaries £3,160 million (2018: £3,137 million), Amounts owed by Group undertakings £46 million current, £3,843 million non-current (2018: £4 million current, £1,260 million non-current)</p> <p>Refer to pages 90 to 95 (accounting policy and financial disclosures).</p> <p>Risk vs 2018: <i>increased</i></p>	<p>Low risk, high value:</p> <p>The carrying amount of the parent Company's investment in its subsidiary and the amounts owed by Group undertakings represents 100% (2018: 99.9%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or 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>Comparing valuations: comparing the carrying amount of the investment with the expected value of the business based on the recently observable sale of the Group.</p> <p>Assessing component audits: assessing the work performed by the component audit team on those components and considering the results of that work, on those components' profits and net assets.</p> <p>Our results</p> <p>We found the Group's assessment of the recoverability of the investment in and amounts owed by Group undertakings to be acceptable (2018: <i>acceptable</i>).</p>

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

4 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 £12,250,000 (2018: £14,300,000), determined with reference to a benchmark of Group underlying profit before tax, of which it represents 5.2% (2018: 5.0% of Group profit before tax). We consider Group underlying profit before tax to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax due to the value of exceptional items in the year and therefore we have changed our benchmark from 2018. Materiality for the parent Company financial statements as a whole was set at £2,500,000 (2018: £4,500,000), determined by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.04% of the parent Company's total assets (2018: 0.1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements affecting profit exceeding £600,000 (2018: £715,000) or otherwise exceeding £2,000,000 (2018: £2,000,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The components within the scope of our work accounted for the percentages illustrated opposite. 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 31 components in the following countries: Australia, China (including Hong Kong), Denmark, Germany, Italy, Japan, Thailand, UK and USA.

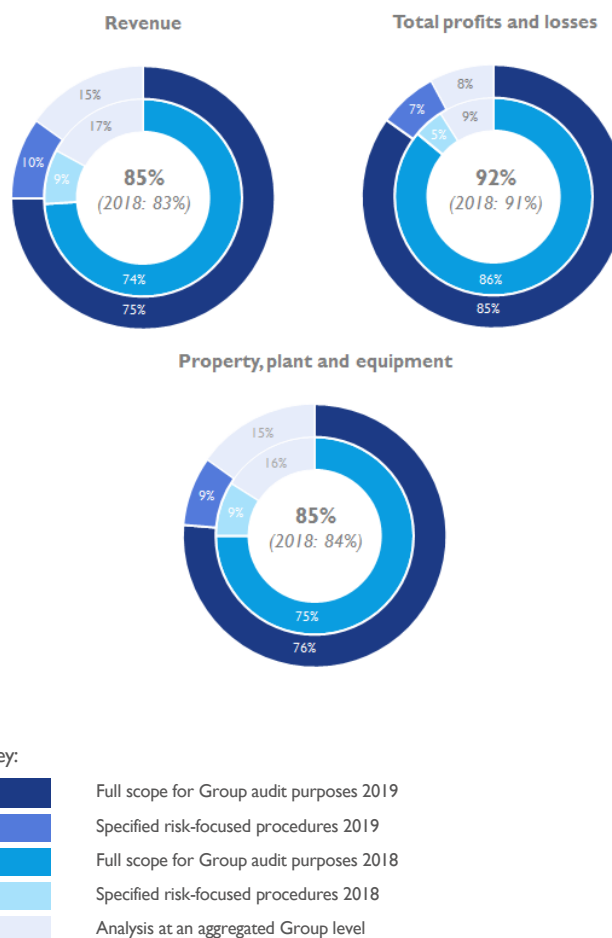
The 21 components for which we performed specified risk-focused audit procedures or analysis at an aggregated Group level were not individually significant but were included in the scope of our Group reporting work to provide further coverage. We select these components on a rotational basis, setting 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 remaining 8% of total Group profit before tax, 15% of Group revenue and 15% of Group property, plant and equipment is represented by a large number of smaller reporting components, none of which individually represented more than 2.7% 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 £6,000,000 (2018: £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 41% (2018: 19%) 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 1% (2018: 4%) of total profits and losses that made up Group profit before tax.

The Group team visited two (2018: one) overseas component locations in Italy and Australia (2018: California) 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. Any further work required by the Group team was then performed by the component auditor.

The Group team also routinely reviews the audit documentation of all component audits. This year for two components in China, where the coronavirus prevented entry to the country and remote access to audit documentation is prohibited, we instead extended our oversight of those component teams through extended telephone discussions and expanded reporting.



INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

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.

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 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 30, 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 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 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 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.

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

16 April 2020

PRIMARY STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	2019			2018 Restated ⁽¹⁾		
		Underlying trading £m	Exceptional items ⁽⁴⁾ £m	Total £m	Underlying trading £m	Exceptional items ⁽⁴⁾ £m	Total £m
Continuing operations							
Revenue	2.1	1,740	-	1,740	1,653	-	1,653
Cost of sales	2.1	(317)	-	(317)	(295)	-	(295)
Gross profit		1,423	-	1,423	1,358	-	1,358
Staff expenses	2.1	(459)	(23)	(482)	(436)	-	(436)
Marketing		(90)	-	(90)	(83)	-	(83)
Other operating expenses		(305)	(50)	(355)	(273)	(4)	(277)
EBITDA⁽²⁾	2.1	569	(73)	496	566	(4)	562
Depreciation, amortisation and impairment	3.1, 3.2, 4.4	(227)	(38)	(265)	(209)	-	(209)
Operating profit		342	(111)	231	357	(4)	353
Finance income	2.3	5	47	52	10	-	10
Finance costs	2.3	(113)	(37)	(150)	(99)	-	(99)
Profit before tax		234	(101)	133	268	(4)	264
Taxation	2.4	(67)	14	(53)	(49)	-	(49)
Profit for the year from continuing operations		167	(87)	80	219	(4)	215
Discontinued operations							
Profit for the year from discontinued operations	2.5	-	42	42	5	-	5
Profit for the year⁽³⁾		167	(45)	122	224	(4)	220

⁽¹⁾ Restated for the adoption of IFRS 16 as explained in note 1.1 and the presentation of discontinued operations as explained in note 2.5.

⁽²⁾ EBITDA – this is defined as profit before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of attributable profit after tax of joint controlled entities.

⁽³⁾ Profit for the year for 2019 and 2018 is wholly attributable to the owners of the Company.

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

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	2019 £m	2018 Restated ⁽¹⁾ £m
Profit for the year		122	220
Other comprehensive income			
<i>Items that cannot be reclassified to the consolidated income statement</i>			
Equity investments at FVOCI - net change in fair value	5.1	3	-
Defined benefit plan remeasurement gains and losses	5.2	(2)	(1)
Income tax on items relating to components of other comprehensive income	2.4	1	-
		2	(1)
<i>Items that may be reclassified to the consolidated income statement</i>			
Exchange differences on the retranslation of net assets of foreign operations		(81)	14
Exchange differences relating to the net investment in foreign operations		20	(5)
Cash flow hedges - effective portion of changes in fair value		-	5
Cash flow hedges - reclassified to profit and loss	2.3	(2)	(4)
		(63)	10
Other comprehensive income for the year net of income tax		(61)	9
Total comprehensive income for the year		61	229
Total comprehensive income attributable to:			
Owners of the Company		61	228
Non-controlling interest		-	1
Total comprehensive income for the year		61	229
Total comprehensive income attributable to owners of the Company arising from:			
Continuing operations		18	224
Discontinued operations		43	4
		61	228

⁽¹⁾ Restated for the adoption of IFRS 16 as explained in note 1.1 and the presentation of discontinued operations as explained in note 2.5.

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 28 December 2019 (2018: 29 December 2018)

	Note	2019 £m	2018 Restated ⁽¹⁾ £m	2017 Restated ⁽¹⁾ £m
Property, plant and equipment	3.1	2,263	2,169	1,923
Right-of-use assets	4.4	976	993	966
Goodwill and intangible assets	3.2	1,012	1,028	1,018
Investments	5.1	63	61	59
Other receivables	3.4	12	14	11
Deferred tax assets	2.4	60	68	63
Non-current assets		4,386	4,333	4,040
Inventories	3.4	54	47	37
Trade and other receivables	3.4	124	122	97
Derivative financial assets		2	3	5
Cash and cash equivalents	4.1	160	110	309
Current assets		340	282	448
Total assets		4,726	4,615	4,488
Interest-bearing loans and borrowings	4.2	2	8	7
Lease liabilities	4.4	39	38	33
Amounts owed to parent undertaking	4.2	16	-	-
Derivative financial liabilities		2	4	3
Trade and other payables	3.4	443	345	298
Tax payable		53	43	37
Provisions	3.5	5	7	5
Current liabilities		560	445	383
Interest-bearing loans and borrowings	4.2	310	1,092	1,271
Lease liabilities	4.4	1,119	1,145	1,105
Parent company loans	4.2	758	-	-
Preference shares issued to parent company treated as liabilities	4.2	2,120	-	-
Other payables	3.4	24	26	9
Provisions	3.5	92	80	71
Employee benefits	5.2	7	6	6
Deferred tax liabilities	2.4	157	182	171
Non-current liabilities		4,587	2,531	2,633
Total liabilities		5,147	2,976	3,016
Net (liabilities)/assets		(421)	1,639	1,472
Issued capital and reserves attributable to owners of the Company		(425)	1,634	1,468
Non-controlling interest		4	5	4
Total equity	4.5	(421)	1,639	1,472

The financial statements were approved by the Board of Directors on 16 April 2020 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

⁽¹⁾ Restated for the adoption of IFRS 16 as explained in note 1.1.

