MERLIN
ENTERTAINMENTS

ANNUAL REPORT AND ACCOUNTS 2016

HIGHLIGHTS

Financial KPIs

Visitors
52 weeks: 63.8m +1.3% (53 weeks: 65.1m)

Revenue
52 weeks: £1,428m +11.7% (53 weeks: £1,457m)
Like for like growth +1.4%

Underlying EBITDA
52 weeks: £433m +7.7% (53 weeks: £451m)

Underlying operating profit ☑
52 weeks: £302m +3.6% (53 weeks: £320m)

Profit before tax
52 weeks: £259m +9.2% (53 weeks: £277m)

Basic EPS
52 weeks: 19.5p +15.7% (53 weeks: 20.8p)

Return on capital employed ☑
52 weeks: 9.6% (53 weeks: 10.2%)

Adjusted EPS ☑
52 weeks: 19.5p +9.3% (53 weeks: 20.8p)

Non-financial KPIs

	2015	2016
Customer satisfaction ☑ - *Based on customer satisfaction surveys. Our target is a score over 90%.*	94%	94%
Staff engagement - *Based on annual employee surveys (see page 44). Our target is a score over 80%.*	89%	89%
Health and safety ☑ - *The Medical Treatment Case (MTC) rate captures the rate of guest injuries requiring external medical treatment relative to 10,000 guest visitations. The MTC rate is a new measure in 2016.*	n/a	0.06

How we report our results

This year we are reporting on the 53 weeks to 31 December 2016. Profit metrics are provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with last year's 52 week period, the operating performance commentary is stated on a 52 week basis, unless otherwise noted. More details on the period under review ('52' and '53' week data) and the performance measures used are set out in the Group Financial Review on page 42.

Terms used throughout this document are defined in the Glossary on pages 172 to 173.

Executive Directors' remuneration is linked to certain KPIs, as indicated by the following symbol: ☑. More details on Director's remuneration are set out in the Directors' Remuneration Report on pages 82 to 103.

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At the end of 2016 Merlin operated:

117 *attractions*

IN

24 *countries*

ACROSS **FOUR** *continents*

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MERLIN
at a glance

OUR COMPANY

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

We are first and foremost an entertainment company. We aim to deliver unique, safe and memorable experiences to millions of visitors across our growing estate - our passion is putting smiles on people's faces! We believe that we achieve this objective largely thanks to the commitment and passion of our teams and the strength of our brands, which will never fail to be distinctive, challenging and innovative. Together they deliver some of the best financial returns and growth in the sector. In every respect and to every group of stakeholders, Merlin will always be an exciting company to be involved with.

OUR VISION

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

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

OUR STRATEGY

Our strategy is to create a high growth, high return, family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors.

Our international footprint and variety of attraction types means we are not dependent on any one market. We operate over Europe, North America and Asia Pacific, with a long term ambition of an even split between these three areas. We have a 60/40 balance of outdoor and indoor attractions, and with two thirds of our visitors being domestic, are not reliant on 'fly-in' markets. At an attraction level, visits are increasingly booked in advance, also reducing volatility.

See page 10 for our global portfolio of attractions.

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

- Our **Midway Attractions** are predominantly indoor attractions located in city centres or resorts providing visits of shorter duration. We have high quality, chainable brands positioned across all key target demographics. Merlin is the only company to successfully operate the Midway product across multiple brands and sites.
- Our **Theme Parks** are outdoor attractions offering accommodation, rides, shows and interactive experiences around a central theme:
  - **LEGOLAND Parks** are aimed at families with younger children and have LEGO as the central theme. Merlin holds the global, exclusive rights to the LEGOLAND brand.
  - **Resort Theme Parks** are national brands aimed at families, teenagers and young adults. They have high brand and customer awareness in their local markets and include the leading theme parks in the UK, Italy and Northern Germany.

MERLIN *at a glance*

MIDWAY ATTRACTIONS

Indoor attractions located in city centres or resorts

MIDWAY

44%(1)

104 ATTRACTIONS

21 COUNTRIES

4 CONTINENTS

1-2 HOUR EXPERIENCE

6 GLOBAL BRANDS

THEME PARKS

Outdoor attractions with rides and shows, complemented with themed accommodation

LEGOLAND PARKS

34%(1)

7 ATTRACTIONS

6 COUNTRIES

3 CONTINENTS

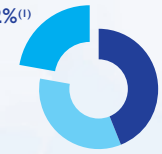
1-3 DAY EXPERIENCE

LEGO THEMED ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES

c.1,450 ROOMS

2 NEW PARKS IN JAPAN AND SOUTH KOREA UNDER DEVELOPMENT

RESORT THEME PARKS



22%(1)

6 ATTRACTIONS

UK, GERMANY, ITALY

1-3 DAY EXPERIENCE

ACCOMMODATION, RIDES, SHOWS AND INTERACTIVE EXPERIENCES AROUND A CENTRAL THEME

c.1,600 ROOMS

Footnotes:

(1) *Based on 2016 revenue.*

MERLIN'S *Business model*

OUR GROWTH DRIVERS

We have six highly complementary growth drivers to deliver growth in our existing portfolio and as we open new attractions all around the world.

- **Growing the existing estate through planned investment cycles** - adding new rides and features to our attractions to drive customer satisfaction, increase capacity and provide a compelling new proposition to guests. The investment cycle is specific to each attraction which receives a 'high', 'medium' or 'low' investment depending on its place in the cycle. These cycles smooth capital expenditure across the portfolio, ensure investments are funded from operating free cash flow, and enable attractions to plan effectively.
- **Exploiting strategic synergies** - leveraging the scale of the Group in key markets to exploit enhanced operational, marketing and buying power, including the implementation of e-commerce initiatives that provide commercial benefits and improved 'digital journeys' for our guests.

See page 12 to learn more about developments in the year and progress on our 2020 milestones.

- **Transforming our theme parks into destination resorts** - developing our theme parks into short break destinations to extend the catchment area, create new revenue streams and improve guest satisfaction. Key to this is on-site themed accommodation. Our 2020 milestone target is to add 2,000 rooms to our accommodation portfolio between 2016 and 2020.
- **Rolling out new Midway attractions** - opening new Midway attractions under one of our chainable global brands, with a focus on 'cluster' locations where we can derive operating cost, marketing and cross-selling advantages. Our 2020 milestone target is to open 40 new Midways between 2016 and 2020.
- **New LEGOLAND park developments** - which we operate under three models (operated and owned, operated and leased, under management contract). We combine our operational expertise with the LEGO brand's worldwide popularity. Our 2020 milestone target is to open four new LEGOLAND parks between 2016 and 2020.
- **Strategic acquisitions** - pursuing acquisition opportunities that complement our strategic objectives.

OUR UNIQUE RESOURCES

Supporting our Operating Groups are two specialist teams.

Merlin Magic Making (MMM) is the unique resource sitting at the heart of Merlin.

MMM supports all our attractions with specialists in four areas:

- site-search and business development
- creative design
- production across the whole portfolio including animal husbandry, wax figures and LEGO models
- project management of new site construction and major capital investments

MMM also pursues acquisition and investment opportunities.

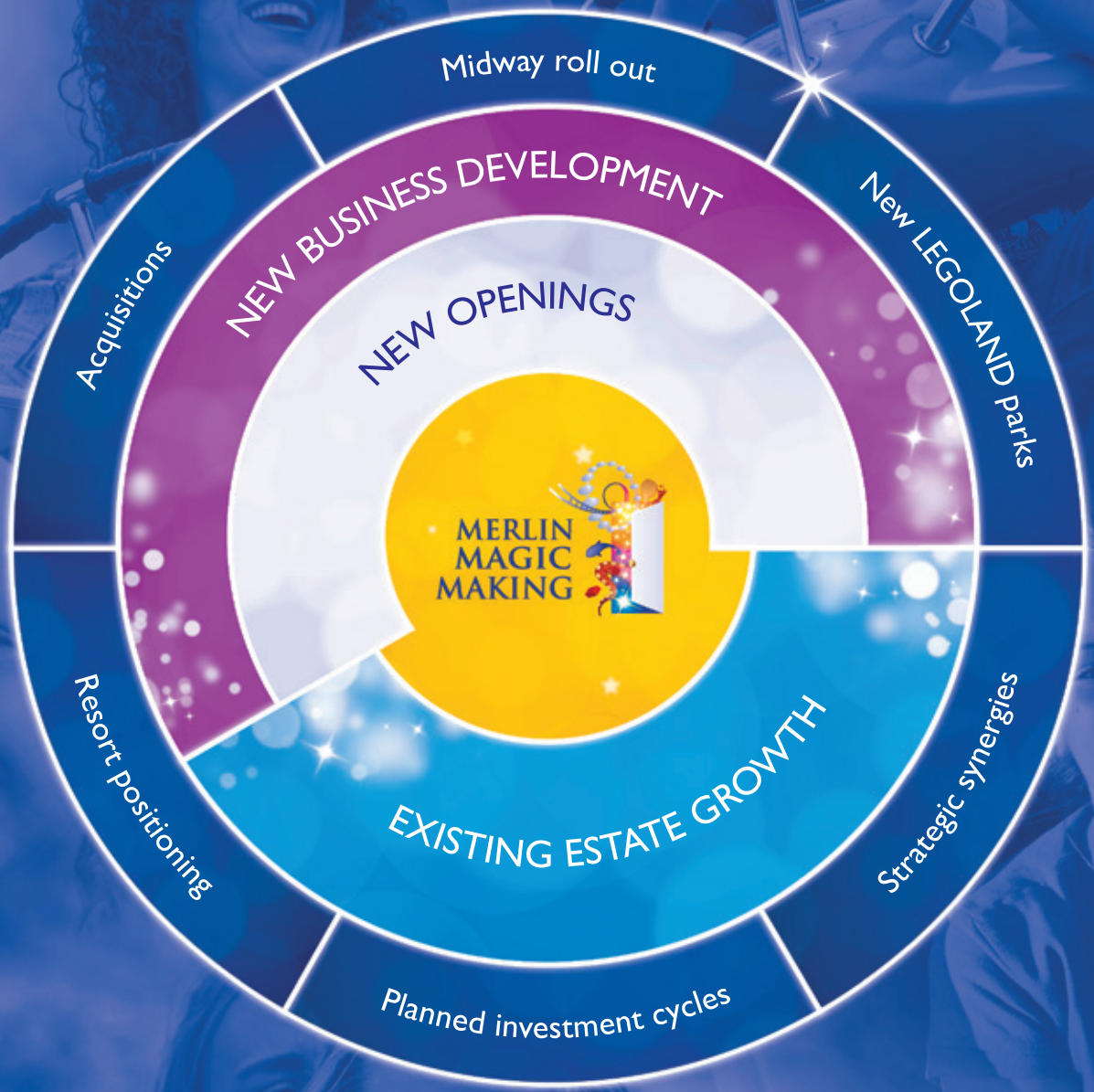
See pages 20 to 23 to learn more about MMM.

New Openings is a specialist team that has three areas of focus.

- Developing new LEGOLAND parks - locating potential new sites, negotiating contracts, managing the build process before setting up operations, recruiting teams, then opening the attraction and operating it for 12 to 18 months post opening.
- Opening new Midway attractions - setting up operations, recruiting teams, then opening the attraction and operating it for 12 to 18 months post opening.
- Integrating acquisitions.

See pages 24 to 25 to learn more about New Openings.

MERLIN'S *Business model*



MERLIN'S *Brands*

Key

● Number of attractions

MIDWAY ATTRACTIONS

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

47

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

21

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

16

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

9

Merlin Entertainments
The Eye Brand

Each of our Eye observation attractions offers the ultimate viewing experience, unparalleled and different every time, giving an **Eye Opening** perspective of the location's landscape and iconic landmarks.

4

At 'DreamWorks Tours - Shrek's Adventure!' guests play their part in a unique and interactive DreamWorks experience, where the choices they make decide the outcome. At the heart of this are the **Hilarious Misadventures** you experience in the company of your favourite DreamWorks characters.

1

THEME PARKS

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

Alton Towers Resort is set in 500 acres of beautiful Staffordshire countryside. Boasting two themed hotels, 'The Enchanted Village' lodges and an indoor waterpark, it invites families, teenagers and young adults alike into a world of **Fantastical Escapism.**

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

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

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

WARWICK CASTLE

Jousting, knights, princesses, falconry, staged scenes by Madame Tussauds and the Castle Dungeon all make Warwick the **Ultimate Castle** experience, now with three different types of themed accommodation.

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

MERLIN'S
Global portfolio

NORTH AMERICA ATTRACTIONS

SEA LIFE
Arizona
California
Charlotte
Dallas
Kansas City
Michigan
Minnesota
Orlando

Madame Tussauds
Hollywood
Las Vegas
New York
Orlando
San Francisco
Washington D.C.

LEGOLAND
California
Florida

LEGOLAND DISCOVERY CENTRE
Arizona *New*
Atlanta
Boston
Chicago
Dallas
Kansas City
Michigan *New*
Toronto
Westchester

The Dungeons
San Francisco

Merlin Entertainments The Eye Brand
Orlando

UK ATTRACTIONS

SEA LIFE
Birmingham
Blackpool
Brighton
Great Yarmouth
Hunstanton
Loch Lomond
London
Manchester
Scarborough
Weymouth
and Skyline tower

The Sanctuaries
Gweek
Oban

The Dungeons
Blackpool
Edinburgh
London
Warwick
York

Madame Tussauds
Blackpool
London

Alton Towers
Alton

Chessington World of Adventures Resort
Chessington

Shrek's Adventure!
London

Merlin Entertainments The Eye Brand
London
Blackpool

Warwick Castle
Warwick

LEGOLAND
Windsor

LEGOLAND DISCOVERY CENTRE
Manchester

Thorpe Park
Chertsey

Revenue by indoor and outdoor attactions [1]

Outdoor 58%
Indoor 42%

Revenue by geography [1]

UK 34%
Continental Europe 25%
North America 27%
Asia Pacific 14%

Visitors by domestic / tourist [2]

Domestic 63%
Tourist 37%

[1] *Based on 2016 revenue.* [2] *Based on a sample of visitors answering the question "What is your home country?"*

MERLIN'S *Global portfolio*

CONTINENTAL EUROPE ATTRACTIONS

SEALIFE
Benalmadena
Berlin
Blankenberge
Bray
Gardaland
Hannover
Helsinki
Istanbul
Jesolo
Königswinter
Konstanz
Munich
Oberhausen
Paris
Porto
Scheveningen
Speyer
Timmendorfer Strand

Madame Tussauds
Amsterdam
Berlin
Istanbul *New*
Vienna

The Dungeons
Amsterdam
Berlin
Hamburg

Gardaland Resort
Lake Garda

LEGOLAND Discovery Centre
Berlin
Istanbul
Oberhausen

LEGOLAND
Billund
Günzburg

Heide Park Resort
Soltau

ASIA PACIFIC ATTRACTIONS

SEALIFE
Auckland
Bangkok
Busan
Melbourne
Mooloolaba
Shanghai
Sydney

Madame Tussauds
Bangkok
Beijing
Chongqing *New*
Hong Kong
Singapore
Shanghai
Sydney
Tokyo
Wuhan

LEGOLAND
Dubai *New*
Malaysia

LEGOLAND Discovery Centre
Osaka
Shanghai *New*
Tokyo

Australian Treetop Adventures
Illawarra
Otway

The Sanctuaries
Manly

Merlin Entertainments The Eye Brand
Sydney

WILD LIFE
Hamilton Island
Sydney

HOTHAM alpine resort
Mount Hotham

FallsCreek
Falls Creek

Key

- Existing Merlin attractions
- 2016 New Openings

MERLIN'S
Growth drivers

EXISTING ESTATE GROWTH

GROWING THE EXISTING ESTATE THROUGH PLANNED INVESTMENT CYCLES

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

EXPLOITING STRATEGIC SYNERGIES

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

TRANSFORMING OUR THEME PARKS INTO DESTINATION RESORTS

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

NEW BUSINESS DEVELOPMENT

ROLLING OUT NEW MIDWAY ATTRACTIONS

Opening new Midway attractions under one of our chainable global brands.

NEW LEGOLAND PARK DEVELOPMENTS

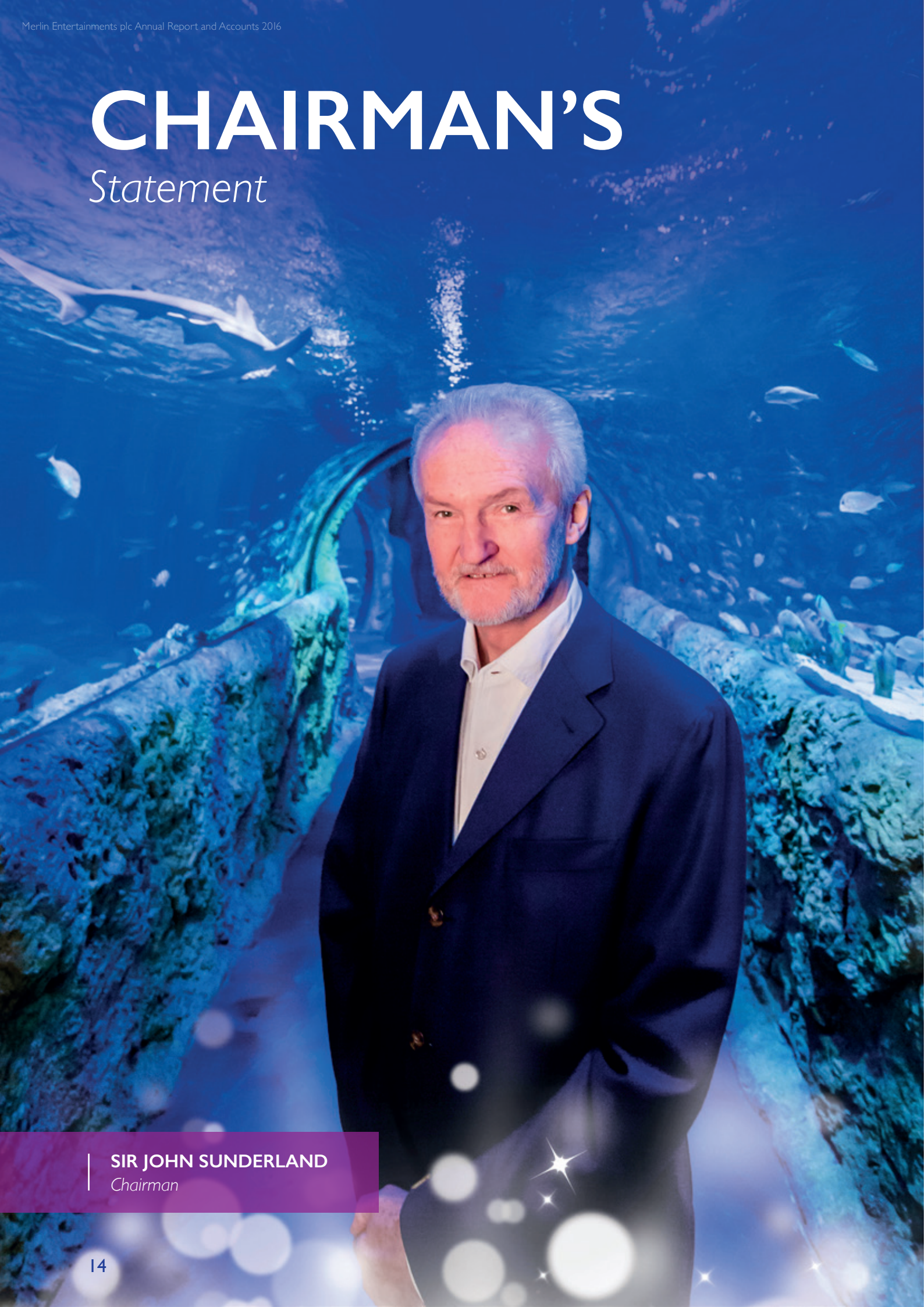
Opening new full scale LEGOLAND parks.

STRATEGIC ACQUISITIONS

Pursuing acquisition opportunities that complement our strategic objectives.

2016 DEVELOPMENTS	**2020** NBD MILESTONES
We opened new rides, shows or features at every attraction. There were 15 major new investments across Midway Attractions. LEGOLAND Billund and LEGOLAND California both opened 'NINJAGO - The Ride' while THORPE PARK launched the innovative 'Derren Brown's Ghost Train'. *See Ninjago case study on page 33*	
We continued the global implementation of the accesso® 'Passport' ticketing platform. The roll out is targeted to be complete at major sites by the end of 2017. We have seen improved mobile conversion rates, up-selling and cross-selling and will further leverage the platform as we develop trade ticketing.	
Our existing and new accommodation offerings have continued to perform well. A total of 210 additional rooms have been added across both of our theme park Operating Groups. *See Gardaland Adventure Hotel case study on page 37*	*2,000 new accommodation rooms by the end of 2020* Building on 2016's progress, 2017 will see a further acceleration towards our target as we open new accommodation offerings with more in the pipeline.
Five new Midway attractions were opened in 2016 - LEGOLAND Discovery Centres in Michigan, Arizona and Shanghai and Madame Tussauds in Chongqing and Istanbul. *See LDC Shanghai case study on page 25*	*40 new Midway attractions by the end of 2020* With five opened in 2016 and a further 14 under development at year end, we are on track to reach our target.
In October our seventh LEGOLAND park - LEGOLAND Dubai - opened under a management contract.	*Four new LEGOLAND parks by the end of 2020* LEGOLAND Japan will open in April 2017. We continue to make progress with our LEGOLAND Korea location and are exploring further potential sites in North America and Asia.
We acquired a minority stake in BIG BUS Tours and entered into co-promotion agreements with them in a number of city centre locations. This complements our strategy of 'owning the visit' in key city centre markets.	

CHAIRMAN'S *Statement*



SIR JOHN SUNDERLAND
Chairman

CHAIRMAN'S *Statement*

Trading and strategy

This has been a year of good progress for Merlin Entertainments. The LEGOLAND Parks Operating Group continued to deliver growth although Midway Attractions saw security concerns and exchange rate volatility affect trading at some of our largest city centre locations. Within Resort Theme Parks there was the start of what we believe is an encouraging recovery at Alton Towers.

We continued to make longer term strategic progress, developing more accommodation across our resorts, opening a LEGOLAND park in Dubai, with another soon to come in Japan. We also announced our new 'Little Big City' concept to add to the existing suite of chainable Midway brands, where our pipeline for future attractions remains strong.

Health, safety and security

In September the Group was fined following a prosecution brought by the UK Health and Safety Executive in connection with the accident at Alton Towers in 2015. That accident shocked Merlin deeply and we have been rigorous in our response.

While we are never complacent in this area, I am reassured by the outcome of independent reviews we subsequently commissioned into our ride safety and our health and safety governance arrangements.

We provide more details on further enhancements to our approach in this most important area in our Health, Safety and Security Committee report on pages 70 to 75.

Governance and the Board

Anne-Francoise Nesmes joined Merlin as Chief Financial Officer in August following Andrew Carr's retirement. Her extensive finance and international experience across a number of industries will be of great value to the Group as it grows and evolves.

Rachel Chiang was appointed as a Non-executive Director at the start of the year. Rachel brings relevant sector and geographical experience as we continue Merlin's expansion into the Asia Pacific region.

I have enjoyed welcoming them to Merlin and look forward to working with them both in the coming years. We have a diverse Board that has a wealth of knowledge and experience to help guide Merlin through the next phase of its growth story.

Dividends

The Board will be recommending to the AGM in June that we pay a final dividend of 4.9 pence per share in June.

Taken together with the interim dividend of 2.2 pence per share paid last September, this will equate to a full year dividend of 7.1 pence per share, up 9.2% on 2015.

Corporate social responsibility (CSR)

There are two overarching themes to Merlin's CSR approach. Firstly, we take our responsibility to be a 'Good Corporate Citizen' seriously. There are then other specific areas where we feel Merlin is uniquely placed to be a 'Force for Good'.

Key to this are our employees who are proud to be part of and to support their communities, demonstrating to all of Merlin's stakeholders the strength of the Company's core values. This is underpinned by robust governance standards and practices to help us operate our businesses responsibly and safely.

All our attractions are tasked with delivering plans to reduce energy consumption and carbon emissions in our commitment to the environment. I am pleased therefore that we again exceeded our carbon reduction target.

Our partner charity, the SEA LIFE Trust, protects marine wildlife through its worldwide campaigns. In 2016, as part of our focus on marine protection, we campaigned worldwide and were proud to support President Obama's expansion of the world's biggest marine protected area in Hawaii.

Merlin's Magic Wand is our own children's charity, delivering magical experiences around the world to children who are disadvantaged through sickness or disability. We have now installed 31 'magical spaces' across four continents, ranging from themed areas at children's homes and hospitals to the complete refurbishment of an orphanage. We continue to arrange visits to our attractions (over 86,000 in 2016) and to 'take the magic' to local children's organisations with community outreach activities.