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	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 31 December 2017 (as previously reported)		10	10	(18)	1	1,560	1,563	4	1,567
Adjustment on initial application of IFRS 16 (net of tax)		-	-	(2)	-	(93)	(95)	-	(95)
At 31 December 2017 (restated)		10	10	(20)	1	1,467	1,468	4	1,472
Profit for the year		-	-	-	-	220	220	-	220
Other comprehensive income for the year net of income tax		-	-	8	1	(1)	8	1	9
Total comprehensive income for the year		-	-	8	1	219	228	1	229
Shares issued		-	6	-	-	-	6	-	6
Equity dividends	4.5	-	-	-	-	(76)	(76)	-	(76)
Equity-settled share-based payments	4.6	-	-	-	-	8	8	-	8
At 29 December 2018		10	16	(12)	2	1,618	1,634	5	1,639
Profit for the year		-	-	-	-	122	122	-	122
Other comprehensive income for the year net of income tax		-	-	(61)	(2)	2	(61)	-	(61)
Total comprehensive income for the year		-	-	(61)	(2)	124	61	-	61
Shares issued	4.5	-	30	-	-	-	30	-	30
Bonus issue of preference shares	4.5	-	-	-	-	(2,117)	(2,117)	-	(2,117)
Equity dividends	4.5	-	-	-	-	(56)	(56)	-	(56)
Equity-settled share-based payments	4.6	-	-	-	-	23	23	-	23
Dividends to non-controlling interest		-	-	-	-	-	-	(1)	(1)
At 28 December 2019	4.5	10	46	(73)	-	(408)	(425)	4	(421)

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	2019 £m	2018 Restated ⁽¹⁾ £m
Cash flows from operating activities			
Profit for the year		122	220
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	3.1, 3.2, 4.4	265	209
Finance income	2.3	(52)	(10)
Finance costs	2.3	150	99
Taxation	2.4	53	49
Profit for the year from discontinued operations, net of tax	2.5	(42)	(5)
		496	562
Decrease/(increase) in working capital		22	(24)
Changes in provisions and other non-current liabilities		15	28
Operating cash flows from discontinued operations	2.5	-	12
		533	578
Tax paid		(73)	(46)
Net cash inflow from operating activities		460	532
Cash flows from investing activities			
Interest received		1	1
Purchase of property, plant and equipment		(379)	(332)
Disposal of discontinued operations, net of cash disposed of	2.5	92	-
Disposal of property, plant and equipment		8	-
Grants received	5.3	41	14
Net cash outflow from investing activities		(237)	(317)
Cash flows from financing activities			
Proceeds from issue of share capital	4.5	30	6
Equity dividends paid	4.5	(56)	(76)
Proceeds from borrowings		-	651
Repayment of borrowings		(791)	(863)
Proceeds from parent company loans		800	-
Capital repayment of lease liabilities		(48)	(31)
Interest paid		(105)	(103)
Financing costs		(2)	(6)
Settlement of interest rate swaps		7	5
Dividends paid to non-controlling interest		(1)	-
Net cash outflow from financing activities		(166)	(417)
Net increase/(decrease) in cash and cash equivalents		57	(202)
Cash and cash equivalents at beginning of year	4.1	110	309
Effect of movements in foreign exchange		(7)	3
Cash and cash equivalents at end of year	4.1	160	110

⁽¹⁾ Restated for the adoption of IFRS 16 as explained in note 1.1 and the presentation of discontinued operations as explained in note 2.5.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

I.1 BASIS OF PREPARATION

Merlin Entertainments Limited (the Company) is a private 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 Company was formerly Merlin Entertainments plc until it de-listed from the London Stock Exchange in November 2019 and became a private limited company.

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 28 December 2019 (2018: 52 weeks ended 29 December 2018). 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 £122 million (2018 as restated: £220 million) and generated operating cash inflows of £460 million (2018 as restated: £532 million). Notwithstanding net liabilities of £421 million as at 28 December 2019, the consolidated financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate for the reasons as set out below.

Coronavirus (COVID-19) pandemic

As at the date of approving these financial statements, the impact of COVID-19 on the Group's trading is continually being assessed and subject to rapid change. Currently substantially all of the Group's attractions are closed. While regional variations are anticipated, our 'base case' assumption is that this situation continues until mid-May. We then anticipate governmental restrictions on businesses opening and the ability of citizens to move freely may lift. This base case then assumes a gradual recovery to more normalised trading levels in the following weeks, such that once attractions are open ongoing revenue would recover to over 90% of normal levels after two months.

The Directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements which indicate that in this scenario, the Group will have sufficient funds to meet its liabilities as they fall due for that period. Under this scenario there would be no breach of lending facilities as they enable trading shocks of this nature to be taken into account within the covenant calculations. There are no material capital repayments of debt falling due within the forecast period.

During this period the business is currently taking appropriate measures to preserve liquidity. The following mitigating actions have been built into the base case scenario;

- The Group has drawn down all the £400 million RCF available under the Motion JVCO Limited Group's financing facilities (see below). Cash on hand at the end of March 2020 totalled approximately £514 million. There are no significant restrictions on the ability of the Company to move cash around the Group.
- A significant element of the Group's cost base relates to wages and salaries, including in respect of seasonal staff that work in the Group's theme parks and other attractions over the peak summer trading period. Recruitment of these staff is being delayed as events unfold. Additionally, some of our staff work under 'variable hours' contracts that enable a level of flexibility. Where possible, and subject to local regulations, staffing levels and the hours operated are being reduced. Regarding permanent staff members, in certain territories government assistance is available to offset costs that continue to be incurred.
- We have rephased or delayed capital expenditure. While the Group's future growth plans include significant new business development capital expenditure, much of this is not currently contracted and can therefore be delayed. Where it is has become impossible to continue construction because of local restrictions, this also helps to preserve cash. The most significant of these projects is LEGOLAND New York where construction is currently on hold but is planned to recommence when possible to ensure an opening in Spring 2021. Essential capital expenditure to ensure the health and safety of our guests and staff has continued where required prior to the re-opening of attractions that are currently closed.
- We have agreed certain rent deferrals and rent-free periods with a number of landlords.
- We are taking advantage of the UK Government rates relief, and concessions over tax payments in various countries.
- In the first half of the year we would normally be incurring marketing expenditure such as TV advertising to drive summer trading. Reflecting the timing of when such expenditure is normally committed, we have been able to delay and/or cancel such expenditure in several territories. Other variable expenditure has also been reduced where possible.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

I.1 BASIS OF PREPARATION (CONTINUED)**Downside scenario**

It is currently very difficult to assess how the COVID-19 situation will evolve. The Directors believe the base case scenario above is reasonable, assuming as it does a shut-down of the entire trading estate for two months, and a phased level of recovery. However, it is possible that site closures may continue for a longer period, and/or that the recovery profile is slower than in the base case. The Directors have therefore prepared a more severe downside scenario that models a four month shut-down lasting until mid-July 2020, with a slower recovery profile than in the base case, such that once attractions are then open it would be more than five months before ongoing revenue would recover to over 90% of normal levels.

Consistent with the base case, this scenario would not give rise to a breach of the covenants in the debt facilities. The ability to adjust for trading shocks of this nature remains available during the term of debt facilities.

In this situation, without any new sources of funds, the Group's currently available liquidity could be exhausted during Q3 2020.

Were the Group to require access to further liquidity, this could be sought through cash injections from the consortium of investors in the Company's ultimate parent company Motion JVCO Limited, and/or the extension of further lending facilities. Given the Company's history of cash generation we would expect to be able to raise such funds as were necessary, however there is no guarantee that such funds will be available.

Access to wider Group facilities

The base case forecasts and downside sensitivities noted above partly depend on the ultimate parent company, Motion JVCO Limited, not seeking repayment of the preference shares held as debt and parent company loans, which at 28 December 2019 amounted to £2,120 million and £758 million respectively. Motion JVCO Limited has indicated its intention not to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. Motion JVCO Limited has also indicated that the £400 million RCF noted above is solely available for the Group and will not be used for any other purpose. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on these indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Basis of consolidation

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

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

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

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

Foreign currency

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

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

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

The reporting date foreign exchange rates by major currency are provided in note 4.3.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 and parent company loans and preference shares, 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.
- Investments (note 5.1) - earnings multiple when calculating the fair value of investments.
- 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 below.

New standards and interpretations

The standard that has been implemented in the year that has had the most significant impact is IFRS 16 'Leases', 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.

IFRS 16 'Leases'

IFRS 16 'Leases' became effective for 2019 reporting periods onwards and introduces a single, on-balance sheet lease accounting model for lessees.

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 has recognised a new asset in the form of a right-of-use (ROU) asset, together with an associated lease liability. The income statement now includes a depreciation charge for the ROU asset and an interest expense on the lease liability. This replaces the previous accounting for operating leases that were expensed within operating expenses on a straight-line basis over the term of the lease. Where the Group's lease expense is linked to turnover or other performance criteria, this element continues to be recorded as rent within operating expenses.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

I.1 BASIS OF PREPARATION (CONTINUED)

- 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.
- The Group has elected 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 have been excluded from the IFRS 16 lease accounting requirements and are expensed on a straight-line basis over the life of the lease.

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 used 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. 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. At this point it is not reasonably certain that these leases will be renewed, taking into account the factors noted above. This judgement is 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.

Transition approach and impact

The Group has applied IFRS 16 from 30 December 2018, using the fully retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 has been recognised, in line with IAS 8 'Accounting policies, changes in accounting estimates and errors', by restating the 52 week period ended 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. The Group has applied the practical expedient to grandfather the definition of a lease on transition. This means that IFRS 16 has been applied to all contracts entered into before 30 December 2018 and identified as leases in accordance with IAS 17 and IFRIC 4.

The impact on transition can be summarised as follows:

	29 December 2018			30 December 2017		
	as reported £m	IFRS 16 adjustment £m	as restated £m	as reported £m	IFRS 16 adjustment £m	as restated £m
Property, plant and equipment	2,344	(175)	2,169	2,092	(169)	1,923
Right-of-use assets	-	993	993	-	966	966
Deferred tax assets	35	33	68	33	30	63
Trade and other receivables (current)	125	(3)	122	100	(3)	97
Lease liabilities (current and non-current)	(200)	(983)	(1,183)	(191)	(947)	(1,138)
Provisions (current and non-current)	(88)	1	(87)	(77)	1	(76)
Trade and other payables (current and non-current)	(400)	29	(371)	(334)	27	(307)
Net impact to equity		(105)			(95)	

The ROU assets above include balances relating to leases previously accounted for as finance leases, as well as asset retirement provisions on leased properties. Both of these items were previously classified under property, plant and equipment.

The Group has recognised total lease liabilities of £1,183 million at 29 December 2018. This included existing finance lease liabilities of £200 million so the impact of adopting IFRS 16 was therefore £983 million. Under IAS 17, at the same date the Group reported future minimum lease payments under non-cancellable operating leases on an undiscounted basis totalling £1,852 million.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

I.1 BASIS OF PREPARATION (CONTINUED)

The transition to IFRS 16 resulted in the restatement of the December 2018 income statement as follows:

	29 December 2018 as reported £m	IFRS 16 adjustment £m	Discontinued operations (note 2.5) £m	29 December 2018 as restated £m
<i>Continuing operations</i>				
Gross profit	1,390	-	(32)	1,358
Staff expenses, marketing and other expenses	(791)	2	19	(770)
Rent	(105)	82	1	(22)
Underlying EBITDA	494	84	(12)	566
Depreciation and amortisation	(167)	(45)	3	(209)
Underlying operating profit	327	39	(9)	357
Finance income	10	-	-	10
Finance costs	(48)	(52)	1	(99)
Underlying profit before tax	289	(13)	(8)	268

The transition to IFRS 16 resulted in the restatement of the December 2018 cash flow statement as follows:

	29 December 2018 as reported £m	IFRS 16 adjustment £m	Discontinued operations (note 2.5) £m	29 December 2018 as restated £m
Net cash inflow from operating activities	450	82	-	532
Net cash outflow from investing activities	(317)	-	-	(317)
Net cash outflow from financing activities	(335)	(82)	-	(417)
Net decrease in cash and cash equivalents	(202)	-	-	(202)

The adjustment to the net cash inflow from operating activities includes the impact to profit for the period, being a reduction in profit of £10 million. Adjustments are then made to add back additional depreciation of £45 million and finance costs of £52 million, offset by a tax adjustment of £3 million as a result of IFRS 16. Working capital movements increase by £2 million.