Our aspiration is to become industry leaders for guests with accessibility challenges. Our initiatives are aimed at improving guest information, providing employees with tools and training and delivering environments that are accessible to all.

More details can be found on pages 53 to 59.

Our people

As always it is Merlin's management team and our many thousands of employees around the world who have driven our results and strategic progress. They are the foundation of our relations with our communities and all stakeholders. They have my ongoing gratitude for their contribution.

Looking forward

As we enter 2017, I am confident that Merlin's strategy of continued diversification and expansion, together with the commitment of the Group's employees, stand us in good stead as we deliver further growth.

Sir John Sunderland
Chairman
1 March 2017

CHIEF EXECUTIVE'S *Report*

NICK VARNEY
Chief Executive Officer

CHIEF EXECUTIVE'S *Report*

	53 weeks ended 31 December 2016	52 weeks ended 24 December 2016	52 weeks ended 26 December 2015	Growth[1]	Constant currency growth[1]
Visitors (m)	65.1	63.8	62.9	1.3%	
Revenue (£m)	1,457	1,428	1,278	11.7%	3.6%
EBITDA (£m)	451	433	402	7.7%	(1.8)%
Operating profit (£m)	320	302	291	3.6%	(6.2)%
Like for like revenue growth					1.4%
Like for like EBITDA growth					(3.6)%

[1] *This year we are reporting on the 53 weeks to 31 December 2016. Profit metrics are provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with last year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.*

HIGHLIGHTS

REVENUE GROWTH DESPITE CHALLENGING MARKET CONDITIONS

GOOD PROGRESS TOWARDS 2020 MILESTONES

CONFIDENT IN STRATEGY AND OUTLOOK

Merlin Entertainments has made good progress in 2016 in the context of a challenging external environment.

From a trading perspective the Group's longstanding diversification strategy meant that we delivered revenue and EBITDA growth at reported foreign exchange rates of 11.7% and 7.7% respectively, despite headwinds in many markets, in particular from international terrorism.

This was reflective of an encouraging recovery in Resort Theme Parks, ongoing growth in LEGOLAND Parks and some Midway Attractions divisions, offset by more difficult conditions in London and a number of other Midway markets. There was also a strong impact from New Business Development as we opened more attractions and benefited from a meaningful contribution from our accommodation expansion.

> *Merlin Entertainments has made good progress in 2016*

Short term macro developments

Following the European Union referendum in the UK, the weakening of Sterling from its previously high level benefited the 2016 results in the translation of the over 70% of profits we derive from other countries; notably the USA and Continental Europe. In the medium term, we expect a more competitive pound to help inbound tourism to London recover and drive more 'staycations' from UK residents, in the same way that some of our Continental European attractions enjoyed a period of Euro weakness. We are encouraged by recent visitation trends in our London attractions, although it is premature to declare a recovery, and we continue to plan accordingly.

Nonetheless we continue to believe that the UK tax system puts the country's tourism industry at a disadvantage, with the UK VAT rate of 20% in many cases being twice that charged in other European Union countries. The industry therefore continues to lobby the Government for a reduction in VAT on tourism services (attractions and accommodation). This would have the effect of 'locking in' the value benefit of a weaker pound and create a level playing field for UK tourism with competing countries such as France and Spain.

CHIEF EXECUTIVE'S *Report*

> *We speak of 2017 as the beginning of the Next Chapter in the remarkable Merlin Story*

Long term vision and strategy
The events of 2016 reinforce our view that a diversified portfolio based on strong brands with natural synergies is the best way of delivering consistent profit growth. Consequently we continue to pursue a long term vision by which the Group's revenues are broadly spread one third each across The Americas, Europe and Asia Pacific. It is worth noting that compared to 2005, when Merlin was much smaller and only operating in Europe, the 2016 revenue of £1.4 billion was already derived 27% and 14% from North America and Asia Pacific respectively. With the focus of our Midway and LEGOLAND park new openings being in these two regions, we remain confident of achieving this goal.

Despite the escalation in terrorist activity and its consequent impact on tourism flows we continue to be excited about the long term opportunities for Merlin. In particular, we believe that visitation to international 'gateway' cities will grow steadily driven by the increased propensity of resident populations to 'short break' and the desire of emerging market consumers, notably from China, to travel. This will create further opportunity for our Midway brand clusters and support the extension of our strategy to exploit growing city centre tourism.

The short break market is also set for further expansion reinforcing our aspiration to position all our theme parks as resort destinations. In this respect we envisage that, in the fullness of time, most of our resorts can support over 1,000 accommodation rooms, ranging from four star hotels to themed 'glamping'. Currently our top resorts LEGOLAND California, Gardaland and Alton Towers have 250, 347 and 516 rooms respectively.

Our confidence in the long term prospects of our market led us in February 2016 to announce some significant New Business Development milestones; by 2020 to open 40 new Midway attractions (mainly in cluster city locations), four new LEGOLAND parks and over 2,000 new accommodation rooms. By the end of 2016, 19 of these additional Midways were open or under development. LEGOLAND Dubai opened in October and LEGOLAND Japan is set to open in April 2017. In addition, over 1,000 new rooms are already open or approved for development. We are well advanced with other new projects, including exciting new brands, which will see us deliver against this strong structural growth story.

Our customers
At the heart of what we do is our desire to give our customers safe, memorable experiences. Since the accident at Alton Towers in 2015 we have reinforced our health and safety protocols and resources and introduced a new Group engineering function (see the Health, Safety and Security Committee Report on pages 70 to 75).

In terms of the guest experience we have delivered against our high (90%+) KPI on customer satisfaction, but our aspiration is to continually do better. All businesses in the Group are now focused on delivering 'Top Box' satisfaction, Trip Advisor (or local equivalent) and 'Net Promoter' scores.

Our team
Merlin has one of the most engaged teams in any industry anywhere, achieving a remarkable 89% in the 2016 staff survey. It is this which drives the high productivity of the Group and delivers memorable experiences to over 63 million guests worldwide.

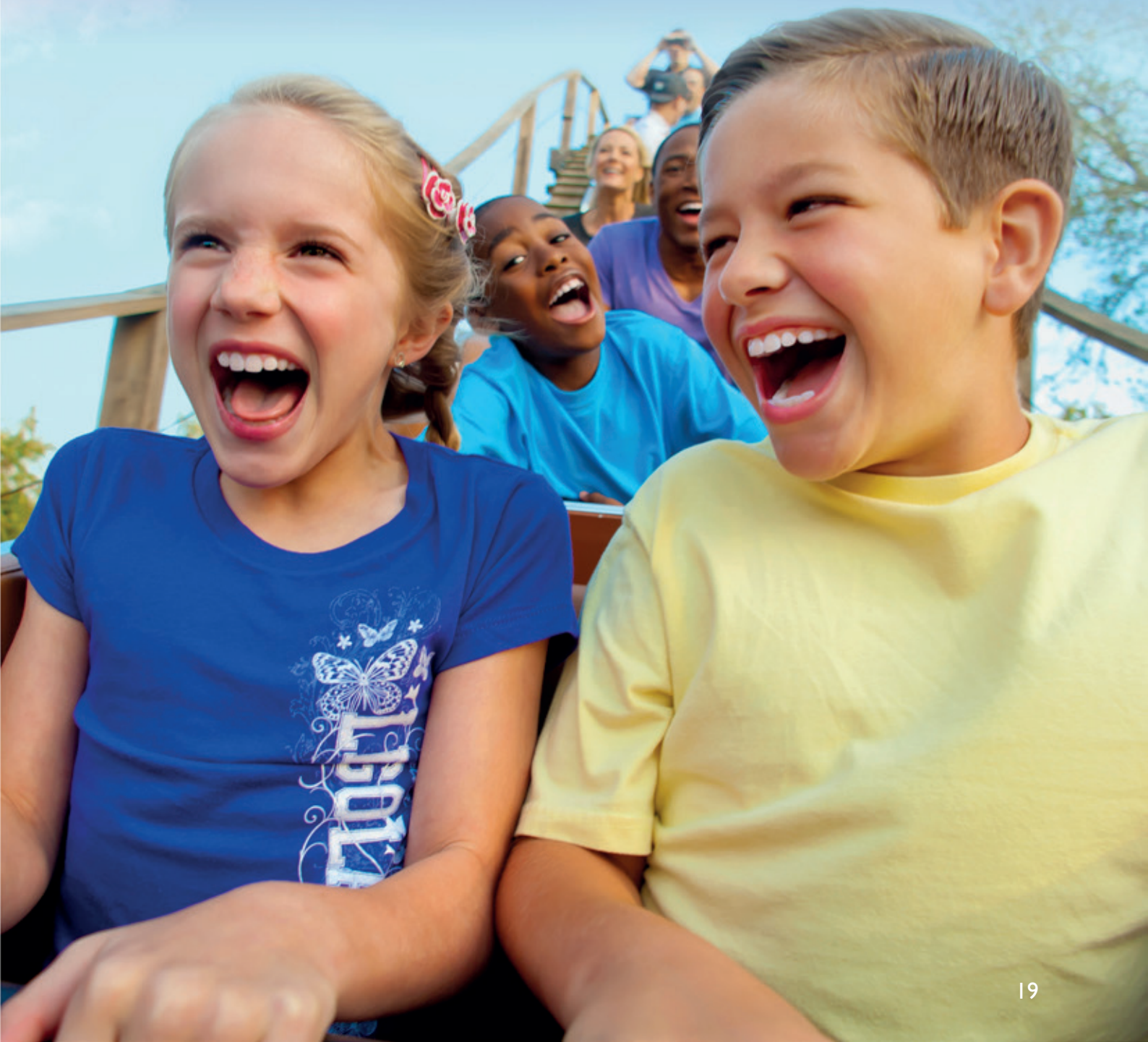
With pressures on our cost line from external factors such as legislation-driven wage pressures around the world and increased business tax rates in the UK, as well as above inflationary wage growth in Asia, we will continue to seek to drive greater productivity through resource efficiencies and more motivated, better rewarded employees as a means of retaining this extraordinary energy. This extends to share ownership via the popular Merlin Sharesave Scheme. We will also continue our already progressive policies in shaping a management team which reflects the gender and cultural diversity of our customers.

Internally we speak of 2017 as the beginning of the Next Chapter in the remarkable Merlin Story. It is one where the Company is moving forward with confidence to achieve our ambitious growth strategy.

We have the brands, the people and an exciting pipeline of projects to deliver against our objectives. Our overarching purpose remains to create truly memorable experiences for our millions of visitors and value for our stakeholders.

Nick Varney
Chief Executive Officer
1 March 2017

At the heart of what we do is our desire to give our customers safe, memorable experiences



MERLIN MAGIC MAKING

MARK FISHER
Chief Development Officer

MERLIN MAGIC MAKING (MMM) IS THE UNIQUE RESOURCE THAT SITS AT THE HEART OF EVERYTHING MERLIN DOES.

FINDING THE MAGIC

MMM finds new business opportunities, ranging from the strategic roll out of the Midway estate to potential acquisitions.

CREATING THE MAGIC

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

PRODUCING THE MAGIC

MMM takes creative ideas and then produces amazing content for our attractions. We make LEGO models, wax figures, attraction theming, and ensure that Merlin provides the best animal care possible.

DELIVERING THE MAGIC

MMM's project management teams produce world beating attractions for our guests to enjoy!

FINDING THE MAGIC

In 2016 our organic roll out programme continued, leading us towards our strategic goal of 40 new Midways by 2020. This progress will continue into 2017 and beyond as we roll out new and existing brands into new territories.

Most exciting is our entry into India, with a Madame Tussauds being built right in the heart of Delhi, on the world famous Connaught Place. We are also taking the LEGOLAND Discovery Centre brand over to Australia for the first time as we open in Melbourne. This is in addition to our continued roll out in China of our SEA LIFE and LEGOLAND Discovery Centre brands.

The USA will see the further expansion of the LEGOLAND Discovery Centre brand together with a 'new concept' Madame Tussauds in Nashville, where this first fully musically themed attraction will leverage its prime location close to the Grand Ole Opry.

Finally, we will launch our new Midway brand, 'Little Big City', that will open alongside our Berlin cluster (see case study on page 23).

> *More NINJAGO training camps are appearing in LEGOLAND parks, ready to train the next generation of LEGO warriors*

CREATING THE MAGIC

We are well advanced in introducing our first full intellectual property based hotel outside of the LEGOLAND resorts, with the launch of the 'CBeebies Land Hotel' at Alton Towers. Children will be able to come and stay in the fully immersive and magical world of CBeebies, before embarking on their day of adventures within Alton Towers and a visit to the successful CBeebies Land.

Further in 2017, a new 'Ghostbusters' ride experience at Heide Park promises to 'scare the pants off' our visitors, while more NINJAGO training camps are appearing in LEGOLAND Deutschland, LEGOLAND Florida and LEGOLAND Windsor, ready to train the next generation of LEGO warriors. For those with a more sedate side, 'The Gruffalo' will be dropping in to Chessington World of Adventures.

Meanwhile, on the Midway side, amongst a whole host of exciting projects, we will be introducing a new selection of Penguins in Paris and a new wobbly world of Jellyfish in London.

Probably most exciting of all is the introduction of one of our home grown attraction concepts, 'Little Big City'.

PRODUCING THE MAGIC

We have produced some amazing things in 2016 and think none is more spectacular than the 'huge' Miniland at the heart of our new LEGOLAND park in Dubai.

Our new LEGO model shop is now operational in Florida, as we absorb the ever increasing demand and focus on operational efficiencies in rolling out new LEGOLAND parks and Discovery Centres, as well as new attractions in our existing estate. Our Malaysian model shop will see further expansion as we move through 2017.

Innovation continued to be a key feature in 2016, with many new production techniques being trialled as technology plays more of a central role in our production thinking. Examples are facial scanning being used in the development of our handmade wax figures and the use of 3D printing to produce ever more lifelike theming across the Merlin estate.

Merlin Animal Welfare, our team of marine biologists, continues to be at the forefront of our creature care as well as developing even more innovative displays for our SEA LIFE attractions.

DELIVERING THE MAGIC

Whether it is from new Midway attractions or other developments, 2016 has seen no let-up in the variety, geographic spread and number of delivered projects. We have been working on over 48 major projects for delivery in 2016 and 2017, across eleven countries, representing a capital investment of over £245 million.

Our accommodation roll out will continue into 2017. We will open the already mentioned 'CBeebies Land Hotel' at Alton Towers, together with a new beach themed holiday village in LEGOLAND Florida, a new LEGO Castle hotel at LEGOLAND Windsor and an expansion of the holiday village in LEGOLAND Billund. Overall we are well on target to reach our goal of 2,000 new rooms by 2020.

Finally, after the successful launch of our virtual reality coaster at Alton Towers in 2016, we will see a further roll out of this innovative concept in Gardaland in 2017.

Overall 2016 has been another great year for Merlin Magic Making with the whole team rising to the challenge. We are excited about the opportunities in 2017.

> *"We have produced some amazing things in 2016. None more spectacular than the 'huge' Miniland at the heart of our new LEGOLAND park in Dubai"*

100 %
Little BIG City
BERLIN
In search of new Midway brands, the Merlin team have developed our own in-house concept that can fit alongside our portfolio of existing brands, broadening our long term options when it comes to achieving our Midway pipeline roll out.
We are developing Merlin's take on a model village with a unique fusion of miniature models and a mix of old and new technology. We will make the history of a particular city come alive as we open a 'Little Big City' in our cluster cities alongside our existing Midway brands.
We will open our first 'Little Big City' right in the heart of Berlin in the summer of 2017. We will bring to life the most important stories and events from medieval to modern Berlin, using a captivating combination of special effects, storytelling and interactive miniature designs.
1666
1708
1948
1989
2010
DID YOU KNOW?
Our little 'Reichstag' is 4m wide, 3m high & 2m deep, and we 'burn it down' every 3 minutes!
There are 6,000 characters, each individually digitally posed, dressed and 3D printed.
We tell 391 character stories through 6 eras of Berlin's history.

NEW *Openings*

THE NEW OPENINGS TEAM IS MERLIN'S SPECIALIST RESOURCE THAT

DEVELOPS NEW LEGOLAND PARKS

OPENS NEW MIDWAY ATTRACTIONS

INTEGRATES ACQUISITIONS

John Jakobsen
Chief New Openings Officer

Reflecting Merlin's ambitious growth plans, in May 2015 the Group announced the formation of a new team, New Openings, responsible for the development of our LEGOLAND park portfolio, overseeing the opening of all new attractions and the integration of strategic acquisitions.

It is a vital element in delivering the Group's strategic 2020 milestones, where from 2016 to 2020 the Group will be opening 40 new Midway attractions and four new LEGOLAND parks (each with themed accommodation offerings). These projects will mean hiring around 7,000 new staff over that period to support an anticipated visitation of up to 20 million visitors per year.

Development

LEGOLAND parks

New Openings has a wide remit for new LEGOLAND park developments, seeking out new opportunities and locations for future resorts. Once a project is agreed and Board approved, the New Openings team is responsible for the construction of the park and any complementary accommodation.

Midway attractions

For Midway attractions, the site search activity for new project locations rests with Merlin Magic Making (see pages 20 to 23 for more details). Once a project has Board approval it is handed over to New Openings to oversee the development, with Merlin Magic Making providing core project management to deliver the project build.

Opening

In delivering a new attraction, New Openings will manage the recruitment and training of staff, develop the marketing plan and build brand awareness along with establishing all the functions a new site needs, wherever possible leveraging expertise from across the existing estate.

When a site opens, New Openings will support the business for between 12 to 18 months, before stepping aside and leaving the local team to execute the agreed strategy. Throughout this time results will be reported within the relevant Operating Group.

2016

During 2016 the New Openings team has proved the benefits of this dedicated resource, opening LEGOLAND Dubai under a management contract in October, while pressing forward with the construction of LEGOLAND Japan for a planned opening in April 2017. They have also continued to make progress with our LEGOLAND Korea location, working with local government on the site's supporting infrastructure, targeting a 2019 opening.

The team have also managed the opening of five new Midway attractions in three different continents this year. All projects are operating well with guest satisfaction scores on a par with high Merlin standards.

Looking forward

As highlighted on pages 20 to 23, there are a number of new and exciting developments we are working on alongside Merlin Magic Making, and we stand ready to deliver more successful launches.

Regarding new LEGOLAND parks, we continue to seek out new sites worldwide, with opportunities progressing in North America and China.

Acquisitions

To enable existing teams to focus on operating existing attractions, New Openings is responsible for operating any acquired businesses until they are ready to be integrated into the relevant Operating Group.

NEW *Openings*

100 %

LEGOLAND DISCOVERY CENTRE 乐高探索中心

After a strong and consistent increase in LEGO toy sales in China over the past several years we see opportunities for the development of LEGOLAND branded attractions in this significant market.

In considering our first important step into the market the Group decided to open the first LEGOLAND attraction as an LDC in Shanghai. This is one of the strongest LEGO markets in China and with a location within walking distance of our Chang Feng Ocean World aquarium we have been able to leverage operational synergies with our existing well established Merlin team.

The attraction follows the established LDC format and New Openings worked together with the MMM project management team to ensure we opened on schedule in April 2016. Following a well executed marketing and sales programme - integrated with LEGO China - the attraction enjoyed a strong launch and has seen very promising guest satisfaction scores so far.

The success of this highly strategic launch provides confidence for the potential for many further LDC projects in China, as well as supporting our conviction of the market potential for our larger scale LEGOLAND parks.

We look forward to overseeing this successful new attraction for its remaining time with New Openings before we then hand operations over to our Midway colleagues!

DID YOU KNOW?

The Shanghai Tower, at 4.9 metres from the floor to the top of the model, is the tallest in any LDC.

There are 600,000 bricks and over 3,000 Minifigures in the Miniland.

MIDWAY

Attractions

40.6 MILLION
visitors in 2016

£621 MILLION
revenue in 2016

£224 MILLION
EBITDA in 2016

OPERATIONAL REVIEW - MIDWAY *Attractions*

	53 weeks ended 31 December 2016	52 weeks ended 24 December 2016	52 weeks ended 26 December 2015	Growth[1]	Constant currency growth[1]
Visitors (m)	41.7	40.6	40.0	1.5%	
Revenue (£m)	638	621	561	10.8%	3.4%
EBITDA (£m)	236	224	221	1.5%	(4.7)%
Operating profit (£m)	172	160	167	(4.3)%	(9.7)%
Like for like revenue growth					(0.2)%

[1] *This year we are reporting on the 53 weeks to 31 December 2016. Profit metrics are provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with last year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.*

HIGHLIGHTS

LIKE FOR LIKE REVENUE LEVEL WITH 2015

SPECIFIC CHALLENGES IN A NUMBER OF KEY MARKETS

GOOD CONTRIBUTION FROM MIDWAY ROLL OUT

Nick Mackenzie
Managing Director
Midway Attractions

Market backdrop and strategy

The Midway Attractions Operating Group experienced a difficult year in 2016, with several of our large, city centre attractions experiencing volatile trading patterns. Whilst occasional 'shocks' have always been present to a degree given the global nature of the Operating Group, the increased prevalence of these in recent years has resulted in a more challenging trading environment.

Nevertheless, we remain confident in the long term prospects for Midway. We continue to see growth opportunities as consumers seek more leisure experiences, and as increased 'digitalisation' of media and entertainment leads to greater value being placed on high-quality experiences with friends and family.

Against this backdrop, our strategy is based around the continued growth and global diversification of our brands, exceptional marketing execution, 'owning the visit' in our 'gateway' city attractions and maximising strategic synergies.

Trading performance

Overall revenue growth of 10.8% was underpinned by constant currency growth of 3.4%, with more favourable foreign exchange rates benefiting our reported results.

EBITDA grew by 1.5% (decline of 4.7% at constant currency), representing a decline in the margin from 39.4% to 36.1%. With a cost base that is typically more fixed in nature when compared to our theme park businesses, significant structural cost savings in Midway are challenging to achieve.

Nevertheless, a number of savings were made in light of the geopolitical events of the first half of 2016 and in anticipation of mounting underlying cost pressures. Whilst the part-year benefit of these mitigating actions did not fully offset the softer revenue performance, they are expected to support profitability going forward, allowing for continued investment in marketing and product.

New 'drop ride' in the Berlin Dungeon

OPERATIONAL REVIEW - MIDWAY *Attractions*

The Operating Group's margin in 2016 was also driven by our roll out strategy impacting mix, with newer sites typically having lower margins.

As a result, and including higher depreciation driven by continued investment in the estate, operating profit declined by 4.3% (9.7% at constant currency).

Existing estate
Revenue declined by 0.2% on a like for like basis as difficult trading conditions in a number of our larger markets, which were adversely affected by security concerns or market-specific issues, were not fully offset by strong performances elsewhere. We are nevertheless encouraged by the continued strong market positioning of our brands even in these more challenging markets.

As the largest of Midway's five Divisions, the impact of security concerns was most strongly felt in London. Although the competitiveness of Sterling improved following the UK's referendum on the EU in June, this resulted in little material benefit on visitation from overseas as 2016 summer holiday decisions had largely been made prior to the currency movements. Some improvement in overseas visitation was however experienced towards the end of the year.

Our Midway Asia Division saw challenging trading as localised market factors impacted several of our larger attractions. This was most prevalent in Hong Kong where travel restrictions from the People's Republic of China continue to impact visitation to Madame Tussauds. We however remain confident in the longer term prospects for the region as a whole and will continue to invest in both our existing and new attractions.

In a portfolio of over 100 attractions, there were naturally a number of strong performances. These tended to be delivered at our attractions located outside of city centres. As these are typically smaller in scale compared to their city centre counterparts, their good performances were insufficient to offset weakness elsewhere.

Capital investment
2016 saw a number of significant product launches, typically designed to deliver 'new news' via marketing and PR to drive repeat visitation, support price increases, or shift focus towards a particular audience.

Madame Tussauds New York enjoyed a new 'Ghostbusters' feature, coinciding with the remake of the film which was launched in July. We also teamed up with a virtual reality provider - 'The Void' - to make this experience even more interactive and engaging. PR surrounding the product was fantastic, and the performance uplift helped offset a difficult tourist market in New York.

Other key product launches included a new 'drop ride' in the Berlin and San Francisco Dungeons, a Sherlock Holmes feature in Madame Tussauds London, and the 'K-Wave Zone' in Madame Tussauds Shanghai - capturing the appetite in China for Korean music. We introduced a number of NINJAGO based 'Laser Training Camps' at our LEGOLAND Discovery Centres and launched a new café format at LDC Dallas which has the potential to be rolled out to the wider estate. Late in the year we launched a penguin feature at SEA LIFE Sydney Aquarium.

Brand investment
As part of the continuous evolution of our iconic brands, we continued in 2016 to support their competitive positioning in an ever-evolving landscape. In Madame Tussauds, we have focused upon evolving the experience 'beyond wax', creating new immersive experiences and ensuring appropriate differentiation between our global portfolio of attractions. We are also developing new strategic partnerships with international media and consumer brands. In SEA LIFE, we are rolling out refreshed marketing communications and product, and are increasingly partnering with major brands.