Net cash outflow from financing activities is increased by £29 million in relation to capital repayment of lease liabilities recognised as a result of the transition and £53 million of interest paid.

NOTES TO THE ACCOUNTS

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RESULTS FOR THE YEAR

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 ⁽⁵⁾ £m	Exceptional items ⁽⁶⁾ £m	Total £m
<i>Continuing operations ⁽¹⁾</i>							
2019							
Visitor revenue	652	479	304	1,435	-	-	1,435
Accommodation revenue	-	164	73	237	-	-	237
Other revenue	22	26	11	59	9	-	68
Revenue ⁽²⁾	674	669	388	1,731	9	-	1,740
EBITDA ⁽³⁾	240	243	128	611	(42)	(73)	496
Depreciation, amortisation and impairment	(103)	(60)	(52)	(215)	(12)	(38)	(265)
Operating profit ⁽³⁾	137	183	76	396	(54)	(111)	231
2018 - as restated ⁽⁴⁾							
Visitor revenue	620	469	287	1,376	-	-	1,376
Accommodation revenue	-	142	68	210	-	-	210
Other revenue	22	26	12	60	7	-	67
Revenue ⁽²⁾	642	637	367	1,646	7	-	1,653
EBITDA ⁽³⁾	246	248	117	611	(45)	(4)	562
Depreciation and amortisation	(94)	(52)	(51)	(197)	(12)	-	(209)
Operating profit ⁽³⁾	152	196	66	414	(57)	(4)	353

⁽¹⁾ The segmental information excludes the activities of the Australian ski resorts which have been classified as discontinued operations (note 2.5).

⁽²⁾ Revenue is disaggregated into the three categories described below.

⁽³⁾ Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included for information purposes.

⁽⁴⁾ Restated for the adoption of IFRS 16 as explained in note 1.1 and the presentation of discontinued operations (note 2.5).

⁽⁵⁾ Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

⁽⁶⁾ Details of exceptional items are provided in note 2.2.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.1 PROFIT BEFORE TAX (CONTINUED)

Geographical areas

While each Operating Group is managed on a worldwide basis, part of our strategy is to diversify geographically across the four regions shown below. The information presented is based on the geographical locations of the visitor attractions concerned.

Geographical information

	Revenues 2019	Non-current assets 2019	Revenues 2018 <i>Restated</i>	Non-current assets 2018 <i>Restated</i>
	£m	£m	£m	£m
United Kingdom	560	1,450	527	1,456
Continental Europe	429	1,062	413	1,106
North America	479	974	453	810
Asia Pacific	272	777	260	832
	1,740	4,263	1,653	4,204
Deferred tax (note 2.4)		60		68
Investments (note 5.1)		63		61
		4,386		4,333

Revenue

Revenue represents the amounts received (excluding VAT and similar taxes) in the areas set out below and which have been disaggregated in the segmental information presented above. When accounting for revenue, Merlin makes 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.

- Visitor revenue - represents admissions tickets, retail, food and beverage sales and other commercial offerings such as photos and games experiences inside a Merlin attraction. 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 therefore recognised when the visitor enters the attraction. 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 - 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 - 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. From time to time, the Group also enters into contracts for attraction development, which is recognised as performance obligations under the contract are met. Service contract revenue in 2019 and 2018 is not material.

Cost of sales

Cost of sales of £317 million (2018 as restated: £295 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:

	2019	2018 <i>Restated</i>
<i>Continuing operations</i>		
Operations	19,106	18,670
Attraction management and central administration	2,196	2,066
	21,302	20,736

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.1 PROFIT BEFORE TAX (CONTINUED)

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£m	Restated £m
<i>Continuing operations</i>		
Wages and salaries	393	370
Share-based payments (note 4.6)	23	8
Social security costs	53	46
Other pension costs	13	12
	482	436

Directors' remuneration

	2019	2018
	£m	£m
Directors' remuneration	2.3	2.1
Amounts receivable under long term incentive schemes	5.2	0.7
Contributions to money purchase pension schemes	0.2	0.2
Compensation for loss of office	0.2	-
	7.9	3.0

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £4.4 million (2018: £1.4 million), and Company pension contributions of £0.1 million (2018: £0.1 million). During the year, the highest paid Director exercised share options and received shares under a long term incentive scheme.

	2019	2018
Number of Directors with retirement benefits accruing in respect of money purchase schemes	1	1
Number of Directors who exercised share options	2	1
Number of Directors in respect of whose qualifying services were received or receivable under long term incentive schemes	2	2

Related party transactions with key management personnel

The remuneration of key management, comprising the members of the Executive Committee, was as follows:

	2019	2018
	£m	£m
Key management emoluments including social security costs	22.6	6.7
Contributions to money purchase pension schemes	0.2	0.1
Share-based payments and other related payments	6.8	2.0
	29.6	8.8

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.1 PROFIT BEFORE TAX (CONTINUED)

Auditor's remuneration

	2019 £m	2018 £m
Audit of these financial statements	1.5	1.5
Audit of financial statements of subsidiaries	0.4	0.4
Other assurance services	0.3	0.2
Services relating to corporate finance transactions	0.2	0.2
	2.4	2.3

2.2 EXCEPTIONAL ITEMS

Accounting policy

Due to their nature, certain one-off and non-trading items can be classified separately as exceptional items in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying performance of the Group more accurately.

Exceptional items

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

	2019 £m	2018 £m
<i>Within staff expenses:</i>		
Transaction costs ⁽¹⁾	23	-
<i>Within other operating expenses:</i>		
Transaction costs ⁽¹⁾	43	-
Productivity Agenda activities ⁽²⁾	7	4
Exceptional items included within EBITDA	73	4
<i>Within depreciation, amortisation and impairment:</i>		
Impairment charges ⁽³⁾	38	-
Exceptional items included within operating profit	111	4
<i>Within finance income and costs</i>		
Foreign exchange gain ⁽⁴⁾	(47)	-
Charges incurred on the transaction in respect of the €700/\$400 million notes ⁽⁵⁾	37	-
Exceptional items before income tax	101	4
Income tax credit on exceptional items above	(14)	-
Exceptional items included within continuing operations	87	4
Exceptional items included within discontinued operations (note 2.5)	(42)	-
Exceptional items for the year	45	4

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.2 EXCEPTIONAL ITEMS (CONTINUED)

- (1) Transaction costs within staff expenses represent share-based payment and bonus costs that were either accelerated or otherwise specifically incurred in connection with the sale of the Company to the investor consortium in November 2019. Within other operating expenses the costs primarily relate to professional advisor fees incurred by the Group in relation to the sale to the consortium.
- (2) Productivity Agenda activities primarily include consulting costs and staff termination expenses in connection with the Group's Productivity Agenda, which are expected to continue through to 2021. They are separately presented as they are not part of the Group's underlying operating expenses.
- (3) Impairment charges have been made in the year of £32 million in property, plant and equipment and £6 million in right-of-use assets, primarily in respect of certain of the Group's Midway attractions. These reflect latest estimates at the end of the reporting period of the future performance of these attractions, taking into account reviews of the market and economic conditions at those locations. They are separately presented as they are not part of the Group's underlying depreciation charge.
- (4) Exceptional foreign exchange gains resulted from foreign exchange exposures on certain financing arrangements with parent companies entered into as a result of the transaction in November 2019, until such foreign exchange exposures could be hedged. Ordinarily the Group's structure is set-up to minimise foreign exchange exposures and therefore there would not be similar exposures in the future that could result in such movements. They are therefore separately presented as they are not part of the Group's underlying finance costs.
- (5) Charges incurred primarily relate to a one-off charge of £36 million in order to repay the €700 million seven year notes shortly after the transaction in November 2019. As a result of the transaction the Group was required to repay bonds that were otherwise expected to be long term financing and therefore early settlement of this bond is a one-off matter relating to the transaction. The Group does not have a track record of incurring material costs associated with early settlement of bonds as part of its normal financing arrangements. This charge is therefore separately presented as it is not part of the Group's underlying finance costs.

2.3 FINANCE INCOME AND COSTS

Accounting policies

Income and costs

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

Capitalisation of borrowing costs

Where assets take a substantial time to complete, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of those assets.

Finance income

	2019	2018
	£m	£m
<i>Continuing operations</i>		
Underlying trading		
<i>In respect of assets not held at fair value</i>		
Interest income	1	1
<i>In respect of assets held at fair value</i>		
Cash flow hedges – reclassified to profit and loss ⁽¹⁾	2	4
<i>Other</i>		
Net foreign exchange gain	2	5
	5	10
Exceptional items		
<i>Other</i>		
Net foreign exchange gain (note 2.2)	47	-
	52	10

⁽¹⁾ As part of the refinancing undertaken during 2018, 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 was therefore recycled through the income statement in the period to 29 December 2018 and £2 million in the period to 28 December 2019.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.3 FINANCE INCOME AND COSTS (CONTINUED)

Finance costs

	2019	2018
	£m	Restated £m
<i>Continuing operations</i>		
Underlying trading		
<i>In respect of liabilities not held at fair value</i>		
Interest expense on lease liabilities	61	60
Interest expense on financial liabilities measured at amortised cost	33	37
Interest expense on parent company loans	3	-
Interest expense on preference shares treated as debt	13	-
Other interest expense	3	2
	113	99
Exceptional items		
<i>In respect of liabilities not held at fair value</i>		
Charges incurred on the transaction in respect of the €700/\$400 million notes (note 2.2)	37	-
	150	99

Capitalised borrowing costs amounted to £9 million in 2019 (2018: £6 million), with a capitalisation rate of 3.8% (2018: 3.4%). Tax relief on capitalised borrowing costs amounted to £2 million in 2019 (2018: £2 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.

Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits to settle that obligation. Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. A combination of in-house tax experts, previous experience and professional firms is used when assessing uncertain tax positions.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.4 TAXATION (CONTINUED)

Recognised in the income statement

	2019	2018
	£m	Restated £m
<i>Continuing operations</i>		
Current tax expense		
Current year	62	52
Adjustment for prior periods	2	(3)
Total current income tax	64	49
Deferred tax expense		
Origination and reversal of temporary differences	(10)	9
Changes in tax rate	(2)	(6)
Adjustment for prior periods	1	(3)
Total deferred tax	(11)	-
Total tax expense in income statement	53	49

Reconciliation of effective tax rate

	2019	2019	2018	2018
	%	£m	Restated %	Restated £m
<i>Continuing operations</i>				
Profit before tax		133		264
Income tax using the UK domestic corporation tax rate	19.0%	25	19.0%	50
Effect of tax rates in foreign jurisdictions		4		13
Non-deductible expenses		21		5
Income not subject to tax		(12)		(11)
Effect of changes in tax rate		(2)		(6)
Unrecognised temporary differences		14		4
Adjustment for prior periods		3		(6)
Total tax expense in income statement	39.8%	53	18.6%	49

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 39.8% and the UK standard tax rate of 19.0% is largely due to exceptional items associated with the acquisition of the Group. Excluding these exceptional items, the underlying ETR is 28.6% (2018 as restated: 18.4%). The difference between the underlying ETR and the UK standard rate is attributable to a number of factors including the Group's geographic mix of profits, non-deductible interest expense in the UK and USA and the non-recognition of tax losses. The increase in the underlying ETR compared to the prior year is primarily due to the items mentioned above.

Significant factors impacting the Group's future ETR include the ability to obtain effective relief for the interest expense and changes to local or international tax laws. Revisions to the allocation of taxing rights, as envisaged in the OECD's proposals in relation to Pillar One and Pillar Two could have a material impact on the Group's ETR. The impact of the the European Commission's finding relating to the UK's Controlled Foreign Company rules is further detailed in note 5.4.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 28 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £3 million.

Otherwise, the Group's future ETR will primarily be affected by the geographic mix of profits.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.4 TAXATION (CONTINUED)

Recognised directly in equity through the statement of other comprehensive income

	2019 £m	2018 £m
Remeasurement gains and losses on defined benefit plans	(1)	-
Total tax credit 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	
	2019 £m	2018 Restated £m	2019 £m	2018 £m	2019 £m	2018 Restated £m
Property, plant and equipment	24	12	(131)	(143)	(107)	(131)
Right-of-use assets / lease liabilities	31	41	(3)	-	28	41
Other short term temporary differences	27	29	(2)	(6)	25	23
Intangible assets	-	-	(46)	(49)	(46)	(49)
Tax value of loss carry-forwards	3	2	-	-	3	2
Tax assets/(liabilities)	85	84	(182)	(198)	(97)	(114)
Set-off tax	(25)	(16)	25	16	-	-
Net tax assets/(liabilities)	60	68	(157)	(182)	(97)	(114)

Other short term temporary differences primarily relate to financial assets and liabilities and various accruals and prepayments.

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

Movement in deferred tax during the current year

	30 December 2018 Restated £m	Disposal of subsidiary undertakings £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	28 December 2019 £m
Property, plant and equipment	(131)	1	18	-	5	(107)
Right-of-use assets / lease liabilities	41	-	(13)	-	-	28
Other short term temporary differences	23	-	4	1	(3)	25
Intangible assets	(49)	-	1	-	2	(46)
Tax value of loss carry-forwards	2	-	1	-	-	3
Net tax assets/(liabilities)	(114)	1	11	1	4	(97)

In 2019 movements recognised in the income statement were principally due to depreciation in the UK and the USA exceeding tax allowances utilised. This was partially offset by a reduction in the lease liabilities recognised for deferred tax.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.4 TAXATION (CONTINUED)

Movement in deferred tax during the previous year

	31 December 2017 <i>Restated</i> £m	Disposal of subsidiary undertakings £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	29 December 2018 <i>Restated</i> £m
Property, plant and equipment	(119)	-	(7)	-	(5)	(131)
Right-of-use assets / lease liabilities	38	-	3	-	-	41
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)	(108)	-	-	-	(6)	(114)

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

Unrecognised deferred tax assets

	2019 £m	2018 £m
Property, plant and equipment	2	2
Other short term temporary differences	31	22
Tax value of loss carry-forwards	66	64
Net unrecognised tax assets	99	88

The unrecognised deferred tax assets relating to loss carry-forwards include £2 million (2018: £1 million) expiring in 0-5 years and £9 million (2018: £8 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 majority of the losses will be utilised.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

2.5 DISCONTINUED OPERATIONS

At the start of the year the Company progressed negotiations to sell its Australian ski resorts at Mount Hotham and Falls Creek to Vail Resorts Inc. (Vail). As at 29 December 2018 the potential sale process was at an early stage and, in line with IFRS 5, the ski resorts were not classified as held-for-sale or as discontinued operations. On 21 February 2019 the Company entered into an agreement to sell the resorts to Vail for a cash consideration of A\$174 million. The transaction was subject to the completion of relevant regulatory filings and completed on 5 April 2019.

The comparative consolidated income statement and statement of comprehensive income have been re-presented to show the discontinued operations separately from continuing operations. The tables below show the results of the discontinued operations which are included in the Group income statement and Group cash flow statement respectively.

Income statement

	2019 £m	2018 £m
Revenue	-	35
Expenses	-	(27)
Profit before tax before exceptional items	-	8
Taxation	-	(3)
Profit after tax before exceptional items	-	5
Costs to sell	(1)	-
Profit after tax on disposal of Australian ski resorts	43	-
Total profit after tax of discontinued operations	42	5

The profit after tax on disposal of the Group's Australian ski resorts is made up as follows:

	£m
Property, plant and equipment	(35)
Right-of-use assets	(6)
Goodwill and intangible assets	(1)
Inventories	(1)
Trade and other payables	4
Lease liabilities	8
Provisions	1
Deferred tax liabilities	1
Net book value of assets disposed	(29)
Consideration received in cash	93
Taxation	(21)
Profit after tax on disposal of Australian ski resorts	43

Cash flow statement

	2019 £m	2018 £m
Net cash flow from operating activities	-	12
Net cash flow from investing activities	92	(5)
	92	7

NOTES TO THE ACCOUNTS

SECTION 3

OPERATING ASSETS

AND LIABILITIES

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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.

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

NOTES TO THE ACCOUNTS

SECTION 3

OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 31 December 2017 (restated)	1,186	1,447	205	2,838
Additions	43	37	270	350
Disposals	-	(5)	-	(5)
Transfers	153	104	(257)	-
Effect of movements in foreign exchange	39	28	7	74
Balance at 29 December 2018 (restated)	1,421	1,611	225	3,257
Disposal of subsidiary undertakings (note 2.5)	(16)	(35)	(1)	(52)
Additions	25	24	362	411
Disposals	(11)	(43)	(1)	(55)
Transfers	71	106	(177)	-
Effect of movements in foreign exchange	(48)	(43)	(13)	(104)
Balance at 28 December 2019	1,442	1,620	395	3,457
Depreciation				
At 31 December 2017 (restated)	286	629	-	915
Depreciation for the year - continuing operations	38	114	-	152
Depreciation for the year - discontinued operations	-	3	-	3
Disposals	-	(5)	-	(5)
Effect of movements in foreign exchange	10	13	-	23
Balance at 29 December 2018 (restated)	334	754	-	1,088
Disposal of subsidiary undertakings (note 2.5)	(3)	(14)	-	(17)
Depreciation for the year	48	121	-	169
Impairment	13	13	6	32
Disposals	(11)	(36)	-	(47)
Effect of movements in foreign exchange	(10)	(21)	-	(31)
Balance at 28 December 2019	371	817	6	1,194
Carrying amounts				
At 30 December 2017 (restated)	900	818	205	1,923
At 29 December 2018 (restated)	1,087	857	225	2,169
At 28 December 2019	1,071	803	389	2,263

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. Impairment charges have been made in the year of £32 million, primarily in respect of certain of the Group's Midway attractions, arising from a review of market and economic conditions at those locations. No material adjustments were made in 2018.

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 £220 million (2018: £142 million) for which no provision has been made.

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 foresees 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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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Goodwill and intangible assets

	Goodwill £m	Intangible assets		Total £m
		Brands £m	Other £m	
<i>Cost</i>				
At 31 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
Disposal of subsidiary undertakings (note 2.5)	(1)	-	-	(1)
Additions	-	-	14	14
Disposals	-	-	(1)	(1)
Effect of movements in foreign exchange	(25)	(5)	(1)	(31)
Balance at 28 December 2019	976	195	49	1,220
<i>Amortisation</i>				
At 31 December 2017	178	13	17	208
Amortisation for the year	-	-	2	2
Effects of movements in foreign exchange	1	-	-	1
Balance at 29 December 2018	179	13	19	211
Amortisation for the year	-	-	2	2
Disposals	-	-	(1)	(1)
Effect of movements in foreign exchange	(3)	-	(1)	(4)
Balance at 28 December 2019	176	13	19	208
<i>Carrying amounts</i>				
At 30 December 2017	814	185	19	1,018
At 29 December 2018	823	187	18	1,028
At 28 December 2019	800	182	30	1,012

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 (2018: £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.

	2019 £m	2018 £m
Midway Attractions	557	568
LEGOLAND Parks	41	43
Resort Theme Parks	202	212
	800	823

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Brands

The Group has valued the following brands at the time of those brands being acquired. They all have 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.

	2019 £m	2018 £m
<i>Midway Attractions</i>		
Madame Tussauds	28	28
SEA LIFE	16	17
London Eye	10	10
Other	8	8
	62	63
<i>Resort Theme Parks</i>		
Gardaland Resort	49	52
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	12	13
Other	12	12
	120	124
	182	187

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the other Madame Tussauds attractions that existed when the brand was acquired. Similarly the SEA LIFE brand relates to the portfolio of SEA LIFE attractions that existed when the brand was acquired. 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, PPE and right-of use (ROU) assets 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.
ROU assets	ROU assets are reviewed at an individual CGU level, being the Group's individual attractions. In doing so, the associated lease liability is considered against the value of the ROU asset as a sale of a CGU would necessitate that a buyer takes on the lease liability.

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

3.3 IMPAIRMENT TESTING (CONTINUED)

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

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

Calculation of recoverable amount

In accordance with accounting standards the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate, 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 and repayments of lease liabilities. 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% (2018: 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. When considering the impact of IFRS 16, there was insufficient observable market data to determine a market participant discount rate that included leases. Therefore the Group used discount rates and cash flows on an unadjusted pre-IFRS 16 basis, then adjusting for the market movement in lease discount rates since inception by adjusting for the difference in the carrying value and fair value of the lease liability.

	Pre-tax discount rates		Post-tax discount rates	
	2019	2018	2019	2018
Midway Attractions	8.5%	9.2%	7.0%	7.5%
LEGOLAND Parks	8.6%	9.2%	6.9%	7.3%
Resort Theme Parks	9.1%	9.8%	7.4%	7.9%

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 £460 million (2018: £93 million). The headroom in 2019 is augmented by the application of IFRS 16 to certain large leases within RTP, that came into effect as part of a sale and leaseback transaction in 2007 (see notes 1.1 and 4.4). 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 38% (2018: 9%) lower than currently anticipated for 2024 (2018: than anticipated for 2023), 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 62% to 14.8% (2018: 8% to 10.6%), 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 (6.4)% (2018: 1.4%), 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

	2019	2018
	£m	£m
Maintenance inventory	14	11
Goods for resale	40	36
	54	47

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3.4 WORKING CAPITAL (CONTINUED)

Trade and other receivables

	Current assets		Non-current assets	
	2019	2018 <i>Restated</i>	2019	2018
	£m	£m	£m	£m
Trade receivables	37	29	-	-
Other receivables	42	45	2	2
Prepayments and contract assets	45	48	10	12
	124	122	12	14

Ageing of trade receivables

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

	2019 £m	2018 £m
Neither past due nor impaired	20	16
Up to 30 days overdue	5	6
Between 30 and 60 days overdue	4	3
Between 60 and 90 days overdue	2	2
Over 90 days overdue	6	2
	37	29

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

Trade and other payables

	Current liabilities		Non-current liabilities	
	2019	2018 <i>Restated</i>	2019	2018 <i>Restated</i>
	£m	£m	£m	£m
Trade payables	73	47	-	-
Accruals	164	166	-	-
Deferred income	183	119	-	-
Other payables	23	13	24	26
	443	345	24	26

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 2019, at year end exchange rates, this also includes £52 million (2018: £14 million) received in respect of the development of LEGOLAND Korea, which is described further in note 5.3.