Customer satisfaction
Our continued focus on delivering memorable experiences helped our Midway attractions maintain their excellent levels of guest satisfaction with a particular focus on improvements to 'Top Box' scores.

Existing estate - looking ahead
We will make further investments in 2017, with something new at each of our attractions as we deploy capital efficiently across the estate. These will include:

- a penguin attraction at SEA LIFE Paris and a jellyfish feature at SEA LIFE London Aquarium;
- 'The Voice' - based around the hit TV show - in Madame Tussauds London and New York;
- 'NINJAGO City' - which we will roll out to more LEGOLAND Discovery Centres.

New penguin feature at SEA LIFE Sydney Aquarium

OPERATIONAL REVIEW - MIDWAY *Attractions*

100 %

EYE-POPPING DAYS OUT

In Spring 2016, following a number of terrorist attacks across Europe, and with UK exchange rates still relatively unfavourable for inbound tourists, the London tourist market was displaying signs of weakness. European markets were struggling and visitor sentiment was negative at a crucial point for summer holiday bookings. With international guests typically representing over 70% of visitors to our London attractions, we decided to execute a proactive strategy.

With a primary focus on growing market share in domestic audiences in London and the South East of the UK throughout the summer holidays, we increased our marketing spend and developed an impactful campaign to drive visits to London's South Bank. A fully integrated, multi-media campaign featuring 'Eye-Popping Days Out' ran from June until the end of August across a range of media to maximise awareness and 'share of voice'.

This included working with our partner, Big Bus, with advertising across their fleet and sales team incentives.

As we had planned, the campaign boosted domestic interest, web traffic and visitation. Whilst the international market remained difficult over the summer period, the improvement in domestic visitor numbers arrested the decline in overall guest numbers.

LEGOLAND
Parks

12.8 MILLION
visitors in 2016

£486 MILLION
revenue in 2016

£188 MILLION
EBITDA in 2016

OPERATIONAL REVIEW - LEGOLAND *Parks*

	53 weeks ended 31 December 2016	52 weeks ended 24 December 2016	52 weeks ended 26 December 2015	Growth[1]	Constant currency growth[1]
Visitors (m)	12.9	12.8	12.7	0.6%	
Revenue (£m)	495	486	429	13.5%	2.9%
EBITDA (£m)	193	188	169	11.1%	0.5%
Operating profit (£m)	165	160	146	9.1%	(1.4)%
Like for like revenue growth					1.6%

[1] *This year we are reporting on the 53 weeks to 31 December 2016. Profit metrics are provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with last year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.*

HIGHLIGHTS

LIKE FOR LIKE REVENUE GROWTH OF 1.6%

SPECIFIC CHALLENGES IN FLORIDA; STRONG PERFORMANCES IN EUROPEAN PARKS

CONTINUED ROLL OUT OF THEMED ACCOMMODATION

Hans Aksel Pedersen
Managing Director
LEGOLAND Parks

Trading performance

Following two years of extremely strong growth, the LEGOLAND Parks Operating Group saw further positive momentum in 2016. Our ongoing successful investment in product and the guest experience at our six existing parks, underpinned by the LEGO toy brand, has been a major driver of this.

Overall revenue growth of 13.5% was driven by constant currency growth of 2.9%, with the strength of the US Dollar benefiting the translated result of our two North American parks. Reflecting growth in revenue offset by underlying cost growth and pre-opening costs related to future parks, EBITDA grew by 11.1% (0.5% at constant currency), and operating profit by 9.1% (decline of 1.4% at constant currency).

Existing estate trading

Revenue grew by 1.6% on a like for like basis, reflecting the strong comparatives following exceptionally strong growth in recent years.

We enjoyed good performances in our parks in Billund and Germany which benefited from a 'staycation' effect. LEGOLAND California maintained a strong market position despite increased promotional activity from competitors, whilst the Florida tourist market suffered from a number of issues, including concerns related to the Zika virus and the Orlando shootings, resulting in increased competitive pressures.

Existing estate capital investment

In 2016, the high year major product investment was in LEGOLAND Billund, with a medium year in LEGOLAND California. In both these parks, we launched new offerings based upon core LEGO NINJAGO intellectual property (see case study on page 33).

Additionally, we launched the new and exclusive movie 'short': 'The LEGO Movie 4D A New Adventure' across each of our parks. Partnering with Warner Bros. and the LEGO Group, this efficiently added further capacity to our parks, and supported guest satisfaction.

> *LEGOLAND Parks saw further positive momentum… from our ongoing successful investment in product and the guest experience*

OPERATIONAL REVIEW - LEGOLAND *Parks*

> *2017 will see a significant acceleration in our accommodation strategy*

Looking ahead

In 2017 we will continue to provide our guests with new, innovative and compelling features at each of our parks.

Building upon the resounding success of our NINJAGO product investments in 2016, similar rides and experiences will be rolled out across the remaining parks. We believe these will benefit from the LEGO Group's continued investment into the NINJAGO brand, as well as further marketing momentum around the LEGO NINJAGO movie currently expected to be released towards the end of 2017.

It is this mutually-synergistic relationship with LEGO, allowing for strong product offerings and marketing opportunities, which provides us with confidence in the longer term outlook for the LEGOLAND Parks Operating Group.

2017 will also see a significant acceleration in our accommodation strategy. A new holiday village offering at LEGOLAND Florida will add capacity to complement the hotel that opened in 2015. We will also open a second hotel at LEGOLAND Windsor and expand the holiday village at LEGOLAND Billund. In total, just over 300 rooms will be added to the estate in 2017, with a further acceleration of the roll out expected in 2018, as Merlin progresses towards its 2020 milestones.

Resort positioning

Our strategy of developing our theme parks into short break resorts made further progress in 2016 with the addition of 47 new accommodation rooms. We opened a 34 room 'Castle' hotel and more 'giant-sized' beer barrel chalets at LEGOLAND Deutschland Holiday Village. Such accommodation developments not only generate attractive returns in their own right, but drive increased volumes to the park as a result of the broader catchment area. Data continues to show that guest satisfaction is higher amongst those who have stayed with us overnight.

Customer satisfaction

2016 showed an improvement in guest satisfaction in a number of key areas. For example our themed accommodation performed particularly well which was also reflected through highly favourable ratings on Trip Advisor.

The 'Castle' hotel at LEGOLAND Deutschland Holiday Village

The rationale for LEGOLAND Billund developing a NINJAGO themed feature as a high year capital investment project was compelling, with NINJAGO already one of LEGO's best-selling toy lines and becoming a key LEGO intellectual property. Our own detailed market research reinforced that the idea of a 'NINJAGO training camp' scored well with both boys and girls and across different age groups, as well as amongst parents.

With our defined investment cycles giving clarity to our parks, LEGOLAND Billund started the project in 2014 for the 2016 season. The objective was to deliver a high capacity ride and a new themed area, driving improvements in guest satisfaction and visitation whilst delivering the expected returns on capital.

LEGO NINJAGO World opened in 2016 in Billund. In addition to various training exercises to become a 'Ninja', the heavily themed area includes a 'dark' ride - with lasers controlled by hand gestures, as well as dining and shopping features.

We also opened a similar NINJAGO themed attraction at LEGOLAND California.

Following the successful launches in Billund and California, and coinciding with the NINJAGO movie anticipated in 2017, the remaining parks will launch similar attractions throughout 2017. Rolling out similar or identical products in this way offers clear synergies from a development, operational and cost perspective.

DID YOU KNOW?

LEGOLAND Billund's NINJAGO World covers an area of 5,100 square metres.

The LEGO models weigh 1.5 tonnes, containing 727,000 bricks.

The high score on 'NINJAGO - The Ride' is currently 380,000!

RESORT

Theme Parks

10.4
MILLION
visitors in 2016

£319
MILLION
revenue in 2016

£69
MILLION
EBITDA in 2016

OPERATIONAL REVIEW - RESORT *Theme Parks*

	53 weeks ended 31 December 2016	52 weeks ended 24 December 2016	52 weeks ended 26 December 2015	Growth[1]	Constant currency growth[1]
Visitors (m)	10.5	10.4	10.2	1.5%	
Revenue (£m)	322	319	285	11.8%	5.8%
EBITDA (£m)	70	69	47	45.9%	28.1%
Operating profit (£m)	38	37	18	109.7%	61.3%
Like for like revenue growth					4.3%

[1] *This year we are reporting on the 53 weeks to 31 December 2016. Profit metrics are provided on a 53 week statutory basis in the financial statements. To provide a more direct comparison with last year's 52 week period, the operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.*

HIGHLIGHTS

- LIKE FOR LIKE REVENUE GROWTH OF 4.3%
- RECOVERY IN LEISURE VISITATION UNDERWAY AT ALTON TOWERS
- GOOD PERFORMANCE IN THE WIDER ESTATE
- STRONG CONTRIBUTION FROM NEW ACCOMMODATION

Justin Platt
Managing Director
Resort Theme Parks

Trading performance

Following an extremely difficult year in 2015, the Resort Theme Parks Operating Group made good progress in 2016, with revenues growing by 11.8% or 5.8% on a constant currency basis.

Reflecting growth in revenues and control of the cost base, EBITDA grew by 45.9% and operating profit by 109.7% (28.1% and 61.3% respectively at constant currency).

Existing estate trading

On a like for like basis revenues grew by 4.3%. Growth for the Operating Group as a whole was held back by the full year effect of lower volumes at Alton Towers following the accident in June 2015, although we saw a steady recovery in leisure visitation volumes during the year.

Elsewhere, we enjoyed strong performances, including THORPE PARK in the UK which launched a major new product investment - 'Derren Brown's Ghost Train'. Across the estate, a strong Halloween offering built on the success of previous years, supporting trading outside of the summer season.

Due to the decline in visitation at Alton Towers experienced in the second half of 2015 and in anticipation of a continuation of this in 2016, action was taken towards the end of 2015 to re-align the cost base. These savings have been achieved more rapidly than initially envisaged, with any further operational improvements expected to be more modest as the focus shifts towards driving revenue growth. Crucially, we are pleased that guest satisfaction has remained above target levels.

Knight's Village lodges at Warwick Castle

OPERATIONAL REVIEW - RESORT *Theme Parks*

Alton Towers used state-of-the-art virtual reality technology to create a brand new ride experience, 'Galactica'

Capital investment

In line with our four year capital investment cycle, the major investment for 2016 was in THORPE PARK where we opened another world first - 'Derren Brown's Ghost Train'. This combines the unique talents of the mentalist and illusionist with the creative and project management expertise of Merlin Magic Making. This investment drove good growth in volumes although, reflecting the complex and cutting-edge nature of the project, the launch was not without its challenges. We are confident of further opportunities to improve guest satisfaction, with further product development already planned for 2017 and we continue to see intellectual property as an area for focus in coming years.

Gardaland and Heide Park each saw new themed areas based around DreamWorks Animation's 'Kung Fu Panda' and 'How to Train Your Dragon', respectively.

Finally, Alton Towers used state-of-the-art, virtual reality technology to create a brand new ride experience called 'Galactica'. Based upon the 're-imagining' of an existing ride, and despite being a low year investment, we are pleased with the positive impact the ride has had on visitor numbers, and in contributing towards rebuilding the Alton Towers brand.

'How to Train Your Dragon' at Heide Park

Resort positioning

Our strategy of developing our resorts into short break destinations continued in 2016, with the addition of the 28 room Knight's Village lodges at Warwick Castle, the launch of a 100 room second hotel in Gardaland (see case study on page 37) as well as 35 room 'glamping' at Chessington World of Adventures. We will continue to invest in themed accommodation which, as well as generating attractive returns directly, has the benefit of widening a resort's catchment area and improving guest satisfaction.

Customer satisfaction

We maintained good levels of satisfaction this year as a result of continued investment in new products and features together with our exceptional staff. We are particularly pleased that Alton Towers showed a continued improvement in their 'Net Promoter' score - a metric we are increasingly focused upon. Refinements to the 'Derren Brown - Ghost Train' at THORPE PARK in 2017 should also drive further improvements.

Looking ahead

2017 will see further investment in the existing estate and an expansion of our accommodation offerings, with a particular emphasis on intellectual property.

In Heide Park, following the success of previous partnerships with Sony, 'Ghostbusters 5D: The Ultimate Ghosthunt' will launch as Europe's only 5D 'Ghostbusters' experience, allowing guests to fight their way through an 'alien-infested' warehouse! Meanwhile, at Chessington World of Adventures in the UK, the much loved 'Gruffalo' will come to the resort through an interactive and immersive ride experience.

We see a strong pipeline of further accommodation across each of our resorts as part of the Group's target to open 2,000 new rooms by the end of 2020. Offerings will include not just hotels, but holiday villages, lodges and speciality accommodation such as 'glamping'. Where appropriate, we may also look to use intellectual property in our accommodation projects in the same way that we have for our existing estate investments.

At Alton Towers for example, building on the success we have enjoyed with CBeebies Land, which opened in 2014, we will in 2017 open a CBeebies themed hotel, incorporating 76 rooms and enjoying its own dedicated entertainment area and restaurant. With a full entertainment programme running throughout the year, the new development will feature live shows, hosted activities, character 'meet and greets' and play areas.

A key pillar of Gardaland's strategy in recent years has been to develop its short break offering. The existing 247 room hotel has enjoyed strong growth and occupancy levels as marketing campaigns and product offerings have increasingly been aimed at short breaks for the Italian domestic market. Approximately 70% of the Lake Garda region's five million annual visitors come from outside Italy, so in 2016 Gardaland launched the new 100 room 'Adventure Hotel' to target this international audience. Four different 'adventure' themes are aimed at families with slightly older children and differentiate this new product from the existing hotel that has 'Fantasy' as its central proposition.

Pricing reflects the hotel's premium nature, with average room rates approximately €35 higher. Results have been positive, with a strong share of international visitors underpinning financial results in line with our expectations. The existing hotel also saw a 6 percentage point increase in international tourists and both hotels had close to 100% occupancy rates during peak season.

Gardaland will continue to develop its resort positioning strategy in its long term ambition to ensure that we are offering a wide range of accommodation types and price points.

GROUP
Financial Review

ANNE-FRANCOISE NESMES
Chief Financial Officer

GROUP *Financial Review*

	53 weeks ended 31 December 2016 £m	52 weeks ended 24 December 2016 £m	52 weeks ended 26 December 2015 £m	52 week growth %	52 week constant currency growth %
Revenue	1,457	1,428	1,278	11.7%	3.6%
EBITDA	451	433	402	7.7%	(1.8)%
Depreciation and amortisation	(131)	(131)	(111)	(18.3)%	(10.3)%
Operating profit	320	302	291	3.6%	(6.2)%
Net finance costs	(43)	(43)	(41)	(4.9)%	
Profit before tax	277	259	250	3.4%	
Taxation	(66)	(62)	(70)	11.7%	
Profit for the year	211	197	180	9.3%	
Post-tax exceptional items	-	-	(10)	100.0%	
Adjusted earnings per share	20.8p	19.5p	17.8p	9.3%	
ROCE	10.2%	9.6%	9.7%		
Leverage on net debt to underlying EBITDA	2.3x	-	2.3x		

See 'How we report our results' on page 42 for details of how we report our financial performance.

> *Although there have been several headwinds, the strength of the portfolio and our ongoing focus on the execution of the strategy has resulted in continued revenue growth*

Having joined Merlin in August 2016, I am pleased to report a solid set of financial results. Although there have been several headwinds for the business in 2016, the strength of the portfolio and our ongoing focus on the execution of the strategy has resulted in continued revenue growth, albeit on a constant currency basis profits have been held back by underlying cost increases and investments in new attractions. Cash generation remains strong, allowing for significant re-investment into the business.

My focus as Chief Financial Officer is on ensuring that the business has the resources to grow and that we maintain our capital discipline. Additionally I will develop the finance structures and systems to evolve with the growth of the business as it executes its strategy.

To aid comparability, the trading commentary which follows is on a 52 week basis. Unless otherwise stated, all growth rates are presented on a constant currency basis, that is, as if the 2015 results were re-translated at 2016 average rates.

Revenue

Reported revenue for the 53 weeks to 31 December 2016 increased to £1,457 million. On a 52 week constant currency basis, total revenue grew by 3.6%, to £1,428 million. Growth was delivered in each of the three Operating Groups as we drive growth from both our existing and new businesses.

On a like for like basis, revenues grew by 1.4%, reflecting a broadly flat result in Midway Attractions offset by continued growth in LEGOLAND Parks and a recovery in Resort Theme Parks.

In addition to the performance in our existing estate, we made good progress towards our 2020 milestones driving further revenue growth. The opening of five new Midway attractions, together with the full year benefit of 2015 openings, contributed 1.6 percentage points to revenue growth, whilst new accommodation added 0.8 percentage points.

The opening of LEGOLAND Dubai, which opened on 31 October and for which we earn a management fee, had a limited financial impact, although during the year we recognised the remaining balance of the park development fee up until its opening.

GROUP *Financial Review*

EBITDA

	2016 52 weeks £m	Constant currency growth %	2016 margin 52 weeks %
Midway Attractions	224	(4.7)%	36.1%
LEGOLAND Parks	188	0.5%	38.7%
Resort Theme Parks	69	28.1%	21.5%
Central	(48)		
Group	**433**	**(1.8)%**	**30.3%**

Reported EBITDA for the 53 weeks to 31 December 2016 increased to £451 million. On a 52 week constant currency basis EBITDA decreased by 1.8% to £433 million as underlying cost increases in our existing estate and the additional investment in our new attractions more than offset revenue growth.

EBITDA margins overall fell slightly to 30.3% primarily as a result of a decline in the Midway Attractions margin, not fully offset by a recovery in the Resort Theme Parks margin. The LEGOLAND Parks margin was affected in 2016 by an increase in pre-opening costs related to LEGOLAND Japan and Korea.

Central costs grew by £13 million as a result of the full year effect of newly created roles in health and safety and engineering areas, together with the non-recurrence of a number of cost decreases in 2015, for example reductions in variable remuneration.

Midway Attractions EBITDA includes a £5 million sales tax rebate which was recognised in the first half of the year, while the Resort Theme Parks EBITDA includes a £5 million fine arising from the accident at Alton Towers in 2015.

As a result of a cost base which is in the short term relatively fixed, growth in revenue in our attractions typically flows through to higher profits and margins. Margins in each of the Operating Groups are affected by the source and mix of revenue in the existing estate together with the development of new attractions and accommodation which typically have lower margins than the existing estate and that incur costs in the pre-opening period. Increases in Central costs to support the increasing breadth and scale of the business will also impact margins. To maintain or improve margins, we continue to review our productivity to mitigate the impact of the cost pressures that the business is facing.

Operating profit

Depreciation and amortisation grew by 10.3% to £131 million. This increase primarily reflects the execution of our strategic growth drivers, for example the roll out of Midway attractions and resort positioning, as well as continued investment in shorter life assets such as IT. On a constant currency basis, underlying operating profit decreased by 6.2% to £302 million.

Interest

Net underlying finance costs of £43 million were incurred in 2016 *(2015: £41 million)*, reflecting the impact of adverse movements in exchange rates. At reported exchange rates this movement outweighed the positive full year impact of lower underlying borrowing costs following the refinancing and bond issuance in 2015 together with interest income related to the Big Bus Tours investment.

Taxation

The underlying tax charge of £62 million represents an effective tax rate of 23.8% *(2015: 27.9%)*.

The Group's effective tax rate has fallen from 27.9% (based on underlying results) to 23.8%, primarily due to the restructure of the Group's external and internal financing arrangements in 2015, which were put in place to support development and ongoing funding needs in overseas territories. In addition, the revaluation of Italian deferred tax liabilities due to the future reduction in rates resulted in a one off benefit.

Going forward we expect the ongoing effective tax rate to be higher than that reported for the 2016 financial period, which incorporated the one off benefit noted above. Further detail is provided in note 2.4 to the financial statements.

Foreign exchange rate sensitivity

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2015 performance at 2016 rates would result in a £101 million benefit to revenue and a £39 million benefit to EBITDA. We set this out in more detail by major currency on page 171.

Dividend

The Company's policy is to pay a dividend with a target range of 35-40% of underlying profit after tax, so as to maintain an appropriate level of dividend cover whilst retaining sufficient capital in the Group to fund continued re-investment in the business.

In September 2016 we paid an interim dividend of 2.2 pence per share and the Board is recommending a final dividend of 4.9 pence per share. This equates to a full year dividend of 7.1 pence per share.

When making proposals for the payment of dividends, the Directors consider the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits (see note vii to the Company financial statements on page 169), as well as the liquidity of the Group.

Cash flow

	2016 53 weeks £m	2015 52 weeks £m
EBITDA	451	402
Working capital and other movements	32	(18)
Tax paid	(50)	(59)
Net cash inflow from operating activities	433	325
Capital expenditure	(259)	(215)
Other investing activities	(33)	(5)
Proceeds from share capital	2	-
Interest paid, net of interest received	(40)	(41)
Dividends paid	(67)	(64)
Other	4	-
Net cash inflow before refinancing and repayment of borrowings	40	-
Refinancing and repayment of borrowings	-	(137)
Net cash inflow/(outflow) for the year	40	(137)

Merlin continues to be highly cash generative, with a net operating cash flow after tax for the 53 weeks to 31 December 2016 of £433 million *(52 weeks to 26 December 2015: £325 million)*.

This reflects EBITDA of £451 million augmented by £32 million of working capital and other movements following an £18 million outflow in 2015. This reflects the impact of the timing of payments, foreign exchange and non cash share-based payment charges. Cash tax payments of £50 million were made during the year.

A total of £259 million was incurred on capital expenditure in 2016, comprising £141 million invested in the existing estate and £118 million on new attractions and accommodation. All major capital projects are appraised both commercially and financially and Merlin sets clear project return targets to assist in assessing their viability and to ensure appropriate prioritisation.

We invested £51 million and £36 million across our theme park resorts and in Midway attractions respectively, related to 2016 openings and pre-spend on future years. Capital expenditure of £31 million was incurred in respect of the new LEGOLAND parks currently under development.

Other investing activities of £33 million reflect predominantly a loan note and minority equity stake investment in Big Bus Tours with whom we have also entered into co-promotion agreements.

There were no refinancing costs or any repayment of borrowings in the year *(2015: cash outflow of £137 million)*.

Leverage on net debt at the year end equates to 2.3x underlying EBITDA *(2015: 2.3x)*. Going forward, we consider the range of 2-3x net debt to EBITDA to be an appropriate level of leverage for the Group.

Net assets

	2016 £m	2015 £m
Property, plant and equipment	1,841	1,495
Goodwill and intangible assets	1,017	923
Investments and other non-current receivables	62	22
Working capital	(178)	(129)
Net debt	(1,025)	(937)
Corporate and deferred tax	(180)	(142)
Employee benefits	(11)	(5)
Other liabilities	(98)	(78)
Net assets	1,428	1,149

Property, plant and equipment increased by £346 million, primarily reflecting the capital additions referred to previously offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates. Foreign exchange translation differences also account for the reported increase in intangible assets from £923 million to £1,017 million.

The increase in investments primarily reflects the Big Bus Tours investment combined with the impact of foreign exchange due to the investment being denominated in US Dollars.

Further details of the working capital movements of £49 million are provided in note 3.4 to the financial statements.

The increase in reported net debt is due to the impact of foreign exchange movements on non Sterling borrowings, partially offset by cash generated in the year.

Further details are provided in the consolidated statement of financial position on page 117 and the notes to the financial statements on pages 120 to 162.

GROUP *Financial Review*

Loan facilities

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

In addition to the Group's term debt of £1,147 million, a multi-currency revolving facility of £300 million *(2015: £300 million)* is available, with none drawn down at 31 December 2016 *(2015: £nil)*.

This facility, in conjunction with the Group's cash balance of £215 million *(2015: £152 million)*, is available to finance working capital requirements and capital investment. We will continue to seek opportunities to further diversify our sources of funding away from the bank markets.

All covenant requirements were satisfied throughout the year.

Return on capital employed (ROCE)

Reflecting Merlin's disciplined approach to the use of capital, the Board considers ROCE to be an important metric for appraising financial performance and uses it, along with EPS, in the remuneration of senior executives. The return measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

ROCE in 2016 was 10.2% *(52 weeks: 9.6%, 2015: 9.7%)*, reflecting the fall in the effective tax rate and the impact of the 53 week reporting period. See page 171 for how ROCE is calculated.

Summary

Since joining the business in August 2016, I have spent time visiting a number of our attractions and teams around the world. I have been struck by their passion and dedication for Merlin, as well as their understanding of our strategy and what we are trying to achieve.

Whilst in a complex, global business, there are always improvements to be made, the financial foundations are sound, and the disciplined approach to the use of capital is clear. My role is to provide the best possible financial support to the business to enable Merlin to deliver on its ambitious growth plans.

We will also continue to develop our structures and processes, supporting our groupwide focus on productivity.

In summary, I am pleased with the overall good progress made in 2016 and look forward to being part of the next phase of Merlin's growth!

Anne-Francoise Nesmes
Chief Financial Officer
1 March 2017

How we report our results

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

Financial KPIs *- we present our performance consistently each year. We refer to EBITDA as it is the profit measure we use internally to measure the performance of our attractions. It is the KPI that we feel most appropriately captures the ongoing ability of our attractions to generate operating cash flows which contribute to capital reinvestment that supports further growth, service the Group's debt facilities, settle our tax obligations and provide a return to our shareholders. We refer to 'underlying' results, which remove the impact of any exceptional items and provide a more direct comparison of trading performance. There were no exceptional items in 2016. In 2015 there were no exceptional items other than refinancing related items (and their tax impact).*

In the table on page 39 'underlying' and 'total' figures for line items down to operating profit are therefore identical. Net finance costs and line items below are stated on an underlying basis.

All balance sheet, and therefore cash flow information, is reported as at the statutory year end date and therefore represents a 53 week period in 2016 (2015: 52 weeks).

Our financial performance measures are defined in the Glossary on pages 172 to 173. Where relevant they are clearly set out within the consolidated Group financial statements as shown on pages 115 to 162. Details regarding ROCE are set out within the 'Other Financial Information' section on page 171. The five year Financial Record on page 170 contains further information.

Reference to financial statements *- further information regarding the Group's segmental analysis; geographical revenues and assets; and certain operating costs are provided in note 2.1 to the financial statements on pages 122 to 124. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 121.*

TEAM
Merlin

89%
EMPLOYEE
engagement

27,000
PEAK SEASON
employees

NUMBER *
20

**The Sunday Times 30 Best Big Companies to work for 2017*

TEAM *Merlin*

HIGHLIGHTS

CONTINUED FOCUS ON ENGAGEMENT, DEVELOPING OUR TALENT AND REWARDING OUR TEAMS

OUTSTANDING EMPLOYEE ENGAGEMENT SCORES

STRONG SHARE PLAN PARTICIPATION

EXTERNAL RECOGNITION IN SUNDAY TIMES AWARDS

Natalie Bickford
Group Human Resources Director

Employee engagement

Merlin's success rests with 'Team Merlin', our extraordinary people who have an absolute passion for what they do, delivering memorable experiences to our visitors. Or as we put it, living 'The Merlin Way'.

The Merlin Way values capture the essence of Merlin. In short, 'We LOVE what we do', 'We CARE'… and we do it all 'FOR THE LOVE OF FUN'! These values are the reason why so many of our employees love working here to keep on giving our visitors the most magical, memorable experiences every day, everywhere.

Our People Strategy underpins how the Group meets its objectives, keeping our people engaged and focused on our customers. Wherever they work and whatever their role, our job is to make sure that our people feel that they're working for the best – and certainly most magical – company in our sector. Most importantly though it is our shared vision of doing it all 'FOR THE LOVE OF FUN'!

Awards

For the third year running the Sunday Times have ranked us as one of the 'Best Big Companies to Work For'. In this expanded category of 'Top 30' companies we achieved a fantastic 20th place. We're really proud! The Job Crowd also named us as number three in their top five companies for graduates in our sector.

'The Wizard Wants to Know'

Every summer we run 'The Wizard Wants to Know', our online employee survey. We invite everybody to tell us what they think and to make suggestions – it's our chance to find out just how engaged our employees really are. We're excited that our people, everywhere, completed the survey, and thrilled that again, 95% of our respondents said that they enjoy working here. We think these scores are truly awesome!

Our employee engagement score is one of Merlin's Key Performance Indicators, measuring whether our teams think we are a 'Great Place to Perform', a 'Great Place for Customers', and a 'Great Place to Work'. This year we're really proud that our engagement score is at 89%, way above the global average for similar surveys run by other organisations. We continue to believe that 'The Merlin Way' sits at the heart of these great results.

Other engagement initiatives

We continue to promote strong communications across all our offices and attractions. These include quarterly team briefs from the executive team, attraction team briefs, newsletters and good old-fashioned noticeboards.

All our people can play a full part at Merlin through a number of schemes. These include:

- **FOR THE LOVE OF FUN** – this encourages everybody to embed their love of fun into the way we work, so that it's at the heart of everything we do.
- **STAR** – our online global recognition scheme where employees can send 'Stars' to recognise colleagues who live 'The Merlin Way', or just to say 'Thank You' for a job well done.

  137,000 'Stars' were sent worldwide in 2016 – the most ever, and in 2016 Star number 500,000 was sent to one of our team from Kelly Tarlton's SEA LIFE Aquarium, New Zealand.
- **Spark an Idea** – another online service that lets our colleagues share their ideas, however big or small.
- **The Merlin Way Film Competition** – this gives our people the chance to make a short video demonstrating just how they make 'The Merlin Way' come to life. This year Chang Feng Ocean World in Shanghai beat almost 80 other entries from across the globe!

Colleagues at LEGOLAND Windsor making it FUN

Diversity

Our people are the single biggest reason for our success so we're always striving to make life at Merlin better for all of them. Diversity is a crucial part of this. We want Merlin's approach to diversity to be recognised in every market that we operate in and are committed to ensuring that diverse groups are fully and properly represented at all levels of our organisation.

We have diversity development plans aligned to our strategy and, to support this, we've launched our 'Managing Inclusively' programme for all our line managers.

Our strategy strives to ensure we have the best people for every role, regardless of gender, race, disability, sexual orientation, or any other factor. Wherever possible, everyone should have the same access to every opportunity.

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

In recent years one of our primary aims has been to increase gender diversity through our Women at Merlin (W@M) programme, which gives women the support and opportunities they need to achieve their ambitions and develop into senior roles.

20% of our Executive Committee are now women, up from 9% in 2015. Whilst we have seen a small decline (1%) in the percentage of our senior leadership teams at 32%, we have increased the number to 123 women. Of our permanent colleagues, 4,226 or 47% *(2015: 3,925 / 49%)* are women.

As we expand into new territories, the ethnic diversity of our teams continues to increase. Of particular note is the fact that we opened LEGOLAND Dubai with 56 different nationalities represented within the park!

Talent and development

Merlin's future growth depends on recruiting and developing the Team Merlin of the future. We are an entertainment company, dedicated to giving our guests unforgettable experiences, so we seek out people who have a genuine love of fun and a natural ability to inject magic into the lives of our guests whenever they visit one of our attractions.

Once they are recruited, we commit to develop and promote people within Merlin by offering amazing careers. We carefully nurture their talents, providing them with training to do a great job and supporting their development to enable them to take full advantage of the fantastic opportunities available. We encourage employees to move across disciplines, brands, and countries to build their own unique careers like many hundreds of employees before them. Fundamentally we believe Merlin offers a world of opportunities; whatever they want from their next role, we strive to offer it in Merlin!

Recruitment

Merlin operates in a sector with high employee turnover and so it requires considerable effort to maintain our existing employee base. On top of this, as Merlin grows each year, we need an ever greater variety of roles and skills and offer an increasingly wide range of opportunities. This becomes increasingly challenging as we enter new territories to support our growth strategy. As a result we have been working closely with our recruiters to give them the skills, knowledge and creativity they need to find and select candidates who have the right skills and attitudes for long and successful careers with us.

Technology plays a key role in our hiring strategy and application process so we continue to put special emphasis on our social media activities and how we present our internal employer brand and values to the outside world. In developing markets, we continue to build relationships that will help us improve our campaigns there.

'Welcome to Team Merlin'

Hiring so many new people every year means that wherever in the world our new people join us, they need to receive a clear, consistent and fun induction into our magical business. Building on from last year's successful launch of our global induction programme, 2016 saw the launch of our online, interactive format to meet the needs of our ever expanding global workforce.

In 2016, we continued our 'Senior Leader Induction' with a total of 65 new leaders attending, a large proportion coming from our new openings. Bringing together new leaders from across the Merlin family for an exciting five days, the induction gives them a fabulous opportunity to network and a chance to improve their understanding of the whole Merlin business, our strategy, 'The Merlin Way' and how they can contribute to our continuing success as a Merlin leader.

Training
Whether customer facing, in a management role or a support function at any of our attractions, or in a position at one of our corporate offices, our goal is to allow everyone to have the right skills to be the best at what they do and fulfil their potential in their career with Merlin. A key component of this is the wealth of training we provide. Aside from the initial induction, there are opportunities specific to an individual's role and an abundance of learning opportunities to further enhance their careers.

Accelerate
Accelerate is our fast track graduate programme which provides tailored roles for marketing and general management positions and is structured to support individuals at every step of their Merlin career. The success of the programme was demonstrated in 2016 by more than 25 of our Accelerate alumni being promoted into senior positions across the Group. Reflecting our global scale and growth plans, the September 2017 intake will include 30 super-talented recruits from across the UK, North America, China, Hong Kong, Japan and South Korea.

Leadership development programmes
We want our leaders to constantly grow and develop so we offer lots of brilliant leadership development programmes. These include partnering with the IMD Business School in Switzerland to provide our senior executives with exceptional leadership development. Our flagship 'XCalibre' programme, in partnership with Kingston University, is for leaders with bags of potential. There is also the 'Merlin Leadership Programme', which we run regionally to ensure it reaches all our leaders.

And finally, to complement all our other learning, at any time our teams can access **Merlin's School of Magic**, our online training resource run with the renowned Ashridge Business School, and the **IMD Learning Hub**, which features articles and videos from close to 100 business sources across the globe.

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

In a number of our markets there is an increasing focus on rising minimum wage levels, for instance with the UK National Living Wage and many US states setting out plans for annual increases in the next few years. Recognising this we plan to deliver greater productivity through resource efficiencies and more motivated, better rewarded employees.

Share plans
We want as many of our colleagues as possible to 'Own a Piece of the Magic' by taking up shares in Merlin. This is a great way of making Team Merlin even more committed to our success.

2016 saw the third annual awards under the Merlin Employee Sharesave Plan. This gives our permanent colleagues a chance to build up a holding of Merlin shares by saving over a three year period and buying shares at a discount. We are thrilled that, so far, almost 39% of our permanent colleagues worldwide have enrolled in the Sharesave plans. Looking forward, 2017 will see employees receive shares from the first Sharesave plan launched in 2014.

We also made more than 400 share awards to colleagues at executive, senior and middle management levels under our long term incentive plans.

Other benefits initiatives
Building on the extended Healthcheck programme that was established last year we are going further to look after the wellbeing of all of our colleagues. We call this 'Be Well' and our focus is on five areas:

- **Be Happy** - covering all aspects of emotional wellbeing, for example incorporating our Employee Assistance Programme.
- **Be Active** - covering physical wellbeing and health.
- **Be Secure** - financial wellbeing, including retirement and health insurance.
- **Be Mindful** - covering mental wellbeing and harnessing employee focus to drive engagement and productivity.
- **Be Involved** - social wellbeing, including engagement in our Force for Good charitable and environmental initiatives.

We continue to move large numbers of colleagues around the world to support our business growth, particularly in Asia and North America in support of our Midway and LEGOLAND attractions as they step up their development. Our international mobility team is invaluable in helping us move our greatest assets safely, securely and comfortably.

Summary
Having joined Merlin in April 2016, I have been incredibly impressed by the team's dedication, hard work and commitment. The fact that their love of 'The Merlin Way' and passion to create truly memorable experiences has been recognised for a third year running by the 'Best Big Companies' survey is absolutely fantastic.

Merlin is a truly magical company, but we can't rest on our laurels. With a team of 27,000 in peak season and potentially another 7,000 as we deliver our 2020 milestones, our focus on recruiting and retaining the best talent, nurturing current and future business leaders and driving productivity will be the foundations for continuing to build on Merlin's remarkable success.

RISKS
and uncertainties

MERLIN'S RISK MANAGEMENT FRAMEWORK

TOP DOWN

Oversight, identification, assessment and mitigation at corporate level

Identification, assessment and mitigation at attraction and function level

BOTTOM UP

OVERSIGHT - THE BOARD

- Overall responsibility for risk management and internal control systems
- Sets strategic objectives and defines risk appetite
- Provides tone and direction for risk management processes
- Monitors risks against Group strategy to ensure they are proportionate and considered

MONITORING AND REPORTING - REGULAR UPDATES TO THE BOARD

Commercial and Strategic Risk Management Committee	Health, Safety and Security (HSS) Committee	Audit Committee
Chaired by the CFO	Chaired by the Group Chairman	Chaired by a Non-executive Director
Members from the Executive Committee	Members from the Board and Executive Committee	Members are Non-executive Directors
Meets quarterly	Meets four times a year	Meets five times a year
Responsible for oversight and guidance on the identification, mitigation and monitoring of commercial risk.	Responsible for the promotion of a positive and proactive safety culture to ensure that the Group complies with legislation, meets or exceeds industry standards and above all safeguards our guests, employees, visitors and contractors within our care.	Responsible for ensuring that the Group meets its external financial reporting and compliance obligations, manages the mitigation of financial risks as well as assessing the effectiveness of the Group's overall approach to risk management and internal control.
Oversight of the treatment of animals in our care to ensure we meet the high standards our stakeholders expect.	Oversight and guidance on the identification, mitigation and monitoring of risks in connection with HSS.	Oversight and guidance on the identification, mitigation and monitoring of risks in connection with financial management.
Annual review of the output of attractions and central functions risk assessment workshops.		
Participation in the regular cycle of HSS, strategic, and operational reviews, to assess whether material changes in the external landscape or recent trading trends require an alternative approach to monitoring and managing risk.		

INTERNAL CONTROL FRAMEWORK

RISKS

OPERATIONAL	SAFETY	SECURITY	ANIMAL WELFARE
MARKET	FINANCIAL	TECHNOLOGICAL	ENVIRONMENTAL

RISKS *and uncertainties*

Risk appetite

In fulfilling the Group's strategy, proportionate and considered commercial risks are taken to maximise profitable growth and sustainable returns for its investors. The amount of risk the Group is willing to take to achieve such commercial success must never compromise the health, safety and security of guests, employees, contractors, animals or other visitors. It must also be aligned with the Group's policies on sustainability and the environment.

Quantitative and qualitative measures are used to ensure there is effective governance, monitoring and measurement of the Group's appetite for risk. Quantitative measures include defined financial and non-financial targets such as EBITDA, ROCE, and Customer Satisfaction scores. Qualitative measures consider items such as reputational impact and compliance with laws and regulations.

In assessing the principal risks the Group faces, the risk appetite parameters set by the Board fall into two distinct categories:

- **Compliance risk** - this covers 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 circumstances the Board is risk averse and does not countenance any breaches in compliance obligations.
- **Commercial risk** - this covers the willing acceptance of a risk to earn a commercial reward. The Group manages this type of risk by employing 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.

Risk management

Attraction and central function risk registers record the principal risks faced for each of the following three components: health, safety and security; commercial and strategic; and financial process. The registers include a risk rating based on an assessment of likelihood and impact, after taking into account existing mitigating control measures, for example management oversight and independent review. Where this assessment indicates a high residual risk, further assessment is performed both locally and by the risk management committee to consider if further mitigating action is required.

Regular reviews of the risk registers and planned actions provide the basis for ongoing risk management. A formal review process takes place annually to ensure that the significant risks and mitigating activities at an attraction and Operating Group level are incorporated into the strategic business planning cycle.

The Board gains assurance over risk management systems from the regular reporting it receives on the structured internal assurance programmes covering both financial processes and health, safety and security controls across the Group. In addition, independent third party subject matter experts are also used for detailed reviews concerning specific risk issues.

Internal control framework

Our internal control framework is designed to ensure:

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

The framework is supported by 'The Merlin Way', our corporate values, which underpin everything we do. It is the Board's aim that these values should drive good behaviours and actions by all employees.

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

Management structure

Our management structure has clearly defined reporting lines, accountabilities and authority levels. The principal operating business units are led by a member of the Executive Committee and each attraction has its own senior leadership team.

Strategic planning, risk management and business performance monitoring

Our five year strategic plan (being the current year together with four future years) is updated by management and reviewed by the Board annually. This also includes an assessment of how the principal risks could prevent strategic objectives being achieved.

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.

Our pipeline for the delivery of new attractions is reviewed regularly to:

- assess whether new compelling experiences and attractions in development are progressing according to schedule;
- identify new ideas and assess fit with our brand portfolio; and
- assess the expected commercial returns.

Policies and procedures

The Group maintains policies and procedures across all areas of the business. The appropriateness and application of these is continuously monitored to ensure compliance, as well as to assess their appropriateness as the business grows and external factors change. Assurance concerning compliance with the policies and procedures comes from a number of sources that include HSS, financial and operational audit activities and self-certification.

Controls

Our key controls are as follows:

- **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. Further information can be found in the HSS Committee Report on pages 70 to 75.
- **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 and management processes. 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** - the Group has in place disaster recovery plans incorporating escalation procedures and crisis management protocols. They are regularly updated. More broadly, business continuity plans exist to allow attractions to reinstate performance in the event of adverse events.

Plans for 2017

We continue to refine and strengthen our internal control framework where required within our existing estate and recently opened attractions.

The implementation of accesso®, our new admissions system, is expected to help in this regard as it will deliver improvements in our control framework through standardisation of business processes and greater automation of transactional level and period end control activities.

Principal risks

Management has identified and agreed the principal risks with the Board, which are set out on the following pages. Of these, a number are deemed to be generic risks facing businesses including, but not limited to; failure to comply with financial reporting regulations, adverse movements in foreign exchange and interest rates, credit risk and non-compliance with legislation.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a four year period, taking into account the Group's current position and the potential impact of the principal risks documented on pages 50 to 52 of the Annual Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period until December 2020.

The Group's strategic planning process occurs annually on a rolling basis, in the middle of the year, covering the current year plus four further years. The strategic plan considers all elements of the Group's growth strategy. It focuses on capital investment in the existing estate, where the review period matches or is in excess of pre-determined capital investment cycles; new business development including the roll out of Midway attractions and the development of committed new LEGOLAND parks; and the expansion of our accommodation portfolio. The Group also considers strategic acquisition opportunities and other uncommitted potential major capital projects within the plan period to assess the availability of appropriate funding. Accordingly the Directors have determined that a four year period to December 2020 is an appropriate period over which to provide its viability statement.

The Board also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency or liquidity as well as the Group's approach to risk management as set out in this Strategic Report.

The outputs from these reviews were then used to perform liquidity and debt covenant headroom analysis, including the downside sensitivity review based on principal risks.

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

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

RISKS *and uncertainties*

The tables on the following pages highlight the significant specific risks identified through the Group's risk assessment processes that have the potential to impact on the strategic development of the Group.

The three risk committees consider both gross and net risk. Gross risk reflects the risk exposure and risk landscape before considering how risks are managed. Gross risks are assessed in comparison to the previous year as to whether they are stable, increasing or decreasing. Net risk reflects the residual risk after risk mitigation factors.

Effectiveness of risk management and internal control systems

In accordance with the UK Corporate Governance Code 2014, the Board is responsible for reviewing the effectiveness of the Group's risk management and internal control systems, and confirms that:

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

Based on its review throughout the year, the Board is satisfied that the risk management and internal control systems in place remain effective.

EU Referendum

The Board has considered the impact of the UK's referendum on membership of the EU ('Brexit') upon the business and reflected on its previous risk assessments in light of this development. Given the Group's global footprint and the fact that an attraction's cost base and supply chain will sit largely in the individual country of operation, the impact is limited. In the short term, currency movements have affected our London businesses as described elsewhere in this Annual Report and have affected the translation of the results of our overseas operations into Sterling (as set out in the Group Financial Review on pages 38 to 42). These conditions may continue into the future. In the medium term, a shift in the availability of skills in the UK workforce could impact recruitment in our UK businesses, which the Group will continue to monitor.

	Description	Gross risk trend	How risks are managed
Health, safety and security risk (HSS)			
Safety	*Health and safety is one of Merlin's Key Performance Indicators.* Serious incidents leading to guests, staff members or contractors being harmed as a result of: • a failure to follow prescribed safety management systems in connection with the operation of rides; • inadequate maintenance and management of buildings, infrastructure and vegetation; • substandard build quality, asset degradation, fire, flood, storm or utility failure. Furthermore, this could undermine confidence to visit the Group's attractions and adversely impact on the reputation and growth potential of the business.	Stable	• Regular review of performance as well as key policies and procedures. • Proactive ownership of HSS risks by line management based on the provision and adoption of HSS policies, Codes of Practice and guidance notes. • Competent and trained operational and engineering staff, monitoring and inspecting facilities in accordance with a planned maintenance and inspection regime backed up by professional HSS teams. • Utilisation of HSS systems to support the management of risks with annual risk register and action planning processes by each attraction. • Regular internal and independent external auditing and review regimes. • Contractor selection, approval and monitoring by in-house qualified project managers.
Security	Sabotage or a terrorist attack on: • a ride or attraction leading to a guest or staff member or animal in our care being harmed; or • a location in which the Group operates. This could influence guest confidence to visit the Group's attractions or the attraction's location thereby impacting on the growth potential of the business.	Increasing	• Application of detailed security protocols before guests or employees access an attraction (e.g. bag searches). • Regular reviews of attraction infrastructure to reduce the opportunity for physical threats to guests, staff or animals. • Extensive use of CCTV. • Regularly tested major incident management plans. • Co-operation with local and national security forces. • Availability of appropriate insurance cover.

	Description	Gross risk trend	How risks are managed
Commercial and strategic risk			
Innovation, brand development and customer satisfaction	*Customer satisfaction is one of Merlin's Key Performance Indicators.* Our growth potential could be impacted if guests: • consider our offerings are either outdated, no longer relevant or enjoyable; or • provide negative social media comments that adversely influence the likelihood of a customer to visit an attraction.	Stable	• Regular and detailed customer feedback collected at every location. Data analysed against challenging satisfaction targets and actions taken accordingly. • Ongoing investment in our attractions continually refreshes the experiences for customers. • Engagement with the public and social media for concerns in order to take any requisite action.
People availability and expertise	*Staff engagement is one of Merlin's Key Performance Indicators.* Merlin is a people business. The increasing cost of attracting and retaining appropriately experienced and well-motivated customer service orientated staff could impact guest satisfaction and the successful delivery of planned future expansion.	Increasing	• Plans to drive greater productivity through resource efficiencies and more motivated, better rewarded employees. • Personal development plans in place at all levels of the business to encourage long term employment stability. • Succession planning processes embedded across the Group and proactively managed. • Annual employee survey to monitor employee engagement and to identify opportunities to develop HR policies and processes.
Competition and Intellectual Property (IP)	Competition: • for leisure time; • from new or existing providers of location based entertainment; and • for IP around which compelling propositions are created. This could restrict the ability of the Group to grow in line with the strategic objectives.	Increasing	• Diversification to reduce reliance on individual attractions or locations. • Ongoing investment in sites to ensure continued appeal to visitors. • Competitor research and monitoring. • Dedicated in-house creative team to deliver new and innovative compelling propositions and intellectual property.
Foreign exchange rates impacting international tourism	Changes in exchange rates can have a positive or adverse impact on inbound tourism. If exchange rates work against a country in which the Group generates a high proportion of its revenue this can adversely impact visitation.	Stable	• Increased hedging as a result of further global diversification of the Group's operations. • Ability to proportionally upweight marketing activity towards either domestic or international audiences depending on tourism trends.
Animal welfare	Incidents or staff behaviours leading to animals in our care being harmed as a result of: • a failure to follow prescribed welfare protocols; or • inadequate maintenance and management of buildings, infrastructure and vegetation. Furthermore, this could result in reputational damage. A negative reaction from the general public would undermine the performance of the business and limit the potential for growth.	Stable	• External zoo licence audits ensure appropriate animal care. • An internal ethics committee and the Merlin Animal Welfare and Development team monitor the treatment of animals in our care. • A comprehensive range of policies, standards, procedures and guidelines specifically addressing animal acquisition, welfare and display. • Training programmes for all staff that interact with animals. • Planned preventative maintenance programmes to ensure buildings, infrastructure and vegetation remain suitable for displaying the animals in our care.
Availability and delivery of new sites and attractions	The ability of the Group to grow in line with the strategic objectives could be inhibited by the lack of: • economically viable sites to locate Midway attractions and LEGOLAND parks; and • timely approval of planning consent required for building new rides and attractions.	Stable	• Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of expansion opportunities. • Sites regularly update their development masterplans and teams work closely on fostering links with local communities and planning authorities. • The introduction of a dedicated New Openings team in 2015 expands the Group's resources to support its roll out strategy.