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 30 December 2018 (<i>restated</i>)	64	23	87
Disposal of subsidiary undertakings (note 2.5)	-	(1)	(1)
Provisions made during the year	18	4	22
Utilised during the year	(3)	(3)	(6)
Unused amounts reversed	(1)	(4)	(5)
Unwinding of discount	2	-	2
Effect of movements in foreign exchange	(1)	(1)	(2)
Balance at 28 December 2019	79	18	97
2019			
Current	-	5	5
Non-current	79	13	92
	79	18	97
2018			
Current	-	7	7
Non-current (<i>restated</i>)	64	16	80
	64	23	87

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 together with the impact of any changes in the discount rate 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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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, lease liabilities and amounts owed to the Company's parent undertaking. 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.

	30 December 2018 <i>Restated</i> £m	Net cash flows ⁽¹⁾ £m	Non-cash movements ⁽²⁾ £m	Disposal of subsidiary undertakings (note 2.5) £m	Effect of movements in foreign exchange ⁽³⁾ £m	28 December 2019 £m
Cash and cash equivalents	110	57	-	-	(7)	160
Interest-bearing loans and borrowings (note 4.2)	(1,100)	837	(82)	-	33	(312)
Leases (note 4.4)	(1,183)	109	(110)	8	18	(1,158)
Net debt						
(excluding amounts owed to parent company)	(2,173)	1,003	(192)	8	44	(1,310)
Amounts owed to parent company (note 4.2)	-	(800)	(2,133)	-	39	(2,894)
Net debt						
(including amounts owed to parent company)	(2,173)	203	(2,325)	8	83	(4,204)

⁽¹⁾ Net cash flows include the drawdown and repayment of loans and borrowings, interest paid relating to loans and borrowings and interest paid and capital repayments relating to leases.

⁽²⁾ Non-cash movements include the finance costs relating to loans and borrowings and leases from the income statement, together with the fair value movement in relation to hedged debt (see note 4.2), together with the issue of preference shares from retained earnings (see note 4.5).

⁽³⁾ A substantial proportion of the Group's net debt is denominated in non Sterling currencies.

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

	Current liabilities		Non-current liabilities		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
£600 million floating rate revolving credit facility	-	-	-	148	-	148
€700 million fixed rate notes due 2022	-	-	-	631	-	631
\$400 million fixed rate notes due 2026	-	-	310	313	310	313
Interest payable	2	8	-	-	2	8
	2	8	310	1,092	312	1,100
Parent company loans	-	-	758	-	758	-
Preference shares treated as liabilities	-	-	2,120	-	2,120	-
Interest payable to parent company	16	-	-	-	16	-
	16	-	2,878	-	2,894	-
	18	8	3,188	1,092	3,206	1,100

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4.2 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The Group's facilities are:

- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.
- Access to a £400 million revolving credit facility to mature in May 2026.
- Loans from the Company's parent company, being Motion Acquisition Limited.
- Preference shares issued to the Company's parent company, being Motion Acquisition Limited.

During the year as part of the acquisition of the Group by Motion Acquisition Limited, the Company:

- Issued preference shares to Motion Acquisition Limited of £2,120 million.
- Accessed loan facilities from Motion Acquisition Limited of £758 million.
- Became party to a £400 million new floating rate banking facility due to mature in 2026.
- Granted security and provided guarantees to €1,830 million and \$1,793 million facilities entered into by Motion BondCo DAC and Motion Finco S.à r.l.
- Repaid €700 million of seven year notes due to mature in 2022.
- Repaid all drawings from the floating rate bank facility due to mature in 2023 and cancelled this facility.

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 \$400 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries. The Group is required to comply with certain non-financial covenants in these 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 £160 million of cash and cash equivalents (2018: £110 million), access to a £400 million revolving credit facility, of which £nil was drawn down (2018: access to a £600 million revolving credit facility of which £148 million was 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
2019					
\$400 million fixed rate notes due 2026	(18)	(18)	(54)	(332)	(422)
Lease liabilities	(98)	(101)	(267)	(1,573)	(2,039)
Parent company loans	(27)	(27)	(80)	(812)	(946)
Preference shares treated as liabilities	(100)	(99)	(296)	(2,352)	(2,847)
Trade payables	(73)	-	-	-	(73)
	(316)	(245)	(697)	(5,069)	(6,327)

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	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 2020	(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)
Lease liabilities (restated)	(100)	(96)	(280)	(1,662)	(2,138)
Derivatives	-	-	-	1	1
Trade payables	(47)	-	-	-	(47)
	(188)	(137)	(1,155)	(2,032)	(3,512)

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 28 December 2019 the Group had £1,544 million of fixed rate debt comprising:

- \$400 million of 5.75% notes to mature in 2026;
- \$410 million and €370 million of preference shares;
- €703 million of parent company loans;

In aggregate 48% (2018: 77%) of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 7 years (2018: 4.6 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 28 December 2019 the Group had £nil (2018: €40 million, \$120 million) of fair value interest rates swaps. A 100 basis points fall in the interest rates with a similar duration as the swaps would lead to an increase in value of £nil (2018: £8 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 £nil (2018: £7 million).

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

Sensitivity analysis

Based on the net debt position as at 28 December 2019 a 100 basis points rise in market interest rates would result in an increase in net interest paid of £15 million (2018: £2 million) and a 100 basis points fall in market interest rates would result in a decrease in net interest paid of £12 million (2018: £2 million). This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2019 the fair value of foreign currency swap assets was £2 million (2018: less than £1 million) and the foreign currency swap liabilities was £2 million (2018: £4 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 lease liabilities) is therefore denominated in Euros, US Dollars and Sterling and at 28 December 2019 consisted of €1,862 million, \$2,020 million and £49 million and there are forward foreign exchange contracts in place in respect of JPY 13,440 million.

Gains or losses arise on the retranslation of the net assets of foreign operations at different reporting dates and are recognised within the consolidated statement of comprehensive income. They will predominantly relate to the retranslation of opening net assets at closing foreign exchange rates, together with the retranslation of retained foreign profits for the year (that have been accounted for in the consolidated income statement at average rates) at closing rates. Exchange rates for major currencies are set out below.

Gains or losses also arise on the retranslation of foreign currency denominated borrowings designated as effective net investment hedges of overseas net assets. These are offset in equity by corresponding gains or losses arising on the retranslation of the related hedged foreign currency net assets. The Group also treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

The following exchange rates have been used in the translation of the results of foreign operations:

	Closing rate for 2017	Weighted average rate for 2018	Closing rate for 2018	Weighted average rate for 2019	Closing rate for 2019
US Dollar	1.35	1.34	1.27	1.28	1.31
Euro	1.13	1.13	1.11	1.13	1.17

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

	Carrying value				
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
2019					
Cash and cash equivalents	49	12	13	86	160
\$400 million fixed rate notes due 2026	-	-	(310)	-	(310)
Lease liabilities	(671)	(113)	(82)	(292)	(1,158)
Parent company loans	(49)	(601)	(108)	-	(758)
Preference shares treated as liabilities	-	(989)	(1,131)	-	(2,120)
	(671)	(1,691)	(1,618)	(206)	(4,186)

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	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 2020	(38)	-	(110)	-	(148)
€700 million fixed rate notes due 2022	-	(631)	-	-	(631)
\$400 million fixed rate notes due 2026	-	-	(313)	-	(313)
Lease liabilities (restated)	(676)	(125)	(76)	(306)	(1,183)
	(696)	(743)	(484)	(242)	(2,165)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £313 million (2018: £111 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 (2018: £9 million).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit. There are credit policies in place with regard to its trade receivables with credit evaluations performed on customers requiring credit over a certain amount.

The Group manages credit exposures in connection with financing and treasury activities including exposures arising from bank deposits, cash held at banks and derivative transactions, by appraisal, formal approval and ongoing monitoring of the credit position of counterparties. Counterparty exposures are measured against a formal transaction limit appropriate to that counterparty's credit position.

The Group robustly appraises investments before they are made to ensure the associated credit risk is acceptable. Performance of investments are closely monitored, in some cases through Board participation, to ensure returns are in line with expectations and credit risk remains acceptable. There were no overdue amounts in respect of investments and no impairments have been recorded (2018: £nil).

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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	2019		2018 <i>Restated</i>	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Held at amortised cost</i>					
Floating rate bank facilities due 2023	Level 2	-	-	(148)	(148)
€700 million fixed rate notes due 2022	Level 1	-	-	(631)	(641)
\$400 million fixed rate notes due 2026	Level 1	(310)	(336)	(313)	(313)
Lease liabilities	Level 3	(1,158)	(1,332)	(1,183)	(1,361)
Parent company loans	Level 3	(758)	(758)	-	-
Preference shares treated as liabilities	Level 3	(2,120)	(2,120)	-	-
<i>Held at fair value</i>					
Derivative financial instruments	Level 2	-	-	(1)	(1)
Investments	Level 3	63	63	61	61
		(4,283)	(4,483)	(2,215)	(2,403)

The fair values shown above for the bank facilities and fixed rate notes have been calculated using market values. The fair value of leases are determined by reference to similar lease agreements. There is no difference between the carrying value and the fair value of investments that are estimated by reference to EBITDA multiples or discounted cash flows.

There have been no transfers between levels in 2019 or 2018.

4.4 LEASE OBLIGATIONS

Accounting policy

Where a contract provides the right to control the use of an asset for a period of time in exchange for consideration, the contract is accounted for as a lease. In order for lease accounting to apply, an assessment is made at the inception of the contract that considers whether;

- the Group has the use of an identified asset, which entitles it to the right to obtain substantially all of the economic benefits that arise from the use of the asset, and;
- the right to direct the use of the asset, either through the right to operate the asset or by predetermining how the asset is used.

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4.4 LEASE OBLIGATIONS (CONTINUED)**Measurement at lease inception**

At the lease commencement date the Group, as the lessee, will recognise;

- a lease liability representing its obligation to make lease payments, and;
- an asset representing its right to use the underlying leased asset (ROU asset).

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease, or if not available an incremental borrowing rate. Future lease payments will include fixed payments, variable lease payments that depend on an index or rate (initially measured at the rate at the commencement date) and amounts expected to be payable by the lessee under residual value guarantees.

The ROU asset is initially measured at cost, which comprises the amount initially recognised as the lease liability, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and the estimated costs to be incurred at the end of the lease to restore the site to the required condition stipulated in the lease.

On inception of a lease for a new site, where required, the estimated cost of decommissioning any additions is included within ROU assets and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

Depreciation (and any subsequent impairment) on the ROU asset, interest on the lease liability and any variable lease payments are all recognised in the income statement.