RISKS *and uncertainties*

	Description	Gross risk trend	How risks are managed
Commercial and strategic risk *(continued)*			
IT robustness, technological developments and cyber security	The Group has various IT systems and applications operating across its estate, the obsolescence or failure of which could impede trading or the ability to operate an attraction. Without the technical developments necessary to meet consumer or business expectations the Group may fail to deliver the growth required by the business strategy. Failure to put in place adequate preventative measures, if attacked, could lead to data loss or inability to use the IT systems for a prolonged period.	Increasing	• IT strategy focused on ensuring the long term stability of operating systems and data security, whilst keeping pace with the changing face of consumer IT expectations. • Increasing resilience and stability of the Group's IT infrastructure and security through an expanded use of secured hosting partners and penetration testing regimes. • Further security measures have been put in place to mitigate the increasing threat of cyber security risk.
Financial process risk			
Anti-bribery and corruption	While Merlin's business model is lower risk relative to other industries as the majority of transactions are of low value and from individual customers, a number of the territories in which Merlin is operating and proposing to enter have a greater historic propensity for incidents of bribery and corruption. Any such incident could lead to either criminal or civil prosecution, fines and cause reputational damage to the Group.	Stable	• A well embedded corporate culture in which fraud and bribery at any level are not tolerated. • Global fraud and bribery training programme in place alongside 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.
Liquidity / Cash flow risk	A lack of liquidity could inhibit the ability of the Group to grow in line with the strategic objectives if: • insufficient cash is generated during peak trading periods to cover fixed costs and capital investments (including strategic acquisitions, the roll out of Midway attractions, the development of new LEGOLAND parks and new accommodation offerings); or • changes in the global credit market impact the Group's long term ability to meet current growth targets.	Reducing	• The Group has a £300 million multi-currency revolving credit facility to assist with seasonal cash flow requirements as necessary. • Weekly cash flow forecasts are prepared to ensure liquidity for business operations on an ongoing basis. • 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 its strategic growth plans. • The continued geographical expansion of the Group reduces the exposure to any one peak trading period.
Foreign exchange translation risk	Merlin generates its main profits in Sterling, Euros and US Dollars and has long term debt in these currencies. Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.	Increasing	• The Group presents constant currency figures where appropriate to show the underlying results of the Group excluding the impact of foreign exchange rate translation differences. • 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.

BEING A FORCE FOR GOOD

Corporate Social Responsibility - The Merlin Way

MISSION

WE ARE SUPERHEROES

FOR PEOPLE

Merlin's Magic Wand

Delivering memorable experiences to disadvantaged children across the globe

Accessibility

Providing memorable experiences and environments that are accessible to all

FOR OUR PLANET

SEA LIFE and WILD LIFE

Protecting wildlife through targeted global campaigns and activity

Sustainability and the Environment

Operating the business within a culture of responsible sustainability

WE ARE A GOOD CORPORATE CITIZEN

Do it with Team Merlin

Recognised by employees, partners and other stakeholders as a company that cares

Do it in the Community

Being a Force for Good in every community in which we operate

Do it Responsibly

Delivering our experiences in a safe, and socially conscious way

Do it Right

Operating our business in accordance with robust governance standards and practices

MERLIN'S MAGIC WAND

In 2016 our children's charity Merlin's Magic Wand (MMW) has continued to grow with Merlin teams in every attraction getting involved in creating magic.

MAGICAL DAYS OUT

Providing days out to over 86,000 children and their families.

MERLIN'S MAGIC SPACES

Creating 15 exciting Merlin's Magic Spaces, taking the total to 31 worldwide.

COMMUNITY OUTREACH

Making a difference to over 3,500 children in our local communities by taking the Magic to them in hospitals and hospices.

> *You will never know how much we needed that day*

> *Excellent for giving my son a day out away from hospital appointments*

DURING THE MONTH OF SEPTEMBER WE CELEBRATED

FUN FESTIVAL!

TO FIND OUT MORE VISIT WWW.MERLINSMAGICWAND.ORG

> *It is rare to have a good day, our day out was magical and we will never forget it*

MERLIN'S MAGIC WAND

BEING A FORCE FOR GOOD *Corporate Social Responsibility*

Accessibility

We aim to provide experiences and environments that are accessible to all. We want to provide industry leading facilities and experiences.

The cornerstones of our approach are:

Guest Information

- We will provide clear, accurate, consistent and accessible information to enable visitors to make informed choices.

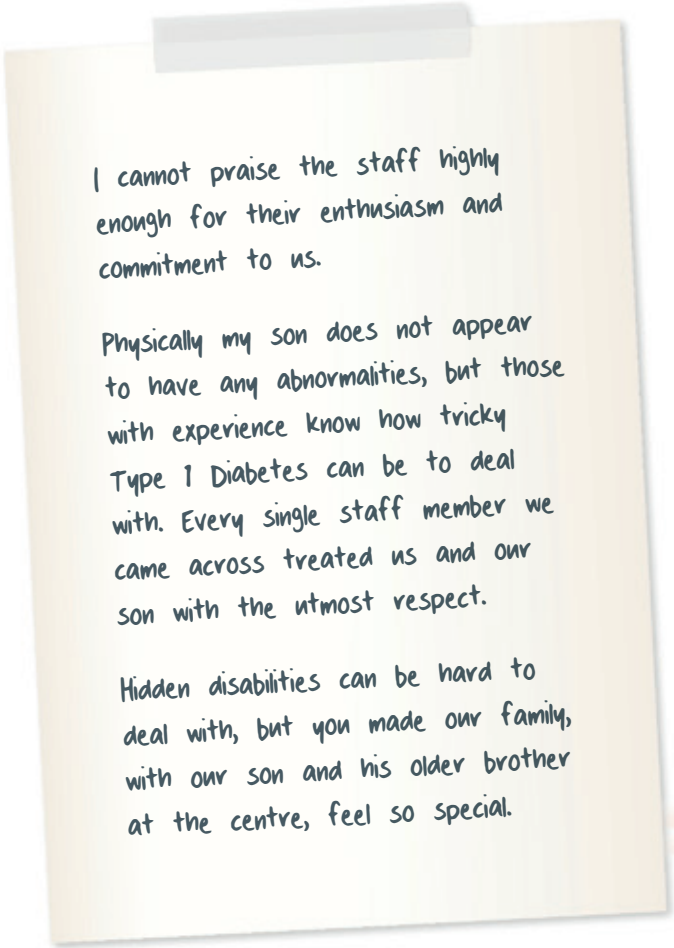
Accessible Environments

- We will make our environments as accessible as possible, continually improving our estate.

Team Engagement

- We will ensure employees have the tools and training to deliver memorable experiences to accessibility challenged guests.

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



Received from a family that enjoyed time together at Alton Towers Resort

Community Relations

Our attractions continue to forge partnerships in their local communities with local charities and other groups supporting disadvantaged people. This happens in many different ways, from hosting visits for foster children through to visiting local community centres or joining other local initiatives.

Student Joanne Sibley meets the Duke of Cambridge

A particular highlight this year was when Joanne Sibley, a student from Livability's Victoria Education Centre in Poole, Dorset, was invited to meet the Duke and Duchess of Cambridge at the Coca-Cola London Eye when we hosted a 'Heads Together' charity coalition for World Mental Health Day, focused on the importance of 'psychological and mental health first aid for all'.

Merlin's Magic Wand have been working with Victoria Education Centre for a number of years which has included a Merlin's Magic Spaces project. Joanne has been very involved with the project and the ongoing relationship between MMW and Victoria School, so her enthusiasm and vibrant spirit made her the perfect person to hand over the bouquet to the Duchess of Cambridge during this important visit.

BEING A FORCE FOR GOOD *Corporate Social Responsibility*

Marine and wildlife conservation

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

SEA LIFE

Merlin supports our official marine conservation charity partner, the SEA LIFE Trust, dedicated to protecting our oceans and the amazing wildlife that calls them home. We engage our staff across the SEA LIFE estate to support these activities - a great example are our beach clean events where teams keep their local beaches free of litter. SEA LIFE staff across the world also helped support the Trust by running, walking, rowing and pedalling 10,328 miles to raise funds - that's like crossing both the Indian and Atlantic Oceans!

In 2016 the Trust campaigned on marine protection in three territories;

- In the USA, we campaigned to support President Obama's creation of two marine protected areas including his expansion of the world's biggest marine protected area in Hawaii.
- In the UK, and working together with the Marine Conservation Society, we have collected more than 53,000 signatures so far in our efforts to protect 34 priority coastal areas.
- In Australia, we gathered over 10% of the total submissions to the Australian Government in support of 26 marine protected areas.

Alongside this, the Trust donated over £115,000 to projects and campaigns that support wildlife and habitat across the world.

In 2017, the Trust will launch a major campaign and fund projects that help to protect sea turtles, which are increasingly at danger from fishing bycatch and plastic pollution.

WILD LIFE

Chessington World of Adventures Resort in the UK, WILD LIFE Sydney Zoo and WILD LIFE Hamilton Island in Australia, all have a long standing commitment to animal breeding or managed species programmes - at Chessington we saw three Asiatic Lion cubs arrive just in time for Christmas!

Asiatic lion cubs at Chessington World of Adventures Resort

Examples of SEA LIFE Trust campaigns throughout the year

BEING A FORCE FOR GOOD *Corporate Social Responsibility*

Sustainability and the environment

Strategy and governance

Merlin manages resources responsibly. We recognise that our operations impact upon the environment and that effective management of this impact is essential for sustainable business success. We are committed to regular monitoring, auditing and review of our activities and identifying opportunities for sustainable environmental improvement, in line with our strategic business goals and in order to minimise the potentially harmful effects of such activity.

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

Environment and energy management

We have specific budgets set aside to test and implement environmentally focused initiatives and an annual 'Environmental Award' to motivate our sites in this area. We have developed groupwide sustainability management and carbon reduction plans and a number of water and waste management initiatives to encourage sites in this area and build on examples of best practice across the Group, through 2017 and beyond.

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

Some examples of our numerous environmental initiatives in the year are:

- ✓ Lighting optimisation at Sydney Harbour cluster, Australia.
- ✓ Pump optimisation at SEA LIFE Blackpool, UK.
- ✓ Solar energy at Gardaland Hotel, Italy.
- ✓ Solar thermal at SEA LIFE Benalmadena, Spain.

'We Care about our Planet' event

Our attractions participated in our annual planet event to support Merlin's commitment to sustainability, in line with our 'We Care' core value.

There were a wide range of activities including:

- ✓ We sent climate change information materials to 1,000 students through THORPE PARK's partner schools.
- ✓ We engaged on climate change issues with 4,000 guests at our SEA LIFE at LEGOLAND California Resort.
- ✓ We planted trees at THORPE PARK.
- ✓ SEA LIFE Timmendorfer Strand, Germany ditched their voucher delivery car and replaced it with a bicycle!
- ✓ Chang Feng Ocean World, Shanghai engaged over 40 students at a sleepover event on climate change.

Renewable solar thermal for hot water energy at SEA LIFE Benalmadena, Spain

Benches made from recycled plastic bottles at LEGOLAND Florida Resort, USA

The team in SEA LIFE Timmendorfer Strand in Germany replacing their delivery car with a bicycle

Greenhouse gas (GHG) reporting

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

The reported emissions intensity is affected by the impact of foreign exchange movements on the revenue figure that forms the intensity baseline. This has contributed 6.6% to the reported reduction of 15.8% and accordingly the reduction on a constant currency basis would be 9.2%. Furthermore, carbon emission factors used in 2016 were lower compared to 2015 due to a reduction in the use of coal for energy generation. This contributes 5.4% to the reported reduction. Our underlying carbon emission intensity reduction was therefore 3.8%, in excess of our annual target which is to reduce our carbon emission intensity by 2% year on year.

Report boundaries	Financial control – all facilities under the Group's direct financial control have been included.
Consistency with financial statements	This report covers the twelve month period from 1 December 2015 to 30 November 2016 in comparison to our financial year of January to December 2016.
Methodology	The WRI / WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) applying emissions factors from IEA CO_2 from fuel combustion (2016 edition) and emissions factors from DEFRA (2016).
Intensity ratio	Emissions per £1 million of revenue
Scope 1	19,270 tonnes of CO_2 equivalent *(2015: 18,980 tonnes)*
Scope 2 Localised Based	116,814 tonnes of CO_2 equivalent *(2015: 123,277 tonnes)*
Scope 2 Market Based	112,381 tonnes of CO_2 equivalent *(2015: 120,985 tonnes)*
Group Gross Emissions	131,651 tonnes of CO_2 equivalent *(2015: 139,965 tonnes)*
Intensity baseline (revenue)	£1,428 million *(2015: 1,278 million)*
Emissions intensity	92 tonnes of CO_2 equivalent per £1 million of revenue *(2015: 110 tonnes)*

Table notes:

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

Good Corporate Citizen

Merlin always seeks to operate ethically and to be a 'Good Corporate Citizen'. Our approach in this area is based on four pillars that underpin our Force for Good initiatives where we feel Merlin is uniquely placed to make a difference.

Do it with Team Merlin - the Team Merlin section of this report provides more details on our employees, our extraordinary team whose levels of engagement and enthusiasm help make Merlin special. We look to harness this enthusiasm to demonstrate and reinforce our core values, especially how 'We Care', across our workforce and more widely with our business partners and other stakeholders of the business.

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

Do it in the community - our businesses sit at the heart of communities around the world and our teams are proud to be part of and to support those communities. This demonstrates to all of Merlin's stakeholders the strength of the Company's 'We Care' core value. This can be seen from our Merlin's Magic Wand activities, other community outreach initiatives, or even how our teams help clean beaches to support the SEA LIFE Trust!

Do it responsibly - our Health, Safety and Security (HSS) Committee report on pages 70 to 75 sets out how we oversee and manage HSS risks to ensure we operate our businesses with a constant focus on keeping our guests, employees and other visitors safe and secure.

We also believe there is a strong social conscience at the heart of Merlin that can be seen in areas such as our ethical animal husbandry activities and our approach to procurement. We have a responsibility to the workers in our supply chain and seek to ensure our products are made in an appropriate environment and the products we source are produced in accordance with international laws and legislation. More details in this area are available on our website.

Do it right - Merlin has robust governance standards and practices that extend throughout the business. This starts 'at the top' with an experienced Board that is structured in line with best practice and supported by appropriately rigorous Board Committees. It then extends to how we identify and manage the principal risks that could affect our business (as set out on pages 47 to 52).

Our full policies in specific areas and further guidance on our approach, together with answers to frequently asked questions, can be found on our website (**www.merlinentertainments.biz**).

CORPORATE
Governance Statement

Introduction
Merlin has a premium Listing on the London Stock Exchange and is subject to the UK Corporate Governance Code (the Code), the Disclosure and Transparency Rules (the DTRs) and the Listing Rules. Merlin believes that effective corporate governance is a fundamental aspect of a well run company and is committed to maintaining high standards of corporate governance across the Group. In this regard, Merlin takes account of the views of its shareholders and institutional shareholder representative bodies. The Code can be viewed on the website of the Financial Reporting Council (**www.frc.org.uk**). The DTRs and the Listing Rules can be viewed on the website of the Financial Conduct Authority (**www.fshandbook.info**).

Statement of compliance
Merlin was fully compliant throughout the accounting period with all relevant provisions of the Code, the DTRs and the Listing Rules.

Board composition
The Board has undergone a number of changes during the year. On 1 January 2016, Yun (Rachel) Chiang was appointed to the Board as a Non-executive Director. On 31 July 2016, Andrew Carr left the Board, having announced his intention to retire in January 2016. He was replaced as Chief Financial Officer on 1 August 2016 by Anne-Francoise Nesmes. The appointments of Rachel and Anne-Francoise, which have led to an increase in Board diversity, followed rigorous search processes using Russell Reynolds and Korn Ferry respectively, both of which are external search companies with no links to Merlin.

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

Evaluation of effectiveness
During the year, externally facilitated evaluations were undertaken of the effectiveness of the Board, its Committees, the Chairman and individual Directors. These were facilitated by Prism Cosec, who are independent of the Company and also advise the Company on company secretarial compliance matters.

The evaluation involved the completion of questionnaires by all Directors, the compilation of reports on the Board and each of its Committees by Prism Cosec and discussions between the Chairman and each Director. The performance of the Chairman was evaluated by the Non-executive Directors, led by the Senior Independent Director.

The outcome of the evaluations was very positive overall and no major issues were flagged. However some areas were identified for further improvement including:

- more Board time could usefully be spent debating key risk topics (including identifying emerging risks such as cyber security);
- suggestions for improving the format of the annual Board strategy day;
- the need to continue to bring further formality to the operation of the Nomination Committee and for increased focus on talent management and succession planning; and
- appointing an independent health and safety expert to the Health, Safety and Security Committee.

Following the 2015 Effectiveness Review a programme of Director training sessions was delivered in 2016, including content on recent developments in corporate governance, such as the impact of the new Market Abuse Regulations, specific training for Audit Committee members and recent trends and regulation in the area of executive remuneration. The terms of reference of the Board's Committees were also reviewed in early 2016.

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

Investor relations

The Company communicates with institutional and private shareholders in a number of ways and has a dedicated investor relations team to facilitate the exchange of information and feedback between shareholders and shareholder representative bodies and the Company. Details of major shareholders are provided on page 66.

The Company undertakes regular meetings in which existing and potential investors are provided with information on the financial and trading position of the Group. This activity is led by the CEO and the CFO, together with the Company's investor relations team. They report back regularly to the Board so that the Non-executive Directors in particular can appreciate and discuss the views of shareholders. During the year the Chairman and the Company Secretary also met with many of our leading shareholders to ensure a full and mutually constructive dialogue. Merlin's 2017 financial calendar is set out on page 174.

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

At our AGM, all shareholders have the opportunity to discuss and raise questions concerning the performance, trading and development of Merlin and to vote on the resolutions proposed.

> *Merlin believes that effective corporate governance is a fundamental aspect of a well run company and is committed to maintaining high standards of corporate governance across the Group… Merlin was fully compliant throughout the accounting period with all relevant provisions of the Code, the DTRs and the Listing Rules*

BOARD
of Directors

BOARD *of Directors*

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

Sir John Sunderland
Chairman

Sir John was appointed Chairman of Merlin Entertainments in December 2009.

Sir John is currently Chairman of Cambridge Education Group, Chancellor of Aston University and an Associate Member of BUPA. He is also an adviser to CVC Capital Partners.

Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007 and President of the Food and Drink Federation from 2002 to 2004.

Sir John was a Non-executive Director of the Rank Group from 1998 to 2006 and a Director of the Financial Reporting Council from 2004 to 2011. Sir John was a Non-executive Director of Barclays Bank PLC from 2005 to 2015 and of AFC Energy plc from 2012 to 2015.

Nick Varney
Chief Executive Officer

Nick has over 25 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999.

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

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

Anne-Francoise Nesmes
Chief Financial Officer

Anne-Francoise was appointed Chief Financial Officer in August 2016. With over 23 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.

BOARD *of Directors*

Yun (Rachel) Chiang
Non-executive Director

Rachel was appointed a Non-executive Director of Merlin Entertainments with effect from 1 January 2016.

She has extensive experience of the Asian consumer and property markets, having held a number of senior executive and non-executive roles in the region.

Rachel is currently Partner and founding member of the private equity activities of Pacific Alliance Group (PAG), one of the region's largest Asia-focused alternative investment managers with over $16 billion in funds under management across Private Equity, Real Estate and Hedge Funds. She currently holds Non-executive positions with Hong Kong-listed Sands China (a majority-owned subsidiary of Las Vegas Sands), Hong Kong-listed Pacific Century Premium Developments (PCPD) which specialises in the development and management of premium property and infrastructure projects in the Asia Pacific region and Hong Kong-listed Goodbaby International Ltd, a leading manufacturer of children's durable products.

Charles Gurassa
Senior Independent Non-executive Director

Charles was appointed Senior Independent Non-executive Director of Merlin Entertainments and Chairman of the Remuneration Committee in 2013.

Charles is the Non-executive Chairman of Channel 4, Deputy Chairman at EasyJet plc and a trustee of English Heritage and the Migration Museum. Until January 2017 he was the Non-executive Chairman of Genesis Housing Association, a position he held since 2010.

Charles is a former Chairman of Virgin Mobile plc, LOVEFiLM, Phones4U, MACH, Tragus, NetNames, Parthenon Entertainments and Alamo/National Rent a Car and the former Deputy Chairman of the National Trust.

His executive career included roles as Chief Executive of Thomson Travel Group plc, Executive Chairman TUI Northern Europe, Director TUI AG and as Director, Passenger & Cargo business at British Airways. He is a former Non-executive Director at Whitbread plc, trustee of the children's charity Whizz-Kidz and a member of the development board of the University of York.

Fru Hazlitt
Non-executive Director

Fru was appointed a Non-executive Director of Merlin Entertainments in 2014.

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

She is now a Governor of Downe House School and has also served as a Non-executive Director on the Boards of Betfair Plc and Woolworths Plc.

BOARD *of Directors*

Ken Hydon
Non-executive Director

Ken was appointed a Non-executive Director and Chairman of the Audit Committee of Merlin Entertainments in 2013.

Ken is currently a Non-executive Director of Reckitt Benckiser Group plc. Previously, he was CFO of Vodafone Group Plc. Ken was also a Non-executive Director of Tesco Plc from 2004 to 2013, a Non-executive Director of Royal Berkshire NHS Foundation Trust from 2005 to 2012 and a Non-executive Director of Pearson Plc from 2006 to 2015.

Ken is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

Trudy Rautio
Non-executive Director

Trudy was appointed a Non-executive Director of Merlin Entertainments in 2015.

Trudy retired on 1 May 2015 from the position of Chief Executive Officer of Carlson, a privately held global hospitality and travel company. Trudy had been a senior executive with Carlson since 1997, having served as Executive Vice President and Chief Financial and Administrative Officer of Carlson preceding her appointment as CEO.

Prior to joining Carlson, Trudy served as Senior Vice President and Chief Financial Officer of Jostens, Inc., and served as Vice President of Finance for Minneapolis-based Pillsbury Co.

Trudy is the Chair of The Rezidor Hotel Group Board, and also serves on the Board of Directors for Cargill, The Donaldson Company, Inc., and Securian Holding Company.

Trudy is a Certified Public Accountant (unlicensed) and Certified Management Accountant.

Søren Thorup Sørensen
Non-executive Director

Søren was appointed a Non-executive Director of the Company in 2013, representing KIRKBI.

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

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

Andrew Carr

Andrew retired as Chief Financial Officer on 31 July 2016.

CORPORATE
Governance Report

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

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

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

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

Although Mr Gurassa previously served on the board of Tragus Group Limited (formerly a portfolio company of Blackstone, which was a shareholder in the Company until March 2015), the other Directors have concluded that this relationship did not have any effect on the independence of Mr Gurassa.

KIRKBI was one of the pre-IPO major shareholders of Merlin (along with Blackstone and CVC who ceased to hold any shares in the Company in March 2015). KIRKBI presently holds 29.83% of the issued share capital of the Company. The Non-executive Director representing KIRKBI (Søren Thorup Sørensen) is not regarded as independent for the purposes of the Code.

Accordingly, the Board considers that, throughout the 2016 year, the Company was in full compliance with the recommendation of the Code concerning the balance of independent Non-executive Directors on the Board.

Relationship agreement
The Company has entered into a Relationship Agreement with KIRKBI dated 30 October 2013 which remains in force. Under the KIRKBI Relationship Agreement:

- KIRKBI is entitled to appoint one Director to the Board.
- While KIRKBI (together with its respective affiliates) holds at least 10% of the Company's issued share capital, it may appoint an observer (with the right to attend and speak but not vote) to the Board and each of the Audit Committee, Remuneration Committee and Nomination Committee.

Major shareholdings
As at 28 February 2017, the latest practicable date prior to the date of this Annual Report and Accounts, the Company had been notified pursuant to DTR5 of the following interest in 3% or more of the Company's total voting rights.

Name of shareholder	Number of ordinary shares	% of issued share capital	Nature of holding (Direct/ Indirect)
KIRKBI Invest A/S	302,971,529	29.83	Direct
Blackrock Investment Management (UK) Limited	87,937,149	8.66	Indirect
The Wellcome Trust	42,800,000	4.21	Direct
GIC Private Limited	30,583,647	3.01	Indirect

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

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

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

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

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

Executive Committee

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

The members of the Executive Committee include the Chief Executive Officer and the Chief Financial Officer together with the Managing Directors of each Operating Group; the Chief Development Officer, the Chief New Openings Officer; the Group HR Director; the General Counsel and Company Secretary and the Chief Information Officer.