Ongoing measurement

The lease liability is adjusted for interest on the liability, adjustments to the lease payments and any reassessment of the lease as a result of a contract modification.

After the commencement date the Group measures the ROU asset using a cost model, reducing the cost through depreciation and any impairment losses. Adjustments will be made to the ROU asset to reflect the changes in the lease liability as a result of changes to lease payments or modifications to the lease.

Short term and low-value leases

The Group has taken the recognition exemptions for short-term leases and leases of low-value items. Leases which fall within the Group's defined parameters for these exemptions are excluded from the IFRS 16 lease accounting requirements and are accounted for on a straight-line basis over the lease term.

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. Historically the leases were 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 was split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. This led to differing treatments on the adoption of IFRS 16. 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. KIRKBI A/S is a shareholder of the Group and a related party (note 5.3). The lease is for a period of 50 years and previously was 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, were accounted for as operating leases. Finance lease assets were 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 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 1.1.

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4.4 LEASE OBLIGATIONS (CONTINUED)

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Total £m
<i>Cost</i>			
At 31 December 2017	1,255	82	1,337
Additions	52	3	55
Movements in asset retirement provisions	8	(2)	6
Disposals	(2)	(2)	(4)
Effect of movements in foreign exchange	25	-	25
Balance at 29 December 2018	1,338	81	1,419
Disposal of subsidiary undertakings (note 2.5)	(8)	-	(8)
Additions	47	2	49
Movements in asset retirement provisions (note 3.5)	8	9	17
Disposals	(2)	(3)	(5)
Effect of movements in foreign exchange	(22)	-	(22)
Balance at 28 December 2019	1,361	89	1,450
<i>Depreciation</i>			
At 31 December 2017	341	30	371
Depreciation for the year	49	6	55
Disposals	(2)	(2)	(4)
Effect of movements in foreign exchange	4	-	4
Balance at 29 December 2018	392	34	426
Disposal of subsidiary undertakings (note 2.5)	(2)	-	(2)
Depreciation for the year	51	5	56
Impairment	6	-	6
Disposals	(2)	(3)	(5)
Effect of movements in foreign exchange	(8)	1	(7)
Balance at 28 December 2019	437	37	474
<i>Carrying amounts</i>			
At 30 December 2017	914	52	966
At 29 December 2018	946	47	993
At 28 December 2019	924	52	976

During the year the Group reviews useful economic lives and tests ROU assets for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. Impairment charges have been made in the year of £6 million, primarily in respect of certain of the Group's Midway attractions, arising from a review of market and economic conditions at those locations. No material adjustments were made in 2018.

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4.4 LEASE OBLIGATIONS (CONTINUED)**Lease liabilities**

	2019	2018
	£m	Restated £m
Current	39	38
Non-current	1,119	1,145
	1,158	1,183

The maturity analysis of lease liabilities is disclosed within note 4.3. The cash outflow for leases is disclosed within note 4.1.

Amounts recognised in the income statement

	2019	2018
	£m	Restated £m
Expense relating to variable lease payments	22	22
Depreciation expense of right-of-use assets	56	55
Interest expense on lease liabilities	61	60
	139	137

4.5 EQUITY AND CAPITAL MANAGEMENT**Capital management**

The capital structure of the Group consists of debt and equity. The Group's objective when managing capital is to maintain a strong capital base so as to ensure shareholder 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 were created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees' focus on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans were settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

Share capital and reserves**Share capital**

	2019	2019	2018	2018
	Number	£m	Number	£m
<i>Ordinary shares of £0.01 each</i>				
On issue and fully paid at beginning of year	1,022,072,449	10	1,019,572,449	10
Issued in the year	14,521,909	-	2,500,000	-
On issue and fully paid at end of year	1,036,594,358	10	1,022,072,449	10

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4.5 EQUITY AND CAPITAL MANAGEMENT (CONTINUED)

Issue of new shares

During the year the Company issued 14,521,909 ordinary shares at nominal value of one pence each to satisfy the vesting of the Group's employee share incentive schemes (note 4.6).

The Company also received £30 million in relation to the vesting of the share awards. This was taken to the share premium account.

During the year the Company issued the following cumulative, redeemable preference shares at par, as a bonus issue from retained earnings. In accordance with the accounting policy as set out in note 1.1, these have been classed as financial liabilities:

- 36,990,000,000 A preference shares of €0.01 each
- 41,000,000,000 B preference shares of \$0.01 each
- 78,800,126,560 C preference shares of €0.01 each
- 106,908,661,000 D preference shares of \$0.01 each

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 nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Preference shares

The preference shares earn interest in the form of dividends and will be redeemed as follows;

- A preference shares - at the rate of default interest payable pursuant to the €370,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities (as defined in the facilities referred to in note 4.2) denominated in Euros. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the A preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- B preference shares - at the rate of default interest payable pursuant to the \$410,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities (as defined in the facilities referred to in note 4.2) denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the B preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- C preference shares - at the rate of default interest payable pursuant to the Euro Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities (as defined in the facilities referred to in note 4.2) denominated in Euros. They will be redeemed on any date on which all or part of the debt Euro Senior Debt becomes repayable, or any earlier date as the holder of the C preference shares or the Company may notify to the other in the event that the Euro Senior Debt is repaid early (in full or in part); and
- D preference shares - at the rate of default interest payable pursuant to the USD Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities (as defined in the facilities referred to in note 4.2) denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the USD Senior Debt becomes repayable, or any earlier date as the holder of the D preference shares or the Company may notify to the other in the event that the USD Senior Debt is repaid early (in full or in part).

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital shall be paid on the ordinary shares whilst there are any unpaid amounts of preference dividends which constitute a debt from and payable by the Company. The preference shares carry no voting rights.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

	2019 £m	2018 £m
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
Final dividend for the 52 weeks ended 29 December 2018 of 5.5 pence per share	56	-
Total dividends paid	56	76

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4.5 EQUITY AND CAPITAL MANAGEMENT (CONTINUED)

The Directors of the Company have declared their intention not to pay a dividend for the year ended 28 December 2019 (2018: total dividend of 8.0 pence per share).

Translation reserve

The translation reserve of £(73) million (2018 as restated: £(12) million) comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, primarily relating to the statement of position at reporting dates. The reporting date foreign exchange rates by major currency are provided in note 4.3.

Hedging reserve

The hedging reserve of £nil (2018: £2 million) comprises the effective portion of the cumulative net change in interest rate swaps related to hedged transactions that have not yet occurred.

4.6 SHARE-BASED PAYMENT TRANSACTIONS

Accounting policy

The fair value of the share plans is recognised as an expense over the expected vesting period with a corresponding entry to retained earnings, net of deferred tax. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest, which is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

The Group operates cash-settled versions of the employee incentive plans for employees in certain territories. The issues and resulting charges of these plans are not material to the financial statements.

Equity-settled plans

Until the acquisition of the Company in November 2019 and its subsequent delisting from the London Stock Exchange, the Group operated 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 tables below. Awards under the PSP vested three years after grant date, upon satisfaction of earnings per share and return on capital employed performance conditions, and continued employment. Awards under the CSOP, the DBP and the AESP vested three years after grant date subject to continued employment. All awards under the PSP and DBP were granted for nil consideration. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

Analysis of share-based payment charge

	2019	2018
	£m	£m
PSP	18	5
CSOP	3	1
AESP	2	2
	23	8

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2019	Number of shares 2018
PSP	April 2015 - April 2019	-	2019 - 2022	-	-	8,152,506
DBP	March 2015 - March 2019	-	2019 - 2022	-	-	34,296
CSOP	November 2013 - April 2019	3.15 - 4.81	2019 - 2029	-	-	5,808,839
AESP	February 2014 - April 2019	2.83 - 4.10	2019 - 2022	-	49,603	6,615,393
Total					49,603	20,611,034

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4.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The weighted average exercise prices (WAEP) over the year were as follows:

	PSP ⁽¹⁾ Number	DBP ⁽¹⁾ Number	CSOP		AESP	
			Number	WAEP (£)	Number	WAEP (£)
At 31 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
Granted during the year	4,037,436	51,781	2,038,750	3.43	2,939,071	2.88
Forfeited during the year	(488,632)	(804)	(790,627)	3.91	(1,275,406)	3.19
Exercised during the year	(6,554,271)	(85,273)	(5,110,475)	3.53	(3,918,026)	3.10
Lapsed during the year	(5,147,039)	-	(1,912,567)	4.68	(4,232,927)	2.89
Expired during the year	-	-	(33,920)	4.61	(78,502)	3.85
At 28 December 2019	-	-	-	-	49,603	3.38
<i>Exercisable at end of year</i>						
At 29 December 2018	-	-	1,613,014	3.76	68,052	3.25
At 28 December 2019	-	-	-	-	49,603	3.38

⁽¹⁾ Nil-cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2018 and 2019 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	11 April 2018	-	3.43	3.43	n/a	n/a	3.0	n/a
PSP	9 April 2019	-	3.41	3.41	n/a	n/a	3.0	n/a
CSOP	11 April 2018	3.47	3.43	0.65	2.2%	23%	4.5	1.0%
CSOP	9 April 2019	3.43	3.41	0.66	2.3%	24%	4.4	0.8%
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%
AESP	9 April 2019	2.88	3.41	0.71	2.3%	24%	3.2	0.8%
AESP	9 April 2019	3.07	3.41	0.59	2.3%	26%	2.1	0.7%

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.

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 30 December 2018	9	3	37	12	61
Net change in fair value - included in OCI	-	-	3	-	3
Effects of movement in foreign exchange	(1)	-	-	-	(1)
At 28 December 2019	8	3	40	12	63

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, held substantially all in the form of loan notes. The investment is valued adopting a market-based approach (based on EBITDA multiples), and resulted in an increase of £3 million in the year (2018: £nil).

Merlin also holds a minority equity investment valued at £nil (2018: £nil).

Investments in associates and joint ventures**LEGOLAND Dubai Hotel**

The Group holds a 40% equity interest in LL Dubai Hotel LLC, which is the company developing the hotel at LEGOLAND Dubai.

5.2 EMPLOYEE BENEFITS

Accounting policies**Defined contribution pension schemes**

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

Defined benefit pension schemes

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

Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £13 million (2018 as restated: £12 million).

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OTHER NOTES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.2 EMPLOYEE BENEFITS (CONTINUED)

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 2018. As a result, the Group agreed to pay annual deficit reduction contributions of £497,800, increasing at 3% per annum, payable monthly for a period of 4 years and 8 months from 1 January 2020 to 31 August 2024.

The Group expects less than £1 million in ongoing contributions to be paid to its defined benefit schemes in 2020. The weighted average duration of the defined benefit obligation at 28 December 2019 was 17 years (2018: 19 years).

The assets and liabilities of the schemes are:

	2019 £m	2018 £m
Equities	20	23
Corporate bonds and cash	10	4
Property	5	5
Fair value of scheme assets	35	32
Present value of defined benefit obligations	(42)	(38)
Net pension liability	(7)	(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 31 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)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement loss	3	(5)	(2)
Assets distributed on settlement	(1)	-	(1)
Liabilities extinguished on settlement	-	1	1
At 28 December 2019	35	(42)	(7)

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OTHER NOTES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.2 EMPLOYEE BENEFITS (CONTINUED)

The amount recognised in the income statement was £nil (2018: £nil). The amount recognised in the statement of other comprehensive income was a loss of £2 million (2018: loss of £1 million).

During 2017 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 (2018: £nil).

Actuarial assumptions

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

	2019	2018
Discount rate	2.0%	2.8%
Rate of price inflation	2.9%	3.3%

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 its parent company; its ultimate parent company; the investor consortium (and connected parties) that together own the ultimate parent company; 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 parent company

Details of interest paid on loans from the parent company and the period end loan balances are given in notes 2.3 and 4.2 respectively.

Transactions with shareholders

Transactions entered into with the consortium and connected parties, including the purchase and sale of goods, payment of fees, royalties and rent, and trading balances outstanding at 28 December 2019 and 29 December 2018, 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
2019				
KIRKBI Invest A/S	1	-	14	2
LEGO Group	1	1	66	4
LLJ Investco K.K.	-	1	9	-
	2	2	89	6
2018				
KIRKBI Invest A/S	-	-	13	3
LEGO Group	1	2	63	3
LLJ Investco K.K.	-	-	8	-
	1	2	84	6

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.3 RELATED PARTY TRANSACTIONS (CONTINUED)

The Group leases land and buildings from KIRKBI Invest A/S (a shareholder in the Group's ultimate parent company). The term of this lease is 25 years, with 20 years remaining at the reporting date. The Group's obligations come in the form of fixed rental payments of £1 million per year in addition to turnover rent, service charges and ongoing repair obligations. The amount in the table above includes the rental payment incurred during the period. The total commitment relating to fixed rental payments is £5 million over the remaining lease term.

As set out in note 4.4 the Group has entered into a 50 year lease with LLJ Investco K.K (a subsidiary of KIRKBI Invest A/S). There are 47 years remaining at the reporting date. 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. The total commitment relating to fixed rental payments is £202 million over the remaining lease term.

The Group leases land and buildings from Koldingvej 2 Billund A/S (which has a 25% shareholding in the LEGO Group). The term of this lease is 29 years, with 22 years remaining at the reporting date. The total commitment is £5 million over the remaining lease term.

The Group has also entered into lease agreements with parties that are related parties of the Blackstone Investment Funds that are shareholders in the ultimate parent company. The parties are Multi Corporation B.V. in relation to SEA LIFE and Madame Tussauds Istanbul, Network Rail Infrastructure Limited for an area associated with the London Eye site, and NEC Group Ltd, relating to The Bear Grylls Adventure attraction in Birmingham. In aggregate the total rent paid in 2019 for the period following the acquisition of the Group was £nil. Total commitments in respect of these leases are £16 million over the remaining lease term.

Transactions with key management personnel

Key management of the Group, being Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control nil% (2018: 1.2%) of the voting shares of the Company. 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 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 28 December 2019 and 29 December 2018, are as follows:

	2019	2018
	£m	£m
Sales to related party	4	4
Amounts owed by related party	4	3

LEGOLAND Korea

The Group has a minority equity investment in and has entered into transactions with LL Developments, a Korean company which acts under the direction of the Gangwon Province and is providing funding and infrastructure support of KRW 80 billion to the development of LEGOLAND Korea, which the Group has committed to spend on costs associated with the project. All of these funds had been received by 28 December 2019 and are recorded within deferred income. Upon the opening of the park, 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 April 2019 the European Commission (EC) announced its final decision that certain elements of the UK's Controlled Foreign Company rules partially represent State Aid. The UK Government has made an annulment application against this decision. Separately, Merlin has made its own application. If the applications are ultimately unsuccessful then this could result in an increase in the Group's future effective tax rate. The Group considers the maximum potential liability, excluding penalties and interest, to be up to £36 million, depending on the basis of calculation.

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.5 NEW STANDARDS AND INTERPRETATIONS

The following amendments to standards and interpretations have been implemented in the year with no significant impact to the Group. This is in addition to IFRS 16 'Leases', the impact of which is covered in note 1.1.

- 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)

The IASB has also issued the following amendments to standards that will be effective for the Group as from 1 January 2020. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- Amendments to 'References to the Conceptual Framework in IFRS Standards'
- Amendments to IAS 1 and IAS 8 'Definition of material'
- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'

5.6 ULTIMATE PARENT COMPANY INFORMATION

Following the acquisition of the Company in November 2019, the ultimate parent company is Motion JVCO Limited, a company incorporated in the United Kingdom. This company prepares group financial statements. The parent company is Motion Acquisition Limited.

The consolidated financial statements of Motion JVCO Limited and its subsidiaries are available to the public and may be obtained from Link House, 25 West Street, Poole, Dorset BH15 1LD.

5.7 SUBSEQUENT EVENTS

Subsequent to the year end, and in response to the Coronavirus (COVID-19) pandemic, the Group has drawn down all the £400 million RCF available under Motion JVCO Limited Group's financing facilities. For further details on how the pandemic has affected the Group's going concern assessment, see note 1.1.

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 2019	Ownership 2018
AAE Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
AQDEV Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Aquia Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Australian Alpine Enterprises Holdings Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Australian Alpine Enterprises Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Australian Alpine Reservation Centre Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Falls Creek Ski Lifts Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Gebi Falls Creek Pty Ltd ^(a)	Australia ⁽³⁾	Ordinary	-	64.7%
Hotham Heights Developments Ltd ^(a)	Australia ⁽³⁾	Ordinary	-	65.0%
Illawarra Tree Topps Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd ^(a)	Australia ⁽³⁾	Ordinary	-	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 ⁽¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
MHSC Hotels Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
MHSC Properties Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
MHSC Transportation Services Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Mount Hotham Management and Reservation Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	100.0%
Mount Hotham Skiing Company Pty Ltd ^(a)	Australia ⁽²⁾	Ordinary	-	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 ⁽¹⁾	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2019	Ownership 2018
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 ⁽¹⁾	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 ^(a)	Australia ⁽⁴⁾	Ordinary	-	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 ⁽¹⁴⁾	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China ⁽¹⁵⁾	Ordinary	100.0%	100.0%
Merlin Exhibition (Shenyang) Company Limited	China ⁽¹⁶⁾	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China ⁽¹⁷⁾	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China ⁽¹⁸⁾	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark ⁽¹⁹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark ⁽¹⁹⁾	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy	Finland ⁽²⁰⁾	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France ⁽²¹⁾	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany ⁽²³⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany ⁽²⁴⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany ⁽²⁴⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany ⁽²²⁾	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 ⁽²⁴⁾	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany ⁽²²⁾	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany ⁽²³⁾	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany ⁽²³⁾	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 ⁽²⁶⁾	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy ⁽²⁷⁾	Ordinary	99.9%	99.9%

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52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2019	Ownership 2018
Gardaland Holidays S.r.l. (formerly Incoming Gardaland S.r.l.)	Italy ⁽²⁸⁾	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy ⁽²⁷⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy ⁽²⁷⁾	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy ⁽²⁷⁾	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy ⁽²⁹⁾	Ordinary	^(b) 49.4%	^(b) 49.4%
Ronchi S.p.A.	Italy ⁽²⁷⁾	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan ⁽³⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan ⁽³¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l. ^(c)	Luxembourg ⁽³²⁾	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg ⁽³²⁾	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg ⁽³²⁾	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia ⁽³³⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia ⁽³⁴⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia ⁽³⁵⁾	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%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands ⁽³⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands ⁽³⁶⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands ⁽³⁹⁾	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand ⁽⁴⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand ⁽⁴⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal ⁽⁴¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore ⁽⁴²⁾	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea ⁽⁴³⁾	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea ⁽⁴⁴⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea ⁽⁴³⁾	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain ⁽⁴⁵⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand ⁽⁴⁶⁾	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand ⁽⁴⁷⁾	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE ⁽⁴⁹⁾	-	^(d) 48.0%	^(d) 48.0%
Merlin Holdings Limited	UAE ⁽⁵⁰⁾	Ordinary	^(d) 1.0%	^(d) 1.0%
Alton Towers Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited (company limited by guarantee)	UK ⁽⁵¹⁾	-	100.0%	100.0%
Charcoal CLG 2 Limited (company limited by guarantee)	UK ⁽⁵¹⁾	-	100.0%	100.0%
Charcoal Holdco Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK ⁽⁵¹⁾	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 2019	Ownership 2018
Chessington Zoo Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
London Dungeon Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Magic Making Limited (formerly Merlin Entertainment Limited)	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 1A Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 2A Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Pirate Adventure Golf Limited ^(e)	UK ⁽⁵¹⁾	Ordinary	-	100.0%
SEA LIFE Centre (Blackpool) Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Tussauds Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK ⁽⁵¹⁾	Ordinary	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2019	Ownership 2018
Lake George Fly LLC	USA ⁽⁵²⁾	-	100.0%	100.0%
LEGOLAND California LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Columbus LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center San Antonio LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND Discovery Center San Jose LLC	USA ⁽⁵³⁾	-	100.0%	-
LEGOLAND Discovery Centre US LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
LEGOLAND New York LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussauds Nashville LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments Chicago LLC	USA ⁽⁵³⁾	-	100.0%	-
Merlin Entertainments Crown (US) Inc	USA ⁽⁵³⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA ⁽⁵³⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
San Francisco Dungeon LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Center San Antonio LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Michigan LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
SEA LIFE US LLC	USA ⁽⁵³⁾	-	100.0%	100.0%
The Tussauds Group LLC	USA ⁽⁵³⁾	-	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

5.8 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Joint venture undertaking	Country of incorporation	Class of share held	Ownership 2019	Ownership 2018
LL Dubai Hotel LLC	UAE ⁽⁵⁴⁾	Ordinary	40.0%	40.0%

^(a) Company sold during 2019 (see note 2.5).^(b) Merlin Entertainments Limited 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.^(c) Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries.^(d) Merlin Entertainments Limited has 100% of the beneficial ownership of these entities.^(e) Company dissolved 3 October 2019