	The Board	Health, Safety and Security Committee [2], [3]	Audit Committee [3]	Remuneration Committee [3]	Nomination Committee [3]
Number of meetings held [1]	**8**	**4**	**5**	**3**	**2**
Sir John Sunderland	#8	#4	N/A	3	#2
Nick Varney	8	4	N/A	N/A	N/A
Anne-Francoise Nesmes	2/2	2/2	N/A	N/A	N/A
Charles Gurassa	8	4	5	#3	2
Ken Hydon	8	N/A	#5	3	2
Fru Hazlitt	7	4	1/1	3	2
Trudy Rautio	8	N/A	4/4	2/2	1/1
Rachel Chiang	8	3/3	4/4	N/A	N/A
Søren Thorup Sørensen	7	N/A	N/A	N/A	N/A
Andrew Carr [4]	6/6	2/2	N/A	N/A	N/A

Table notes:

\# *Denotes Chairman.*

(1) *Number of meetings attended during the year during period the respective Director was a member of the relevant Committee.*

(2) *In addition to the Board members noted above, the Health, Safety and Security Committee also includes as members the Managing Directors of both the Resort Theme Parks and Midway Attractions Operating Groups and the Director of Health, Safety and Security. These members attended all four meetings that took place in the year.*

(3) *Details of the Committee changes during the year are included in the Nomination Committee Report on page 104.*

(4) *Andrew Carr attended each of the Board and Health, Safety and Security Committee meetings prior to his retirement from the Board on 31 July 2016.*

	The Board	Health, Safety and Security Committee

Principal responsibilities and duties	**The Board has overall responsibility for overseeing the management of the Company.**
	• Overseeing the Company's strategy and management.
	• Determining the Company's capital structure.
	• Overseeing the Company's financial reporting and controls.
	• Ensuring the Company maintains a sound system of internal controls and risk management.
	• Approval of the annual capital expenditure budget, major capital projects and strategic transactions.
	• Ensuring effective communication with shareholders and managing investor relations.
	• Considering and, if accepted, implementing recommendations from the Committees, including:
	  • Appointments to the Board and Committees;
	  • Board and senior management remuneration;
	  • Succession planning; and
	  • Changes to the Company's share incentive plans.
	• Appointing Committees and agreeing their terms of reference.
	• Corporate governance matters and reporting thereon.
	• Approving major policies, including:
	  • Health, safety and security policy;
	  • Fraud policy; and
	  • Share dealing policy.
	• Approving the appointment of principal financial and professional advisers.
	• Approval of major litigation.
	• Approval of Group insurance programme.
		The Health, Safety and Security Committee assists the Board in ensuring that health, safety and security matters are managed effectively and proactively throughout the Group.
		• Recommending to the Board, implementing and monitoring the Group's health, safety and security policy.
		• Reviewing the effectiveness of the Group's health and safety processes and controls.
		• Reviewing the health and safety resources available within the Group and the skills of the health and safety management.
		• Reviewing the adequacy of security processes and controls.
		• Reporting to the Board on matters within the remit of the Committee.
		
		See the Health, Safety and Security Committee Report on pages 70 to 75 for further details.

Number of meetings	At least six times a year and as required or otherwise at the request of one or more of the Directors. Where urgent decisions are required on matters specifically reserved for the Board between meetings, there is a process in place to facilitate discussion and decision making.	At least four times a year and at such other times as the Board or the Committee Chairman requires.
Code compliance	**We comply** The Code recommends that the Board of a UK listed plc should comprise at least 50% independent Non-executive Directors (excluding the Chairman).	**N/A**

Audit Committee	Remuneration Committee	Nomination Committee
The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting and controls and external and internal audits. • Reporting to the Board on matters within the Committee's remit. • Risk management process and internal controls, including whistleblowing and fraud. • Financial reporting, including considering the processes supporting the assessment of the Group's longer term solvency and liquidity which underlie the Viability Statement. • Internal audit. • External audit. *See the Audit Committee Report on pages 76 to 81 for further details.*	**The Remuneration Committee assists the Board in discharging its responsibilities in relation to remuneration.** • Setting the remuneration policy for Executive Directors and the Chairman. • Reviewing and making recommendations to the Board on senior management remuneration. • Determining the individual remuneration and benefits package of each of the Executive Directors. • Determining the fees of the Chairman. • Reviewing the design of share incentive plans for approval by the Board. • Ensuring appropriate reporting on remuneration matters in the Annual Report and Accounts. No Director may participate in discussions relating to his own terms and conditions of remuneration. Non-executive Directors' fees are determined by the full Board. *See the Directors' Remuneration Report on pages 82 to 103 for further details.*	**The Nomination Committee assists the Board in discharging its responsibilities in relation to the composition of the Board.** • Reviewing the balance of skills, knowledge and experience on the Board. • Reviewing the size, structure and composition of the Board. • Considering and making recommendations to the Board on retirements, re-elections and appointments of additional and replacement Directors and on membership of Committees. • Considering succession planning for both Executive and Non-executive Directors and the Chairman. • Considering the time required for Directors to fulfil their roles. • Developing a policy on diversity and reporting on progress thereon. • Making appropriate recommendations to the Board on matters within the remit of the Committee. *See the Nomination Committee Report on page 104 for further details.*
At least three times during the financial year at appropriate times in the audit cycle. In addition, it meets at such other times as the Board or the Committee Chairman requires, or if requested by the external auditors.	At least twice each year and at such other times as the Board or the Committee Chairman requires.	At least twice each year and at such other times as the Board or the Committee Chairman requires.
We comply The Code recommends that an Audit Committee should comprise at least three independent Non-executive Directors and that at least one member should have recent and relevant financial experience. The Audit Committee consists of four independent Non-executive Directors. Both Ken Hydon and Trudy Rautio are considered by the Board to have recent and relevant financial experience. Further details are set out on page 65. No members of the Audit Committee have links with the Company's external auditors.	**We comply** The Code recommends that a Remuneration Committee should comprise at least three independent Non-executive Directors. The Committee consists of four independent Non-executive Directors and the Chairman.	**We comply** The Code recommends that a majority of the members of the Nomination Committee should be independent Non-executive Directors. The Committee is chaired by the Chairman of the Board and consists of the Chairman of the Committee and three independent Non-executive Directors.

HEALTH, SAFETY AND SECURITY *Committee Report*

STATEMENT FROM THE CHAIRMAN OF THE HEALTH, SAFETY AND SECURITY COMMITTEE

Dear Shareholder

Our number one priority is delivering safe and memorable experiences to our guests. Central to this is our total commitment to continuously achieving high standards in Health, Safety and Security (HSS). Every day we remain focused on ensuring our operations and business activities remain safe, thereby fulfilling the trust placed in us by our guests, employees, business partners and shareholders.

The HSS Committee assists the Board in ensuring that HSS risks are managed effectively across the Group. This report describes the work of the Committee, the Group's HSS management systems, processes and performance, together with details of developments during 2016.

The Smiler accident
The accident on 'The Smiler' ride at Alton Towers Resort in June 2015 shocked the entire organisation. We have always prided ourselves on being an industry leader in terms of amusement park safety, working alongside national regulating bodies to improve industry practice and highlight innovation in terms of safety management.

This accident called the Group's safety record into question and our response has included a 'root and branch' review of all our safety procedures and protocols. The criminal prosecution that followed, and the Judge's comments, reflect the seriousness of the offence and the shortcomings in our safety arrangements on this specific ride, as did the resultant fine of £5 million. We are taking action to address the Judge's comments.

The Judge did accept that we generally have a good health and safety record and procedures in place, particularly given our size. Further, the Judge also recognised our exceptional co-operation with the UK's Health and Safety Executive during their investigation of the accident and that full and extensive steps have been taken to remedy the problem.

We have a strong history of delivering millions of safe experiences to our guests and we are determined to rebuild the trust that our guests rightfully place in us.

Independent reviews
Following 'The Smiler' accident the HSS Committee commissioned an independent review of ride safety across the business. A global risk management consultancy, DNV GL, were engaged to assess and validate how ride safety is continuously achieved and how the Company's safety culture supports this.

The findings of the DNV GL review provided reassurance to the HSS Committee and the Board that the Group's safety management systems in place were suitably robust. No major or systemic areas of concern were identified during the extensive audit. Furthermore, the safety culture within the business was described as 'strong'. Nevertheless a number of recommendations were made and these are being duly actioned.

The Committee also commissioned an independent review of the Company's corporate governance arrangements for HSS, with a leading figure in the UK's HSS professional community engaged and provided with full access to the business. Existing governance arrangements at Board and Executive Committee level were assessed to determine whether they were sufficiently robust and if they could be strengthened.

Confirmation was provided that the governance arrangements in place were of a suitably rigorous standard, especially given the Company's size. A small number of recommendations were made and these are also being duly implemented.

Risk control
Our fundamental goal is to ensure the effective prevention or mitigation of HSS risks through robust management systems and programmes that are supported by the right organisational structure and a genuine commitment from all staff.

'Protecting the Magic' is the name of our ongoing commitment to controlling HSS risks. This branding provides us with a high-profile communication platform through which we drive workforce engagement and a proactive safety culture.

Performance reporting
Our performance reporting has evolved during 2016. We now report on both 'leading indicators' (those activities such as inspections and audits we perform to manage risk), as well as 'lagging indicators' (the incident frequency type reporting that has traditionally been the Group's primary reported KPI). Further details are set out on page 74.

Looking forward
Looking forward we will continue to challenge, monitor and support the whole of Merlin in their HSS efforts.

Sir John Sunderland
Chairman of the HSS Committee
1 March 2017

HEALTH, SAFETY AND SECURITY *Committee Report*

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

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

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

Details of the Committee's membership, together with the frequency of and attendance at meetings, are outlined on pages 66 to 69.

HSS management

The Company maintains a well developed and systematic approach to the management of HSS risks, in line with the endorsed model of the UK's regulator - the Health and Safety Executive (HSE). This approach sets out how organisations should organise themselves and deploy suitable and sufficient safeguards for the effective control of HSS risks.

We therefore place great focus on designing and implementing programmes that relate to each of our following five HSS cornerstones:

1 **Leaders** - Our leaders and managers must exhibit visible leadership towards safety and establish robust compliance and improvement plans in support of this vision.
2 **People** - Our employees and contractors must be equipped with the necessary skills, experience and cultural attitudes such that they understand and control safety risks effectively.
3 **Standards** - Our standards and procedures must be clearly documented and rigorously followed to help ensure we design, build and operate in a safe and compliant way.
4 **Assets** - Our assets and equipment must be fit for purpose throughout their term of operation such that no unacceptable or uncontrolled safety risk is created.
5 **Performance** - Our safety performance must be measured so that we are able to understand, improve and sustain our performance.

HSS management system

Our policies and HSS management systems set mandatory obligations for standards and performance across all our attractions and operations.

The requirements set out in our Group Health and Safety Manual and associated policies are well established, providing a strong basis for compliance and continual improvement in performance. They form the basis for the development and application of the Company's health and safety management system at all levels in the business, as depicted in the chart below.

Operational management

Operational management are responsible for and integral to HSS matters, supported by functional HSS specialists.

Two key safety management activities are as follows:

- **Risk registers** - attraction management prepare detailed HSS risk registers that identify and assess all significant risks. The Group's principal HSS risks are summarised on page 50.
- **Action plans** - every attraction is required to prepare an annual HSS action plan, driven by the results of its risk register, safety inspections and audits, near-miss/incident investigations and employee surveys. Appropriate control measures are then implemented.

HSS programmes and arrangements at each attraction are part of the overall management system that facilitates the assessment and control of HSS risks. This includes the Company's organisational structures and incorporates: planning activities; key roles and responsibilities; the production of safety policies; Codes of Safe Working Practice for each ride; instructions and other procedures; and the resources for developing, implementing, achieving, reviewing and maintaining the organisation's health and safety policies.

HEALTH, SAFETY AND SECURITY *Committee Report*

Training
Attraction management teams attend formal Safety Leadership and Safety Management training courses to ensure they are equipped with the necessary skills and knowledge. Other functional, departmental and task-relevant safety training takes place dependent on specific role and needs analysis.

Training plans are formulated or reviewed each year as part of the annual Personal Development Plan process, or as part of each department's training needs analysis arrangements. A foundation of these training programmes is the delivery of mandatory new starter Induction Training.

Safety leadership walks
In 2016 we launched a new programme of safety leadership walks where our most senior managers will regularly and frequently engage with our employees in order to demonstrate commitment to, focus on, and understanding of effective health and safety risk management.

These walks allow senior management to praise and reinforce safe behaviours and to identify and modify unsafe practices and conditions.

Ride and facilities safety
All of our attractions have in place structured and formalised programmes for the scheduling and completion of maintenance works on plant and equipment - both rides and facilities/building assets.

Additionally, all required repair works are logged and managed safely through to completion.

Our amusement rides are managed for safety through their asset lifetime in line with applicable national or local legal requirements.

> *Merlin's fundamental approach to ride safety was found to be suitable and sufficiently robust. It is well supported by the positive attitudes of its people at all levels in the organisation*
>
> *DNV GL*

Our operational, engineering and safety processes, together with our quality checks and inspections cover:

1 Designing, manufacturing and testing.
2 Transporting, assembling, installing and commissioning.
3 Operating, cleaning, maintaining, inspecting and testing.
4 Day-to-day use by guests.

In order to bring a new amusement ride into operation in the UK, for instance, we are required to demonstrate compliance with applicable codes and practices, which is achieved by subjecting each ride to an independent review by a registered / accredited Inspection Body.

Thereafter, rides are subjected to an annual independent in-service inspection. This normally requires a ride to be fully or partially disassembled and to be subjected to thorough visual examination and, where applicable, non-destructive testing. Each ride is then reassembled and subjected to a function test. A single document called a 'Declaration of Operational Compliance' confirms that the appropriate inspection has been completed successfully. Similar equivalent processes are in place in non-UK locations.

Attractions maintain operational procedures to ensure that rides are operated in the correct and safe manner.

In 2016, allied to one of DNV GL's recommendations, we developed and launched a brand new set of competency and training criteria that must be implemented by all applicable attractions for their ride operations staff. This covers both new starters and existing staff.

Additionally, all of our attractions have in place robust, tested, emergency response plans and procedures.

Contractor safety
Contractor safety is of great importance to us. In 2016 we launched a new Contractor Safety Handbook which clearly sets out our HSS expectations of contractors.

Contracting entities engaged to work at our attractions undergo a safety vetting and pre-qualification process. They are then provided with relevant HSS information prior to starting work, with risk assessment documents (or similar) completed and reviewed. We ensure contractor activities on site are appropriately supervised and controlled.

Projects have sufficient budgets and timescales to allow the contractor to complete the works and relevant HSS checks, and we ensure regular feedback on any HSS issues, incidents or challenges. Site inspections and audits by our project managers, HSS teams and external consultants help us to ensure that our rigorous standards are continually met.

Food safety and hygiene

The Group applies the globally recognised best practice approach for ensuring food safety - the Hazard Analysis and Critical Control Point (HACCP) system.
Our detailed and prescriptive Food Safety Manual provides clear and consistent direction for attractions on how to address food safety and hygiene risks. The manual must be adhered to at all times and all attractions are independently assessed by food safety specialists for compliance with it.

In 2016 we commissioned an independent review of our food safety arrangements to ensure they remain suitable and sufficient. We continue to make improvements where necessary.

Attraction security and travel safety

We maintain active and passive security protocols across our attractions in order to maintain the integrity of our physical boundaries together with operations and assets within. Security risk assessments help ensure that we deploy the appropriate technology, techniques and resources commensurate to the national or local threat level. In 2016 security searches of guests and their bags were extended across specific attractions to reflect such risks.

As the types of threats and risks evolve we work closely with local police and governmental security agencies to ensure appropriate intelligence is shared and attraction based security protocols remain suitable, proportional and robust.

When employees need to travel overseas we work with a third party organisation to ensure that we have the best available security and health information to help us assess and plan such trips. We actively monitor local security conditions to ensure deployments remain safe both pre-departure and in-journey.

Accommodation safety

We are delighted that many of our guests can enjoy a longer stay at our attractions by taking advantage of our range of accommodation.

The safety of any guest who stays with us is paramount and we deal rigorously with the additional and specific safety challenges involved.

Our approach to managing the risk of fire is to have systems that meet or exceed what is required by local legislation. For instance, automatic fire detection and warning systems are in place across all our hotels and lodges and which comply with the highest standards. Our guests will get the earliest possible warning of a potential incident, which allows our specially trained staff members to quickly investigate any problem and minimise the impact of a false alarm. Fire drills are regularly practised too.

All our accommodation staff receive thorough fire safety training that includes risk reduction, what to do in the event of fire, how to raise the alarm as well as roles and responsibilities in the event of an evacuation.

Some staff are specially selected as fire wardens and are trained to use on-site firefighting equipment.

Safety for our disabled guests

At Merlin, we've always tried to make our attractions accessible to as many people as possible, but we recognise that certain rides can be physically demanding and vigorous so they are not appropriate for every guest.

We carry out regular in-house surveys and access audits are conducted by independent experts so that we are always up-to-date with the latest guidance and recommendations.

Effective and clear communication play an important part in helping our visitors with accessibility requirements to decide whether or not the experiences on offer are suitable. It is why our websites carry detailed information so that people can make a decision based on their individual needs.

Protecting the Magic

'Protecting the Magic' is our internal brand for the communication of HSS matters throughout the organisation.

In 2016 we launched:

1. Our new ***Little Book of Safety Spells*** - an HSS briefing toolkit for managers and staff.
2. New ***Six Spells for Safety*** posters, banners, badges, screensavers and key info-cards.
3. A new bi-monthly HSS magazine called ***'The Shield'***.
4. Our new ***Safety First*** Employee Handbook - fully translated and openly available on our **www.protectingthemagic.com** website.

Since the end of the year we published our comprehensive ***Guests' Guide to Safety*** - available on Merlin's **www.protectingthemagic.com** website.

HEALTH, SAFETY AND SECURITY *Committee Report*

Monitoring 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.

All attractions in Merlin are subjected to routine health and safety audits, conducted by HSS professionals independent of the attraction being assessed. These audits evaluate compliance with Merlin's Global Health and Safety Manual and associated safety policies. This includes an examination of the adequacy and availability of risk assessments / job hazard analyses and the implementation of required control measures.

Consideration is also made of how such control measures are communicated or 'trained out' to those persons undertaking the works. Any non-compliance matters or improvement opportunities identified then require remedial action. These audits complement regional and attraction initiated safety inspections and audits that take place during the course of each year. Additionally, property and infrastructure risk audits are conducted annually by external engineering surveyors.

In 2016 our performance reporting has evolved and we can now report on two types of performance metric:

1. ***Leading indicators*** 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.
2. ***Lagging indicators*** capture incident rates for both guests and employees.

In developing our performance reporting we have the ambition to become the benchmark for our industry sector as we capture, report on, interpret and respond to this source of management information.

Performance information

HSS Performance Indicators	2016
Leading Indicators:	
Safety Inspection Certificates - Rides [1]	100%
Safe Operating Procedures - Rides [2]	100%
Food Safety Audits [3]	97%
Safety Culture Survey Results [4]	94%
HSS Committee Meetings [5]	100%
Lagging Indicators:	
Medical Treatment Case Rate (Guests) [6]	0.06
Medical Treatment Case Rate (Employees) [6]	0.07

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

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

[3] Merlin commissions an independent specialist to audit attractions for compliance with its Food Safety Manual. This % represents the average compliance score.

[4] Merlin's annual 'Wizard Wants to Know' staff survey features a series of questions relating to health and safety that help to determine the maturity of the Company's safety culture and the level to which staff are actively engaged with the topic. This % represents the overall safety engagement score.

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

[6] A Medical Treatment Case (MTC) is defined as an injury which requires external medical treatment (i.e. ambulance attendance to site or hospital visit directly from the site). The rates referenced are the number of MTC's relative to either 10,000 guest visitations or 10,000 employee hours worked.

FOCUS ON
Merlin Engineering

Group Engineering
In 2016 our Group Engineering Directorate was established to provide clear direction to Merlin's technical teams at every attraction and help drive continuous improvement and engineering excellence. The team is now fully formed and has set its strategic direction:

- **Group Engineering Strategy** - to underpin the delivery of memorable experiences with technical excellence and efficiency.
- **Group Engineering Strategic Objective** - to define and uphold groupwide engineering standards, practices and processes that deliver sector leading safe, compliant and optimised asset performance thus ensuring that every guest's memorable experience is not negatively impacted by any technical issue.

The connection between safety and engineering is fundamental, shaping every aspect of engineering work undertaken in Merlin. From the outset, Group Engineering has set to reinforce this connection and set up systems that focus on Safety Engineering. In particular, the immediate opportunities that have been realised with this new central function are in elements of Safety in Design and Maintenance.

Safety in Design
Although the independent Inspection Bodies conduct thorough design reviews and provide design safety assurance, it is essential that safety critical systems can be maintained and assessed easily. Group Engineering provides critical technical analysis of design and challenge to suppliers and equipment manufacturers of both new products and for modifications to existing installations. This gives support to both attractions and project delivery teams as the 'intelligent customer' to ensure that not only is redundancy built in to safety critical systems, but also that safety critical items are designed for maintainability to provide the essential balance between safety and performance.

Safety in Maintenance
Robust maintenance systems and procedures are already in place through the comprehensive suite of daily, weekly, monthly and annual maintenance activities for rides and installations. However, we never stand still and always look to incrementally improve our maintenance systems through the work of Group Engineering:

- **Learning Forums** - Group Engineering has established communication channels between Technical Directors at attractions to allow groupwide technical expertise to be shared effectively. Enhanced arrangements have been set up with the prime purpose of driving shared learning and discussion to facilitate faster responses to technical challenges and safety improvements.
- **Maintenance Regime Review** - the maintenance regime for each asset or ride is derived from the requirements set out in the operating and maintenance manual provided by the manufacturer. This regime is then overlaid with any enhanced inspections or tests that are identified through the continued use and inspection of the asset. Critical review and comparison of evolved maintenance regimes can now be undertaken to ensure that maintenance across the Group is optimised for assets that are installed in multiple locations.
- **Root Cause Analysis** - within even the most robust safety and maintenance system unplanned technical issues will arise. Understanding the cause of such issues provides insight into any changes required to safety and reliability systems to prevent recurrence. Our assets are complex due to factors such as the technology of the systems and materials used; the interface with attraction operators; the way guests interact with the assets; external environmental effects; and the continued maintenance of the asset. The oversight of Group Engineering and ability to use groupwide expertise to analyse and critique any failures ensures that appropriate alterations are made through intellectually rigorous and consistent analysis of failures and faults.

Group Engineering will continue to drive the optimisation of this function to help maintain our focus on safety engineering.

AUDIT
Committee Report

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present the 2016 report of the Audit Committee (the Committee).

The Committee has an annual standing agenda of matters to be examined and in addition there are focused reviews of particular topics. During the course of the year the Committee met with operational management to consider financial, IT and other risks that the business faces together with the controls through which we manage those risks. We appreciated the open discussions.

Our detailed programme of work has focused on the following areas which the Committee report itself covers in more detail.

Committee membership and effectiveness
Committee meetings are scheduled ahead of Board meetings and a summary is given to the Board at the following meeting. The Committee's terms of reference are available on the Company's website.

I was pleased to welcome Trudy Rautio and Rachel Chiang as new members of the Audit Committee during the year. We have a Committee with deep financial and international business experience particularly in customer facing and consumer businesses. The external Board Effectiveness review confirmed that the Committee is effective.

Risk management and internal control
The Committee is satisfied that the Company has appropriate systems and procedures in place to identify, evaluate and manage material risks to the business. The Group's principal risks and uncertainties are set out on pages 50 to 52.

The Committee has reviewed these and is comfortable the Company has addressed them appropriately within its ongoing operating model.

Financial reporting
I am pleased to confirm that we believe the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

In preparing the Group's financial statements, the two areas determined to be of most significance are the valuation of assets including impairment, and revenue recognition. Further details of our reviews in these areas are set out on page 79.

We also considered how the Group assesses its longer term solvency and liquidity as set out in the Viability Statement on page 49, agreeing the stress testing parameters of the Group's principal risks and the period over which the assessment should be made.

Internal and external audit
The Group's control framework includes independent and effective auditors. The Committee has therefore spent time during the year assessing the internal and external audit functions, finding both to be effective.

The risk based internal audit plan has provided appropriate coverage of the Group's operations and we are satisfied with the content and quality of both reporting and management responses.

Similarly, we are fully satisfied with KPMG's ongoing performance and their approach to the audit; their work makes an important contribution to the integrity of the Group's reporting and again this year has resulted in a clean audit opinion.

We continue to monitor regulatory matters, including the requirement to retender the audit by 2023 and retender the audit at least every ten years thereafter. The Committee is mindful that the next regular KPMG partner rotation is after the 2019 audit.

Looking forward
The Committee has an agreed programme for 2017.

Key focus areas include monitoring the continuing roll out of accesso®, as well as to monitor the control environment, particularly in new attractions opened in line with the Group's 2020 milestones.

Recognising the impact of the new leasing accounting standard (IFRS 16), we will review management's work on capturing the detail required for both transition accounting and the related financial statement disclosures.

I would like to thank the Committee members for their diligence and support throughout the year.

Ken Hydon
Chairman of the Audit Committee
1 March 2017

The role of the Audit Committee

2016 focus
An external effectiveness review was undertaken showing the Committee to be effective.

The Audit Committee's primary responsibilities are as set out below, forming the basis of a programme of work that is agreed at the end of the prior year and undertaken during the following year. In performing their work, the Committee is kept abreast of any changes in governance, legislation or guidance.

Risk management and internal control

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

Financial Reporting

- To monitor the integrity of the financial statements of the Company and report to the Board on significant financial reporting issues and judgements.
- To consider whether the Company's financial statements are 'fair, balanced and understandable'.
- To consider the processes supporting the assessment of the Group's longer term solvency and liquidity which underlie the Viability Statement.

Internal and external audit

- To monitor and review the effectiveness of the Company's internal audit function, and its material findings, in the context of the Company's overall risk management and internal control environment.
- To propose and select the external auditors and then to oversee their performance and independence.

Membership and meetings

Details of the Committee's membership; qualifications; and meetings are outlined on pages 66 to 69, including details of those members having recent and relevant financial experience. The CFO and other key members of management routinely attend, as do other members of senior management depending on the matter under discussion. The Chairman and the CEO attended most meetings. Private meetings are routinely held with internal audit and KPMG. The Committee also meets privately after each Committee meeting.

Effectiveness review

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

AUDIT *Committee Report*

Risk management and internal control

2016 focus
The Committee concluded that Merlin operates an appropriate process to assess the internal control environment, and that controls are in place to mitigate financial process risk.

While the Board retains overall responsibility for the Company's internal controls, the Committee has a delegated responsibility in two specific areas.

1 Specifically monitoring the management of financial process risk

The Risks and Uncertainties section on pages 47 to 52 shows how the Company separates its oversight of risk management into three risk components: Health, safety and security; Commercial and strategic; and Financial process.

For financial process risk, management remain responsible for establishing and maintaining adequate internal controls that are designed to manage, rather than eliminate, such risks. It is addressed using the three levels of activity and assurance set out below. The outcomes of these activities are reviewed by management, the Audit Committee and the Board.

Level 1
Documented delegated authority limits and purchasing and sale price approval levels in place across the Company.

Level 2
Frequent and regular review processes of trading performance together with detailed capital investment and strategic planning processes.

Level 3
Self-assessment, including quarterly self-certification by the heads of finance of each of the business units.

Internal audit reviews with the support of specialist experts as appropriate. The annual risk based internal audit plan is developed in conjunction with management, and approved by the Committee. Internal audit results and management responses are then discussed and challenged at each Committee meeting. The Committee reviews management actions in response to significant findings and looks at the root cause of consistent themes emerging across the Company, including 'deep dive' assessments where necessary. In 2016 these related to the purpose and structure of the profit protection function, reviewing residual risks identified in the Group's business planning process, together with considering the Group's treasury strategy.

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

2 Overseeing the overall risk management process

During the year the Committee reviewed the overall risk management process in place. At the end of the year it examined the Company's risk organisation and how this has been practically implemented, and the methodology by which risk matters raised are brought to the attention of the Board. The Group's risk organisation and principal risks are disclosed on pages 47 to 52.

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

The Committee also receives regular updates on whistleblowing, including the quantity, source and nature of incidents reported and how matters are resolved. During 2016 efforts have continued to increase awareness of the Company's whistleblowing procedures, evidenced by the 84% of staff who completed the annual staff survey confirming they were aware of the whistleblowing policy.

Financial Reporting

2016 focus
The financial statements appropriately address amounts reported and disclosures together with any significant judgements and estimates.

The two significant areas for review were appropriately scrutinised by the Committee throughout the reporting cycle.

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

Together with management and the external auditors, the Committee determined that the two financial reporting areas of most significance and which could give rise to misstatement of the Group's financial statements are the valuation of assets and impairment and revenue recognition. These items are set out below and were considered by the Committee throughout the audit cycle.

Key focus areas

1 The valuation of assets and impairment

Having reviewed the basis of management's calculations and the findings of the external audit, the Committee is satisfied that no impairment is required and that the presentation and disclosures in the financial statements are appropriate and adequate.

Existing businesses operate in geographically or politically diverse areas and in the past the Group has made material acquisitions resulting in significant balances of goodwill and intangible assets. Additionally the Group continues to open attractions in new and, to some degree, unproven locations. While the Group has accumulated experience of opening many attractions around the world, the performance of additional attractions, particularly in new markets, can be difficult to predict.

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

The papers considered the valuation of goodwill at an Operating Group level, individual brands and specific property, plant and equipment. For each item, 'value in use' and 'fair values' (using an appropriate EBITDA multiple) were provided. We focused especially on how the 'value in use' of assets is calculated, which involves judgements of forecast cash flows, the discount rates used and the calculation of an asset's terminal value.

Management's papers considered the performance of Alton Towers following the accident there in 2015 when considering the expected future earnings of that attraction and the Resort Theme Parks Operating Group as a whole, as well as detailing the results of sensitivity analysis performed.

2 Revenue recognition

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

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

accesso®

During the year the Company continued its roll out of the accesso® admissions system across the Group. The new system is being used to transact an increasing proportion of the Group's admissions revenues with the roll out to all major sites targeted by the end of 2017.

The roll out continued under the guidance of a senior steering group, chaired by the Group's Chief Information Officer, and including the Group CFO and other members of the Group's senior finance team. The project roll out team includes finance resource that is responsible for designing and implementing appropriate financial processes and controls.

During the year the Committee received regular updates on the progress of the project together with the identification and subsequent resolution of issues that arose.

IFRS 15

IFRS 15, the new accounting standard on revenue from contracts with customers, will become effective from the 2018 accounting period. The Committee has considered the potential impact in the context of the Company's business model and the nature of the Company's revenue transactions and has concluded that IFRS 15 is not expected to materially alter the Group's financial results.

AUDIT *Committee Report*

Going concern and viability review

We focused especially on the appropriateness of the key judgements, assumptions and estimates underlying the Company's plans together with a review of compliance with key financial covenants. For the viability assessment we considered the outlook period in the context of the Group's business plan, its planned capital investment cycles, new business development plans and potential uncommitted capital projects and acquisitions. We concluded that the four year outlook period was appropriate.

We considered the key risks identified by the Group (as set out in the Risks and Uncertainties section on pages 50 to 52) and any mitigating controls. This process enabled the Committee to assess whether any material residual risks remained that could pose a significant threat to the viability of the business as a whole.

The risks identified were those related to safety related incidents and the impact of acts of terrorism or sabotage. The Committee then reviewed appropriate sensitivity analyses in severe yet plausible scenarios that were performed to assess the possible impact of these risks and the Group's resilience to them through controls and mitigating actions that could be taken.

The Viability Statement is on page 49.

Other matters

The Committee also reviewed other matters in relation to the Company's financial statements. In doing so they took into account recent developments in corporate reporting and particular current focus areas. Matters reviewed included:

- The half year and full year financial statements.
- Disclosures in the Annual Report and Accounts in relation to internal control, risk management process and the work of the Committee.
- The Group's use and description of alternative performance measures within its financial reporting.
- Those areas of the Group's financial reporting considered to have required most judgement or the use of estimates.
- The tax position of the Group, in particular the effective tax rate and the recognition of deferred tax assets.
- The impact of new accounting standards that are yet to become effective, especially IFRS 15 (as noted above), and IFRS 16, the new standard on leasing.
- Key assumptions in relation to defined benefit pension schemes.
- Technical updates, in particular in relation to the requirements of and changes to the Code.
- The Audit Committee's report in the context of the Code's requirement for 'fair, balanced and understandable' reporting.

Internal and external audit

2016 focus

Following an extensive review process, the Committee considers that the internal and external audit functions were both effective during 2016.

The internal and external audit functions represent an important part of the third line of defence in terms of maintaining an effective internal control environment within the Company through the activities set out below. The Committee oversees both functions to ensure they are independent and effective.

Internal audit

The Company's internal audit function, which has dual reporting lines into both the Chairman of the Audit Committee and the CFO, comprises six in-house auditors and is led by an appropriately qualified Group Internal Audit and Risk Management Director with the relevant skills and experience to fulfil the obligations of the role.

When necessary external support is used in specialist areas. For example PricewaterhouseCoopers (PwC) provided specialist support to the audit of the Company's IT strategic roadmap and risks.

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

During the year, audits were undertaken to obtain an appropriate level of coverage across the business which we measure on a rolling two-year basis. Internal audits conducted over the last two years have been at operations representing coverage of approximately 60% of the Group's revenue.

In addition to the revenue generating locations, internal audits were performed over other areas including MMM project management, procurement, legislative compliance and IT disaster recovery.

The coverage is in line with the plan approved by the Committee.

An external review of the effectiveness of internal audit was undertaken during the year. Members and attendees of the Audit Committee meetings, along with the senior finance community of the Company, were questioned on a range of subjects including the governance and organisation of the internal audit function, their audit approach and the effectiveness of their reports and conclusions. The survey results showed that the internal audit function is considered professional and diligent and that its internal audits are appropriately detailed.

External audit

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

Appointment and governance

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

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

Remuneration and independence of external auditors

Non-audit services are subject to market tenders or tests and are awarded to the most appropriate provider. The external auditors may provide non-audit services only when their skills and experience make them a competitive and most appropriate supplier of these services. Non-audit services that are awarded to the auditors are normally limited to assignments that are closely related to the annual audit or where the work requires a detailed understanding of the Group.

The new Ethical Standard for the audit profession issued by the FRC required KPMG to review their non-audit services and resign from their tax appointments. The Committee was satisfied with the way KPMG approached this exercise and has updated its Terms of Reference on appointing the auditors for non-audit services accordingly.

The principle followed is that the auditors may not provide a service which:

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

The Committee granted the CFO authority to approve the following non-audit services:

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

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

The Committee has adopted the guidance and related definitions from the Department for Business, Energy and Industrial Strategy and determined that 'non-audit fees' should be no higher than 70% of 'audit fees'. We will continue to monitor this ratio. In 2016 fees for non-audit services were £0.7 million *(2015: £0.8 million)*; a ratio of 48% *(2015: 58%)*. Details of KPMG fees can be found in note 2.1 to the financial statements.

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

Assessment of the performance of the external auditors

Following consideration of the FRC's Practice Aid on Audit Quality, the Committee has evaluated the performance, independence and objectivity of KPMG. This included an externally facilitated, questionnaire based, effectiveness assessment as well as interviews with Audit Committee members and other attendees, and senior finance personnel both at Merlin's attractions and at its head office. The survey covered KPMG's mindset and culture, skills and knowledge, judgement and quality control of the audit.

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

The effectiveness of KPMG's 2016 audit was assessed over the year by reference to the following factors:

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

DIRECTORS'
Remuneration Report

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

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

- **Statement from the Chairman of the Remuneration Committee** contains details of our remuneration principles and of the key decisions reached by the Committee.
- **Policy Report** to be put to a binding vote by shareholders at the 2017 AGM. Given that the existing Remuneration Policy expires in the 2017 financial year, a summary of changes is contained in this Chairman's Statement with the full details set out in the Policy Report.
- **Annual Report on Remuneration** contains details of pay received by Directors in 2016 and full details of how we intend to implement our pay policy during 2017. The Annual Report on Remuneration will be subject to an advisory vote at the 2017 AGM.

Remuneration principles

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

Performance orientated

- Rewarding performance is a core part of our ethos. About 80% of our permanent employees participate in a bonus plan and over 340 employees receive regular share awards or share option grants.
- To reinforce the link between performance and pay, most employees are rewarded for the performance of their particular attraction. Only the senior executives (the Executive Committee and their direct reports) and employees of central functions are rewarded for the performance of the overall Group.
- For senior executives, including the Executive Directors, performance related pay, based on stretching short term and longer term targets, forms a significant part of their potential pay packages.

Aligned to the long term success of the Company

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

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

Consistent with best practice

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

Widespread share ownership

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

Performance in 2016
The financial and operating performance of Merlin in 2016 is set out on pages 2 to 59 in the Strategic Report.

The Group delivered a solid set of financial results. The LEGOLAND Parks Operating Group continued to deliver growth and the Resort Theme Parks Operating Group delivered a stronger year supported by the recovery at Alton Towers. However, a combination of security concerns and exchange rate volatility impacted trading at some of our largest city centre locations in the Midway Attractions Operating Group. Taken together, the Group reported revenue of £1,457 million and generated an underlying operating profit of £320 million for the 53 weeks ended 31 December 2016.

As a result of financial performance falling below the threshold for payment of profit related bonus, no bonus will be paid to the CEO or the current or previous CFO in relation to 2016 performance.

The Performance Share Plan awards granted on IPO in November 2013 will partially vest on 1 April 2017. Details of the awards are set out on page 100 of this report.

Pay decisions for 2017
The proposed pay structure for the Executive Directors for 2017 is outlined on pages 93 to 94. Key decisions made by the Committee in relation to 2017 include:

- The CEO received a 1.0% increase in his salary as part of the pay review effective from 1 October 2016. The annual pay review date for the Group has moved from 1 October to 1 April and as a result it is proposed to grant a further increase of 2.25% from that date. The average salary increase for the Merlin UK workforce effective from 1 October 2016 was 1.0% and effective from 1 April 2017 is 2.25%. Under the terms of her contract, the salary of the CFO is fixed until October 2017 when a 2.25% increase will be awarded.
- The Committee has agreed the same basic structure to the bonus plan as 2016 with individual objectives for the Executive Directors appropriately reflecting Company priorities. For the Executive Directors 100% of bonus award depends on profit performance and of that 20% also depends on achievement against specific personal objectives.
- The Committee has also maintained the same basic structure for the PSP with unchanged threshold and maximum performance conditions. In addition, for awards from April 2017 onwards a health and safety underpin will be attached to all PSP awards. Further details are set out on page 94.

Review of Remuneration Policy for 2017
The Committee has reviewed the application of the Remuneration Policy in place since 2014 and concluded that the structure of the current approach to salary, short term and long term incentives for the Executive Directors remains aligned to our remuneration principles. In light of this, no significant amendments are proposed.

As previously communicated the Company has put in place malus and clawback provisions and a health and safety underpin for all PSP awards from 2017 onwards. We have also taken this opportunity to clarify that the Committee already has the ability to adjust bonus awards to ensure they reflect underlying business performance, including health and safety matters.

These important safeguards are incorporated into the proposed new Remuneration Policy.

Recent economic uncertainty along with suggestions for alternative approaches to Executive Remuneration structures and other guidelines from investors mean that the Committee will keep the policy under active review. Any future proposals will be driven by the Company's strategy and will take account of the increasing complexity of the Group.

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

Charles Gurassa
Chairman of the Remuneration Committee
1 March 2017

POLICY REPORT

This part of the Remuneration Report sets out our updated Directors' Remuneration Policy (Policy). The Policy will be subject to a binding shareholder vote at the 2017 AGM. This Policy will apply to payments made from 13 June 2017. The current policy was approved in 2014 by a vote in favour of 99.4%. The information provided in this section of the Remuneration Report is not subject to audit.

Policy table

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

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

Key changes to the previous Policy are as follows with details included in the relevant sections of the updated Policy below.

- Effective from 2016, malus and clawback conditions apply to bonus payments, deferred share awards and Performance Share Plan awards. In addition, effective from 2017, a health and safety underpin will apply to all PSP awards. The Policy also specifically sets out that the Remuneration Committee has discretion to amend the bonus payout should any formulaic output not reflect the Committee's assessment of overall business performance, including for health and safety issues.
- To reflect the international composition of the Non-executive Directors (NED), where a NED lives outside the UK a travel allowance may be paid for attendance at Board meetings.
- The updated Policy clarifies payments that can be made in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.
- The updated Policy clarifies the discretion of the Committee to make appropriate remuneration decisions outside the standard Policy in the exceptional circumstances when the Chairman or a NED or an interim appointment takes on an Executive Director role on a short term basis.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions [1]
Fixed pay			
Base salary To appropriately recognise responsibilities and attract and retain talent by ensuring salaries are market competitive.	Generally reviewed annually with any increase normally taking effect from 1 April although the Committee may award increases at other times of the year if it considers it appropriate. The review takes into consideration a number of factors, including (but not limited to): • The individual Director's role, experience and performance. • Business performance. • Market data for comparable roles in appropriate pay comparators. • Pay and conditions elsewhere in the Group.	No absolute maximum has been set for Executive Director base salaries. Current Executive Director salaries are set out in the Annual Report on Remuneration section of this Remuneration Report. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: • Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent UK employees. • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). • Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.	None

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions [1]
Benefits To provide market competitive benefits.	Benefits are role specific and take into account local market practice. Benefits currently include a company car or car allowance, phone costs, income protection insurance, an annual medical, private medical insurance and life assurance of four times annual salary. The Committee has discretion, in the event of the appointment of a Director based overseas or in appropriate circumstances, to add to or remove benefits provided to Executive Directors.	There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role.	None
Pension To provide market competitive retirement benefits.	Current policy is for the Company to either contribute to the Group Pension Plan and/or to provide a cash allowance in lieu of pension.	Executive Directors receive a contribution of up to 25% of base salary to the Group Pension Plan and/or as a cash allowance in lieu of pension.	None
Variable pay			
Annual bonus [2], [3] To link reward to key business targets for the forthcoming year and to individual contribution. Additional alignment with shareholders' interests through the operation of bonus deferral.	The Executive Directors are participants in the central bonus plan which is reviewed annually to ensure bonus opportunity, performance measures and targets are appropriate and supportive of the business strategy. Two-thirds of an Executive Director's annual bonus is delivered in cash following the release of audited results and the remaining third is deferred into an award over Company shares under The Merlin Entertainments plc Deferred Bonus Plan. • Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). • Deferred awards usually vest three years after award although may vest early on leaving employment or on a change of control (see later sections). • An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). • Bonus payments and deferred share awards will be subject to withholding or clawback at the Remuneration Committee's discretion during the three year period following the award of the bonus in exceptional circumstances where the Committee finds that the Executive Director has engaged in misconduct justifying summary dismissal or there has been a material misstatement of the financial accounts relating to the relevant bonus year or any other error in calculation which has led to an overpayment of bonus.	The maximum award that can be made under the central bonus plan is 150% of base salary. Each year the Remuneration Committee determines the maximum bonus opportunity for individual Executive Directors within this limit.	The bonus is based on performance assessed over one year using appropriate financial, strategic and individual performance measures. The majority of the bonus will be determined by measure(s) of Group financial performance. The selected measure(s) for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report. A sliding scale of targets is set for each Group financial measure with payout at zero for threshold financial performance increasing to 50% for meeting expectations and 100% for maximum performance. The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director. The selected measures for the relevant financial year are set out in the Annual Report on Remuneration section of this Remuneration Report.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions [1]
	The discretion available to the Committee remains unchanged and continues to provide wide-ranging discretion on the award and vesting of bonuses. In particular the Committee has discretion to amend the payout should any formulaic output not reflect the Committee's assessment of overall business performance, including health and safety issues.		Any bonus payout is ultimately at the discretion of the Committee.
Performance Share Plan (PSP) [3], [4] To link reward to key business targets for the longer term and to retain executives and the creation of value for shareholders by rewarding long term objectives.	Awards are usually granted annually under the PSP to Executive Directors and other selected senior executives. Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Remuneration Committee. Awards may be granted as conditional awards of shares, nil-cost options or forfeitable share awards (or, if appropriate, as cash-settled equivalents). Awards normally vest at the end of a period of at least three years following grant although may vest early on leaving employment or on a change of control (see later sections). An additional payment (in the form of cash or shares) may be made in respect of shares which vest under PSP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). PSP awards will be subject to potential withholding or clawback during the five year period following the date of award in exceptional circumstances of evidence coming to light of misconduct justifying summary dismissal or of a material misstatement of the financial accounts or an error in the calculation of the extent of payment or vesting of an incentive. In the event of a material health and safety breach by the Group during the period between grant and vesting of an award, the Remuneration Committee may reduce the number of shares which would otherwise vest as a result of the EPS and ROCE performance conditions to ensure that the vesting outcome is appropriate.	The maximum annual award permitted under the PSP is shares with a market value (as determined by the Committee) of 350% of salary. Each year the Remuneration Committee determines the actual award level for individual Executive Directors within this limit.	Vesting of PSP awards is usually dependent on, but not limited to, measures of Group earnings and return on total investment with the precise measures and weighting of the measures determined by the Committee ahead of each award. These details are disclosed in the Annual Report on Remuneration section of this Remuneration Report. Performance will usually be measured over a three year performance period. For achieving a 'threshold' level of performance against a performance measure, no more than 25% of the portion of the PSP award determined by that measure will vest. Vesting then increases on a sliding scale to 100% for achieving a stretching maximum performance target.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions [1]
All Employee Share Plan (UK Sharesave Scheme) [3], [5] To create staff alignment with the Group and promote a sense of ownership.	Tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees. Executive Directors are eligible to participate on the same basis as other employees.	Monthly saving limit of £500 (or such other limit as may be approved from time to time by HMRC) under all savings contracts held by an individual.	The Sharesave scheme is structured in accordance with HMRC requirements so has no performance conditions but requires participants to make regular savings into a savings contract.
Company Share Option Plan (CSOP) [3] Executive Directors will only receive CSOP awards in exceptional circumstances. Individuals who are promoted to the Board may have outstanding awards under this plan.	The CSOP permits grants of share options with an exercise price of not less than the market value of a share (as determined by the Committee) at the time of grant. Options are usually exercisable between three and ten years following grant although may have a different exercise period on leaving employment or on a change of control (see later sections). Options that are HMRC unapproved may, if appropriate, be settled in cash or be net-settled.	Annual awards of options over shares worth up to 100% of salary at grant (or, if the Remuneration Committee determines that special circumstances exist, 200% of salary).	If CSOP awards were, in exceptional circumstances, granted to an Executive Director, they would be subject to an appropriate performance condition as determined by the Committee. An individual promoted to the Board may have outstanding CSOP awards (granted prior to their promotion) that have no performance conditions attached to them.

Notes to the table:

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

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

[3] The Committee may: (a) in the event of a variation of the Company's share capital and (with the exception of HMRC approved options) demerger, super dividend or dividend in specie or any other corporate event which it reasonably determines justifies such an adjustment, adjust; and (b) amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans (which were summarised for shareholders in the Company's IPO Prospectus). Share awards may be settled by the issue of new shares or by the transfer of existing shares. In line with prevailing best practice at the time this Policy Report is approved, any issuance of new shares is limited to 5% of share capital over a rolling ten year period in relation to discretionary employee share schemes and 10% of share capital over a rolling ten year period in relation to all employee share schemes.

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

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

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

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

Differences in policy from broader employee population

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

Non-executive Directors

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

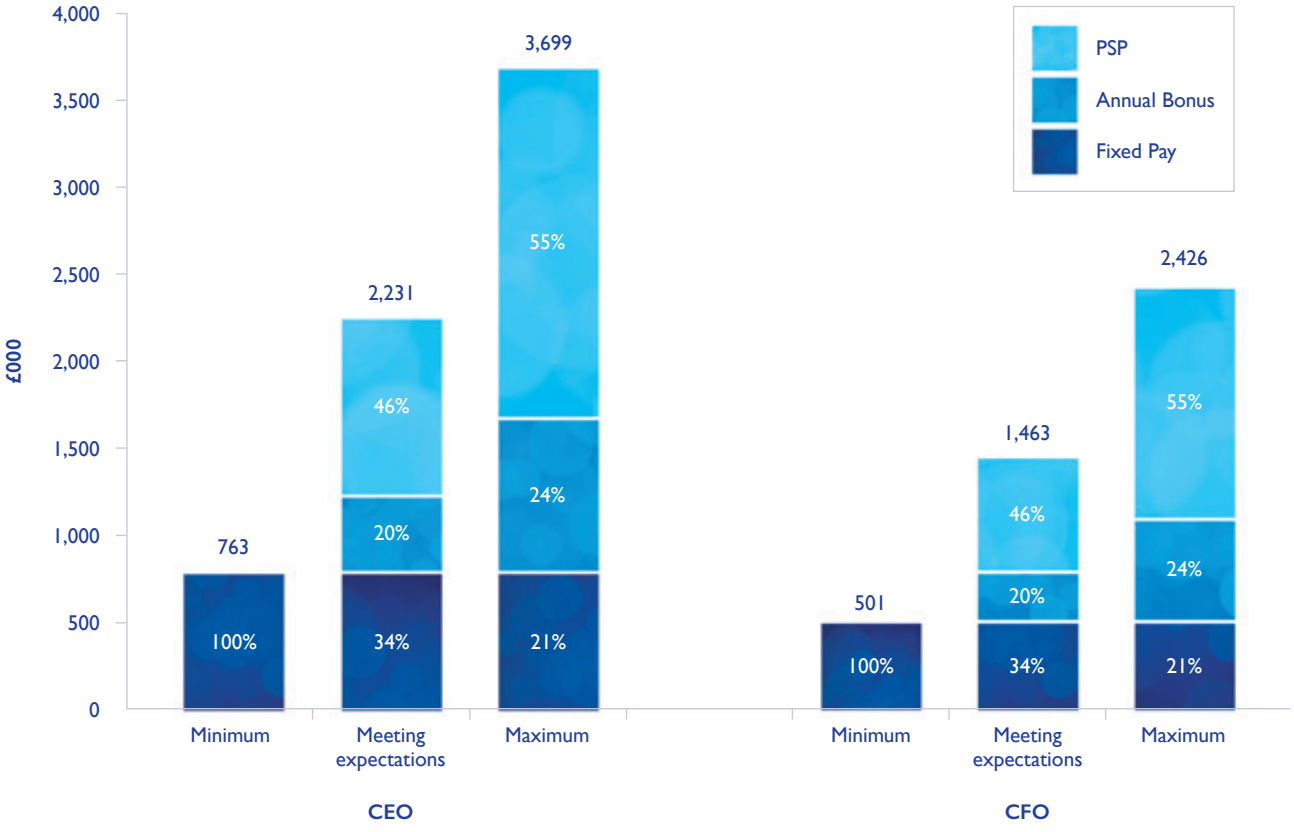
Illustrations of application of remuneration policy

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

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

Assumed performance	Assumptions used
All performance scenarios (Fixed pay)	• Consists of total fixed pay, including base salary, benefits and pension. • Base salary - salary effective as at 1 January 2017. • Benefits - estimated value of 5% of base salary. • Pension - amount expected to be received in 2017 (25% of base salary).
Minimum performance (Variable pay)	• No payout under the annual bonus. • No vesting under the PSP.
Performance in line with expectations (Variable pay)*	• 50% of the maximum payout under the annual bonus. • 50% vesting under the PSP.
Maximum performance (Variable pay)*	• 100% of the maximum payout under the annual bonus. • 100% vesting under the PSP.