Registered offices

- (1) Level 16, 201 Elizabeth Street, Sydney, NSW 2160, Australia
(2) Level 11, 50 Queen Street, Melbourne, VIC, 3000, Australia
(3) Suite 1, 330 Griffith Road, Lavington, NSW 2641, Australia
(4) 3 Ireland Street Bright, VIC, 3741, Australia
(5) Unit 501, 370 St Kilda Road, Melbourne, 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) Room 17, 25th Floor, LKF Tower, 33 Wyndham Street, Hong Kong
(14) Room No.3F-01b&32&K1, L3 Floor, Zhihuixuhui Plaza, No.1-2 of 2389 Alley, Zhangyang Road, Shanghai Pilot Free Trade Zone, China
(15) 4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China
(16) No. 2 Jia-1, Bolan Road, Heping District, Shenyang, China
(17) L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
(18) 189, Daduhe Road, Pu Tuo District, Shanghai, 200062, China
(19) Aastvej 10, 7190 Billund, Denmark
(20) Tivolitie 10, Helsinki 00510, Finland
(21) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 77111 Marne-La-Vallée, France
(22) Kehrwiefer 5, 20457 Hamburg, Germany
(23) Heidenhof 1, 29614 Soltau, Germany
(24) Legoland Allee, 89312, Gunzburg, 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) Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy
(28) Via Vivaldi n.7, Castelnuovo del Garda Verona, 37014, Verona, Italy
(29) Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy
(30) 2-2-1, Kinjofutou Minato-ku, Nagoya-shi, Japan
(31) Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan
(32) 20, Rue Eugène Ruppert, L-2453, Luxembourg
(33) Suite 19-1 Level 19, Tower Block, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Kuala Lumpur, 50490, Malaysia
(34) No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor, Malaysia
(35) Suite 2-4, Level 2, Tower Block, Menera Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
(36) Rokin 78, 1012 KW Amsterdam, Netherlands
(37) Gevers Deynootweg 970, 2586 BV Den Haag, Netherlands
(38) Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
(39) Strandweg 13, 2586 JK Den Haag, Netherlands
(40) Level 11, 41 Shortland Street, Auckland 1010, New Zealand
(41) No. 1 Rua Particular do Castelo de Queijo, 4100-379, Porto, Portugal
(42) 10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore
(43) 266 Haeundaehaebun-ro, Haenudee-Gu, Busan, Republic of Korea
(44) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
(45) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
(46) 989 Siam Discovery, #401 4 Flr., #501 5 Flr., #601 6 Flr., #701 7 Flr., Rama I Road, Pathumwan, Bangkok 10330, Thailand
(47) B1-B2 Floor Siam Paragon, 991 Rama I Road, Khweng Patumwan, Bangkok 10330, Thailand
(48) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
(49) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
(50) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates
(51) Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
(52) 80 State Street, Albany, New York 12207-2543, United States
(53) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
(54) 201-01 Emaar Square, PO Box 123311, Dubai, United Arab Emirates

MERLIN ENTERTAINMENTS LIMITED

COMPANY FINANCIAL STATEMENTS

Company statement of financial position at 28 December 2019 (2018: 29 December 2018)

	Note	2019 £m	2018 £m
Non-current assets			
Investments	iii	3,160	3,137
Amounts owed by Group undertakings	iv	3,843	1,260
		7,003	4,397
Current assets			
Amounts owed by Group undertakings	iv	46	4
Cash and cash equivalents		-	2
		46	6
Total assets		7,049	4,403
Current liabilities			
Interest-bearing loans and borrowings	vi	2	7
Amounts owed to parent company	vi	15	-
Amounts owed to Group undertakings	v	6	8
Accruals		1	1
Tax payable		-	1
		24	17
Non-current liabilities			
Interest-bearing loans and borrowings	vi	303	942
Parent company loans	vi	604	-
Preference shares treated as liabilities	vi	2,120	-
Amounts owed to Group undertakings	v	2,881	201
		5,908	1,143
Total liabilities		5,932	1,160
Net assets			
Issued capital and reserves attributable to owners of the Company	vii	1,117	3,243
Total equity		1,117	3,243

The notes on pages 90 to 95 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 16 April 2020 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

MERLIN ENTERTAINMENTS LIMITED

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity at 28 December 2019 (2018: 29 December 2018)

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 31 December 2017		10	10	3,282	3,302
Profit for the year		-	-	3	3
Total comprehensive income for the year		-	-	3	3
Shares issued		-	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		10	16	3,217	3,243
Profit for the year		-	-	(6)	(6)
Total comprehensive income for the year		-	-	(6)	(6)
Shares issued	vii	-	30	-	30
Bonus issue	vii	-	-	(2,117)	(2,117)
Equity dividends	vii	-	-	(56)	(56)
<i>Share incentive schemes:</i>					
- movement in reserves for employee share schemes	iii	-	-	23	23
At 28 December 2019	vii	10	46	1,061	1,117

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 Limited 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 Limited 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 28 December 2019 (2018: 52 weeks ended 29 December 2018).

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.

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

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 were settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

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 operated cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes were 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 (2018: 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. One Director accrued benefits under defined contribution schemes during the year (2018: 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 LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

iii INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 31 December 2017	3,129
Capital contributions to subsidiaries	8
At 29 December 2018	3,137
Capital contributions to subsidiaries	23
At 28 December 2019	3,160

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 82 to 87.

iv AMOUNTS OWED BY GROUP UNDERTAKINGS

	Current assets		Non-current assets	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts owed by Group undertakings	46	4	3,843	1,260

Amounts owed by Group undertakings comprise funds loaned by the Company to fellow Group undertakings. The non-current loans carry interest rates that are based on the costs of servicing equivalent external bank facilities and loan notes. Most of these loans have maturities of 2026 and 2027.

v AMOUNTS OWED TO GROUP UNDERTAKINGS

	Current liabilities		Non-current liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts owed to Group undertakings	6	8	2,881	201

Amounts owed to Group undertakings comprise funds loaned to the Company by fellow Group undertakings. The non-current loans carry interest rates that are based on the costs of servicing equivalent external bank facilities and loan notes. Most of these loans have maturities of 2026 and 2027.

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

vi INTEREST-BEARING LOANS AND BORROWINGS

	Current liabilities		Non-current liabilities		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
£600 million floating rate revolving credit facility	-	-	-	-	-	-
€700 million fixed rate notes due 2022	-	-	-	631	-	631
\$400 million fixed rate notes due 2026	-	-	303	311	303	311
Interest payable	2	7	-	-	2	7
	2	7	303	942	305	949
Parent company loans	-	-	604	-	604	-
Preference shares treated as liabilities	-	-	2,120	-	2,120	-
Interest payable to parent company	15	-	-	-	15	-
	15	-	2,724	-	2,739	-
	17	7	3,027	942	3,044	949

The Group's facilities are:

- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.
- Access to a £400 million revolving credit facility to mature in May 2026.
- Loans from the Company's parent company, being Motion Acquisition Limited.
- Preference shares issued to the Company's parent company, being Motion Acquisition Limited.

During the year as part of the acquisition of the Group by Motion Acquisition Limited, the Company:

- Issued preference shares to Motion Acquisition Limited of £2,120 million.
- Accessed loan facilities from Motion Acquisition Limited of £604 million.
- Became party to a £400 million new floating rate banking facility due to mature in 2026.
- Granted security and provided guarantees to €1,830 million and \$1,793 million facilities entered into by Motion BondCo DAC and Motion Finco S.à r.l.
- Repaid €700 million of seven year notes due to mature in 2022.
- Repaid all drawings from the floating rate bank facility due to mature in 2023 and cancelled this facility.

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 \$400 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries. The Group is required to comply with certain non-financial covenants in these notes. All covenant requirements were satisfied throughout the year.

vii EQUITY

Share capital

	2019	2019	2018	2018
	Number	£m	Number	£m
Ordinary shares of £0.01 each				
At beginning of the year	1,022,072,449	10	1,019,572,449	10
Shares issued	14,521,909	-	2,500,000	-
At end of the year	1,036,594,358	10	1,022,072,449	10

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

vii EQUITY (CONTINUED)

Issue of new shares

During the year the Company issued 14,521,909 ordinary shares at nominal value of one pence each to satisfy the vesting of the Group's employee share incentive schemes (note 4.6 in the consolidated financial statements).

The Company also received £30 million in relation to the vesting of the share awards. This was taken to the share premium account.

During the year the Company issued the following cumulative, redeemable preference shares at par, as a bonus issue from retained earnings. In accordance with the accounting policy as set out in note 1.1, these have been classed as financial liabilities:

- 36,990,000,000 A preference shares of €0.01 each
- 41,000,000,000 B preference shares of \$0.01 each
- 78,800,126,560 C preference shares of €0.01 each
- 106,908,661,000 D preference shares of \$0.01 each

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.

Preference shares

The preference shares earn interest in the form of dividends and will be redeemed as follows;

- A preference shares - at the rate of default interest payable pursuant to the €370,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities (as defined in the facilities referred to in note vi) denominated in Euros. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the A preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- B preference shares - at the rate of default interest payable pursuant to the \$410,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities (as defined in the facilities referred to in note vi) denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the B preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- C preference shares - at the rate of default interest payable pursuant to the Euro Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities (as defined in the facilities referred to in note vi) denominated in Euros. They will be redeemed on any date on which all or part of the debt Euro Senior Debt becomes repayable, or any earlier date as the holder of the C preference shares or the Company may notify to the other in the event that the Euro Senior Debt is repaid early (in full or in part); and
- D preference shares - at the rate of default interest payable pursuant to the USD Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities (as defined in the facilities referred to in note vi) denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the USD Senior Debt becomes repayable, or any earlier date as the holder of the D preference shares or the Company may notify to the other in the event that the USD Senior Debt is repaid early (in full or in part).

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital shall be paid on the ordinary shares whilst there are any unpaid amounts of preference dividends which constitute a debt from and payable by the Company. The preference shares carry no voting rights.

Retained earnings

The loss after tax for the year in the accounts of Merlin Entertainments Limited is £6 million (2018: profit after tax of £3 million). All of the Company's retained earnings are distributable (with the exception of those movements in reserves for employee share schemes).

Dividends

	2019 £m	2018 £m
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
Final dividend for the 52 weeks ended 29 December 2018 of 5.5 pence per share	56	-
Total dividends paid	56	76

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

vii EQUITY (CONTINUED)

When making dividend proposals the Directors consider the resources available to the Company and its subsidiaries. Specifically they take 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.

The Directors of the Company have declared their intention not to pay a dividend for the year ended 28 December 2019 (2018: total dividend of 8.0 pence per share).

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, v and vi).

For full details of transactions and arrangements with the Company's ultimate shareholders, see note 5.3 of the consolidated financial statements.

GLOSSARY

Capex	Capital expenditure.
Cluster	A group of attractions located in a city close to one another.
Constant currency growth	Using 2018 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, amortisation and impairment and after taking account of attributable profit after tax of joint ventures.
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.
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)	2019 LFL growth refers to the growth between 2018 and 2019 on a constant currency basis using 2018 exchange rates and includes all businesses owned and operated before the start of 2018.
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.

GLOSSARY

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.
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 Limited) 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 2019 revenues and EBITDA of re-translating them at 2018 foreign exchange (FX) rates.

Currency	2018 average FX rates	2019 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.34	1.28	(4.5)%	(22)
EUR	1.13	1.13	0.0%	-
AUD	1.78	1.83	3.0%	2
Other				(8)
Increase in 2019 revenues at 2018 FX rates				(28)

Currency	2018 average FX rates	2019 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.34	1.28	(4.5)%	(8)
EUR	1.13	1.12	(1.0)%	(1)
AUD	1.78	1.84	3.3%	1
Other				(3)
Increase in 2019 EBITDA at 2018 FX rates				(11)