* *PSP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded. For the purposes of the illustration, we have, consistent with legislative requirements, included the maximum permitted annual bonus opportunity (150% of salary) and maximum permitted PSP award (350% of salary) as set out in the Policy Table above. We would emphasise that these are the maximum permitted awards under the incentive schemes. The CFO's actual annual bonus opportunity for 2017 (135% of salary) is lower than the scheme maximum and the face value of the PSP awards to be granted to the CEO and CFO in 2017 (250% of salary and 225% of salary respectively) will be lower than the scheme maximum.*



Approach to recruitment remuneration

Principles

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

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

Maximum level of variable pay

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

Buy outs

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

Components and approach

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

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

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

Recruitment of Non-executive Directors

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

Service contracts

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

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

Søren Thorup Sørensen, as the Non-executive Director nominated by KIRKBI is appointed pursuant to the Relationship Agreement with his nominating shareholder and does not have an individual letter of appointment with the Company. The Relationship Agreement provides for KIRKBI to maintain a Non-executive Director as a shareholder representative for so long as they hold 10% of the Company's share capital. The Company has the right to remove this Director should the relevant shareholding fall below 10% and no fees or termination payments are payable. All Executive Directors' service agreements and Non-executive Directors' letters of appointment are available for inspection at the Company's registered office at 3 Market Close, Poole, Dorset BH15 1NQ.

Policy on payment for loss of office

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

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

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

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

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

Consideration of employment conditions elsewhere in the Group

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

Consideration of shareholders' views

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

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

Plan	Good leaver categories	Treatment for good leaver	Treatment for any other leaver	Treatment on a change of control / voluntary winding-up
Deferred Bonus Plan	• Death. • Injury. • Disability. • Ill-health. • Retirement. • Redundancy. • Transfer of employing company or business to which an individual's employment relates out of the Group. • Any other scenario in which the Remuneration Committee determines that good leaver treatment is appropriate (other than circumstances justifying summary dismissal).	Deferred bonus awards vest on cessation of employment / death.	Deferred bonus awards lapse.	Deferred bonus awards vest in full.
Performance Share Plan		PSP awards will usually vest on a time-apportioned basis on the normal vesting date subject to any relevant performance condition(s) measured over the full performance period. However, in the event of death, or special circumstances at the Remuneration Committee's discretion, awards may vest early based on the Committee's determination of the extent to which any relevant performance conditions are satisfied. The Committee has the discretion, acting fairly and reasonably, to dis-apply time apportionment.	Awards lapse.	PSP awards will vest on a time-apportioned basis (unless the performance period is complete or unless the Committee determines otherwise) and subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied.
Company Share Option Plan Executive Directors will only receive CSOP awards in exceptional circumstances. Individuals who are promoted to the Board may have outstanding awards under this plan.		Options become exercisable for a period of six months after the date on which the Committee determines the extent to which the option becomes exercisable (or twelve months in the event of death). Options will become exercisable subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied and on a time-apportioned basis unless the Committee determines otherwise. In relation to HMRC-unapproved options, options may become exercisable at the normal vesting date or earlier if the Committee determines.	Options lapse.	Options will become exercisable on a time-apportioned basis (unless any performance period is complete or unless the Committee determines otherwise) and subject to the Committee's determination of the extent to which any relevant performance conditions are satisfied.
UK Sharesave Scheme / Overseas Sharesave Scheme	Options become exercisable immediately on death, ceasing employment due to injury, disability, retirement, redundancy, sale of the employing company or business to which an individual's employment relates out of the Group or on a change of control of the Company.			
US Employee Stock Purchase Plan	Options become exercisable on death, ceasing employment due to injury, permanent disability, reaching normal retirement age, sale of the employing company or business to which an individual's employment relates or on a change of control of the Company.			

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2017 Annual General Meeting.

UNAUDITED INFORMATION

Implementation of remuneration policy in 2017

This section provides an overview of how the Committee is proposing to implement our remuneration policy, as set out in the Policy Report, in 2017 for the current Executive Directors.

Base salary

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

	Salary 1 October 2015	Salary 1 October 2016	% increase
Nick Varney (CEO)	£581,400	£587,214	1%
Anne-Francoise Nesmes (CFO) - on joining	-	£385,000	-

Following a review of the timing of the Group's annual pay review it was decided to move the review date from 1 October to 1 April, effective from 2017. To effect this transition, small interim pay awards were made in October 2016 with a full annual award to be made in April 2017. As a result, Nick Varney received an increase of 1.0% in October 2016 and will receive an increase of 2.25% in April 2017 in line with the average increase for all UK permanent employees. In accordance with her contract Anne-Francoise Nesmes will receive a first review of her salary in October 2017, also reflecting a 2.25% increase.

Pension and benefits

As in 2016, the current Executive Directors will receive a Company contribution worth 25% of salary. Nick Varney will receive this contribution as a cash allowance and Anne-Francoise Nesmes will receive a contribution to the Group Pension Plan of no more than the minimum annual allowance for pensions of £10,000 and a cash allowance in respect of the balance. To the extent that a cash allowance is paid this is reduced by the corresponding amount of employer National Insurance Contributions. They will also receive a standard package of other benefits consistent with those received in 2016.

Annual bonus

The structure of the annual bonus plan for 2017 remains broadly consistent with the 2016 plan. Key features are as follows:

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

The annual bonus for 2017 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity

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

Payment under the non-financial elements of the bonus will be scaled back to the extent that Group underlying operating profit targets are not fully met. This means that if there is no payment under the Group underlying operating profit element of the bonus scheme, there will also be no payment under the personal element of the bonus irrespective of performance against the aforementioned individual measures. The targets themselves, as they relate to the 2017 financial year, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

Performance Share Plan

Performance Share Plan (PSP) awards are granted over Merlin shares with the number of shares under award determined by reference to a percentage of base salary. Vesting of the awards is conditional upon satisfaction of performance conditions and is usually also conditional upon continued employment until the awards vest. In addition, for awards from April 2017 onwards a health and safety underpin will be attached to all PSP awards.

The CEO and CFO will be amongst the participants in the PSP award to be granted in April 2017. Awards will be over shares worth, at the date of grant, 250% of salary for the CEO and 225% of salary for the CFO. Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to December 2019.

EPS performance condition (50% of award)

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

Adjusted EPS is defined on page 172.

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2019 financial year with Adjusted EPS for the 2016 financial year.

ROCE performance condition (50% of award)

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

ROCE is defined on page 173.

Average ROCE will be calculated as an average of ROCE for the 2017, 2018 and 2019 financial years.

As noted elsewhere we are exploring the opportunity for a third LEGOLAND park in North America. Because of the large scale and early stage of this potential development and the fact that a park is yet to be confirmed, all costs and revenues related to this project will be excluded from the calculation of vesting of the 2017 PSP award and added back into the calculation of future awards.

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

Employee Share Plan

Invitations to UK employees (including Executive Directors) to participate in the Employee Sharesave Plan (UK Sharesave Plan) were issued in 2014, 2015 and 2016. Similar invitations were issued to relevant employees under the US Employee Stock Purchase Plan and the Overseas Sharesave Plan.

Invitations for the next award under each of these plans commence in March 2017.

Non-executive Director remuneration

The table below shows the fee structure for Independent Non-executive Directors for 2017. Independent Non-executive Director fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee.

	2017
Basic fee for UK-based Non-executive	£50,000
Basic fee for overseas-based Non-executive	£50,000 plus a travel allowance of £1,000 per Board meeting attended in person
Senior Independent Director additional fee	£10,000
Audit Committee Chairman additional fee	£10,000
Remuneration Committee Chairman additional fee	£10,000
Chairman of the Board all-inclusive fee	£250,000

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

AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 101 is subject to audit.

Single total figure of remuneration in 2016

The following table sets out the total remuneration for Executive Directors and Non-executive Directors for 2016 with prior year comparatives for 2015.

	2016						
All figures shown in £000	**Salary and fees [1]**	**Benefits [2]**	**Annual bonus [3]**	**Long term incentives [4]**	**Other [5]**	**Pension [6]**	**Total**
Executive Directors							
Nick Varney	583	21	-	1,193	-	128	**1,925**
Anne-Francoise Nesmes	160	8	-	-	-	36	**204**
Former Executive Director							
Andrew Carr [10]	205	10	-	572	-	45	**832**
Non-executive Directors							
Sir John Sunderland	250	-	-	-	-	-	**250**
Charles Gurassa	70	-	-	-	-	-	**70**
Ken Hydon	60	-	-	-	-	-	**60**
Fru Hazlitt	50	-	-	-	-	-	**50**
Trudy Rautio	57	-	-	-	-	-	**57**
Rachel Chiang [9]	57	-	-	-	-	-	**57**
Søren Thorup Sørensen	-	-	-	-	-	-	**-**

	2015						
All figures shown in £000	**Salary and fees [1]**	**Benefits [2]**	**Annual bonus [3]**	**Long term incentives [4]**	**Other [5]**	**Pension [6]**	**Total**
Executive Directors							
Nick Varney	581	21	-	-	3	128	**733**
Andrew Carr	352	17	-	-	3	82	**454**
Non-executive Directors							
Sir John Sunderland	250	-	-	-	-	-	**250**
Charles Gurassa	70	-	-	-	-	-	**70**
Ken Hydon	60	-	-	-	-	-	**60**
Miguel Ko [7]	21	-	-	-	-	-	**21**
Fru Hazlitt	50	-	-	-	-	-	**50**
Trudy Rautio [8]	14	-	-	-	-	-	**14**
Søren Thorup Sørensen	-	-	-	-	-	-	**-**

Notes to the table - methodology:

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

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

[3] ***Annual bonus*** *- this is the total annual bonus earned in respect of the period. Two-thirds of this bonus is paid in cash and the remaining third is deferred in shares for three years. Further details relating to the 2016 bonus are disclosed below.*

[4] ***Long term incentives*** *- this column relates to the value of long term awards the performance period for which ends in the year under review. The first long term incentive award granted post Listing had a performance period that ended in 2016. As a result, this column has a zero figure in 2015 and the figure for 2016 reflects the vesting of the award based on the average closing share price for the final quarter of 2016 (£4.428). Further details are given in the 'Outstanding awards under the PSP' note on page 100.*

[5] ***Other*** *- this column relates to the value of the grant of options under the UK Sharesave Plan. The grant has been valued, for the 2014 and 2015 grants respectively, at 22.6% and 29.8% of the face value of shares under option which is the IFRS 2 valuation for these awards. None of the Executive Directors participated in the 2016 UK Sharesave Plan.*

Notes to the table - methodology *(continued)*:

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

(7) *Miguel Ko stepped down from the Board on 14 May 2015. Fees shown for Miguel Ko are from 28 December 2014 to 14 May 2015.*

(8) *Trudy Rautio joined the Board on 1 October 2015. Fees shown in the table are from that date to 26 December 2015.*

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

(10) *Details shown for Andrew Carr for 2016 are his salary, pension and benefits from 27 December 2015 to 31 July 2016 plus the estimated vesting value of his 2013 PSP award, the performance period for which ended in 2016. Andrew continued to work for the Company until 31 October 2016 and details of his pay for that period are set out on pages 98 to 99. Andrew was ineligible for the 2016 bonus plan. Andrew Carr retired on 31 October 2016 at which date his salary was £351,900.*

Additional disclosures in respect of the single figure table

Annual bonus

Executive Directors are participants in the central bonus plan. The maximum annual bonus opportunity for the Executive Directors for 2016 was 150% of salary for the CEO and 135% of salary for the CFO. One-third of any bonus earned is deferred into shares for three years under The Merlin Entertainments plc Deferred Bonus Plan.

In 2016, Andrew Carr was not eligible for bonus due to his retirement and Anne-Francoise Nesmes was eligible on a pro-rated basis for the period from joining until 31 December 2016.

The maximum potential annual bonus that could be paid to Executive Directors in respect of 2016 performance was determined by underlying operating profit performance with targets set by reference to the Group budget. 20% of that potential bonus was additionally subject to satisfaction of individual objectives. Performance measures and targets applying to the 2016 annual bonus are set out below.

In 2016 no bonus was payable to employees under the central bonus plan, including the Executive Directors, since the financial threshold for payment of bonus was not achieved.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Underlying operating profit	80%	£338.8 million (0% of bonus payable)	£360.4 million (40% of bonus payable)	£382.0 million (80% of bonus payable)	£320 million (2)	0%
Individual objectives	20% (1)	Following the year end, the Committee assessed performance against the individual objectives for each Director for 2016. **CEO:** The CEO met the majority of his personal objectives which comprised health and safety, development of the pipeline in support of the 2020 targets for new LEGOLAND parks, accommodation and Midway openings, visitor satisfaction and talent management. **CFO:** The CFO met the majority of her personal objectives which comprised simplifying processes, with a particular focus on budget and business plans, and assessing the future finance organisation model to support Merlin's international growth.				0% as threshold profit target was not achieved
					TOTAL	0% (CEO) 0% (CFO)

(1) *The maximum annual bonus payout that can be received as a result of individual objectives is scaled back to the extent that the actual underlying operating profit falls short of the maximum payout.*

(2) *As reported on a statutory 53 week basis.*

Scheme interests awarded during the financial year

Performance Share Plan awards

An award was granted under the PSP to selected senior executives, including Nick Varney, on 1 April 2016.

Following her recruitment, as disclosed in last year's Remuneration Report, a PSP award was granted to Anne-Francoise Nesmes on 1 September 2016.

These awards are subject to the performance conditions described below and will vest on 1 April 2019 and 1 September 2019 respectively.

	Type of award	Maximum number of shares	Face value (£)	Face value (% of base salary)	Threshold vesting (% of award)	End of performance period
Nick Varney [1]	Performance shares	313,592	£1,453,500	250%	For EPS element 10% of award (max 50%)	29 December 2018
Anne-Francoise Nesmes [2]	Performance shares	180,431	£866,250	225%	For ROCE element 12.5% of award (max 50%)	

[1] *The maximum number of shares that could be awarded has been calculated using the closing share price on 31 March 2016 of £4.635 and is stated before the impact of reinvestment of the dividends paid since grant.*

[2] *The maximum number of shares that could be awarded has been calculated using the closing share price on 31 August 2016 of £4.801 and is stated before the impact of reinvestment of the dividends paid since grant.*

EPS performance condition (50% of award)

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

Adjusted EPS is defined on page 172.

Adjusted EPS growth will be calculated by comparing Adjusted EPS for the 2018 financial year with Adjusted EPS for the 2015 financial year.

ROCE performance condition (50% of award)

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

ROCE is defined on page 173.

Average ROCE will be calculated as an average of ROCE for the 2016, 2017 and 2018 financial years.

Payments to past Directors

There were no payments to past Directors during 2016.

Payments for loss of office

There were no payments for loss of office to Directors during 2016.

Andrew Carr stepped down as a Board Director on 31 July 2016 and continued to work for the Company until 31 October 2016 in order to provide transitional support to the new CFO. His salary, pension and benefits until 31 July 2016 are included in the single total figure of remuneration on page 96. He received an additional £111,622 for salary, pension and benefits earned as an employee between 1 August and 31 October 2016. He received no additional payments in relation to his notice period.

As disclosed in last year's Remuneration Report, Andrew Carr was not eligible for a bonus or PSP award in 2016. His outstanding PSP awards will vest, to the extent that performance conditions are satisfied, on a time pro-rated basis and on the normal vesting date. The estimated vesting value of his 2013 PSP award, the performance period for which ended in 2016, is included in the single total figure of remuneration on page 96.

Statement of Directors' shareholding and share interests

A shareholding requirement of 200% of base salary by the fifth anniversary of appointment applies to the Executive Directors. The CEO had a shareholding that exceeded that requirement at 31 December 2016. The CFO joined in August 2016 and is in the process of building up her shareholding to meet the requirement by her fifth anniversary.

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

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

		Number of shares			
			Interests in share incentive schemes, awarded without performance conditions at 31 December 2016		Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2016 [2]
Director	Value of shareholding at 31 December 2016 as a % of salary (Shareholding requirement target)	Shares owned outright at 31 December 2016	Sharesave	Deferred Bonus [1]	PSP
Nick Varney [3]	4,949% (200%)	6,477,823	5,816	66,086	1,234,085
Anne-Francoise Nesmes [3] [5]	5% (200%)	4,500	-	-	181,452
Sir John Sunderland	-	511,122	-	-	-
Charles Gurassa	-	31,746	-	-	-
Ken Hydon	-	31,920	-	-	-
Fru Hazlitt	-	31,746	-	-	-
Trudy Rautio	-	11,250	-	-	-
Rachel Chiang	-	-	-	-	-
Søren Thorup Sørensen	-	-	-	-	-
Andrew Carr [4]	2,658% (200%)	2,085,123	5,816	34,006	375,330

Notes to the table:

[1] *In accordance with the Deferred Bonus Plan rules, the Committee has determined that an additional award of shares will be made in respect of shares which vest under Deferred Bonus Plan awards to reflect the value of dividends which would have been paid on those shares during the deferral period (calculated on the assumption that dividends are reinvested in Company shares on a cumulative basis). The total number of shares shown in this table includes 1,722 shares for Nick Varney which relate to assumed reinvestment of the dividends paid since grant on Deferred Bonus Plan awards. As a good leaver, shares held under the Deferred Bonus plan for Andrew Carr vested on his retirement on 31 October 2016.*

[2] *Further details relating to the PSP grants are summarised in the table below.*

[3] *For the purposes of determining Executive Director shareholdings, the individual's salary and the share price as at 31 December 2016 has been used (£4.486).*

[4] *Information regarding Andrew Carr relates to shareholdings at his date of ceasing to be an Executive Director (31 July 2016) and his salary at that time.*

[5] *Anne-Francoise Nesmes is required to build up her shareholding by the fifth anniversary by retaining at least 50% of shares that vest under the Deferred Bonus Plan or the Performance Share Plan or the Company Share Option Plan (after selling sufficient shares to satisfy the tax liability on vesting and any exercise price payable in relation to the share awards) until the value of her share interest satisfies these guidelines.*

Between 31 December 2016 and the date of this report there were no changes in the shareholdings outlined in the above table.

Outstanding awards under the PSP

	Date of grant	Date of vesting	Maximum number of shares	Dividend equivalent shares [2]	Performance period	Performance condition
Nick Varney	12 November 2013 2 April 2015 1 April 2016	1 April 2017 2 April 2018 1 April 2019	560,952 328,846 313,592	18,326 8,807 3,562	2014-2016 2015-2017 2016-2018	EPS: 10% vests for 7% p.a. cumulative growth increasing to 50% vesting for 14% p.a. cumulative growth
Andrew Carr [1]	12 November 2013 2 April 2015	1 April 2017 2 April 2018	269,202 94,797	8,793 2,538	2014-2016 2015-2017	ROCE: 12.5% vests for average ROCE of 9% increasing to 50% vesting for average ROCE of 13%
Anne-Francoise Nesmes	1 September 2016	1 September 2019	180,431	1,021	2016-2018	Full details of performance conditions can be found in the Remuneration Reports for the year in which the grants was made.

[1] *In the table above the maximum number of shares for Andrew Carr has been time pro-rated from the date of grant to his retirement date of 31 October 2016.*

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

As disclosed in the 2013 Annual Report and Accounts the performance period for the 12 November 2013 awards was the three financial years to 31 December 2016. The calculation of the performance conditions is as follows:

- **Adjusted EPS growth** - by comparing EPS for the financial year ending 31 December 2016 (comprising 53 weeks) with EPS for the financial year ending 28 December 2013. The Adjusted EPS for the financial year ended 28 December 2013, taking account of the full year impact of the post Listing financing structure was 15.7p.
- **Average ROCE** - an average of ROCE for the three individual financial years ending 27 December 2014, 26 December 2015 and 31 December 2016 (53 weeks).

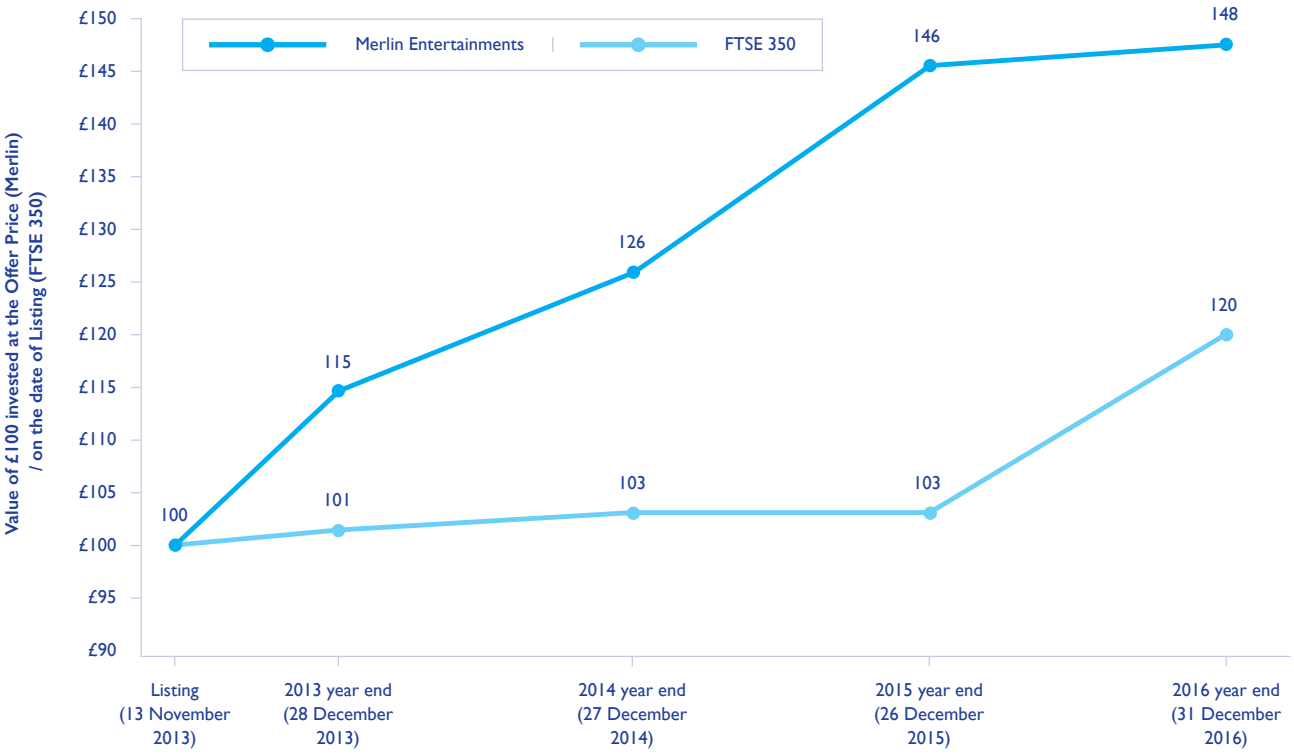
The compound annual growth rate of Adjusted EPS over the performance period was 9.8% and the average Return on Capital Employed was also 9.8%. The performance conditions set out above yield a vesting of 46.5% of maximum.

UNAUDITED INFORMATION

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

Performance graph and CEO remuneration table

The chart below compares the Total Shareholder Return performance of the Company over the period from Listing to 31 December 2016 to the performance of the FTSE 350 Index. This index has been chosen because it is a recognised equity market index of which Merlin is a member. The base point in the chart for Merlin equates to the Offer Price of 315p.



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

	2013 [1]	2014	2015	2016
Salary and Benefits [2] £000	75	596	605	604
Pension £000	18	127	128	128
Bonus £000	58	859	-	-
PSP Long Term Incentive Plan [3] £000	n/a	-	-	1,193
CEO single figure of remuneration £000	151	1,582	733	1,925
Annual bonus payout *(as a % of maximum opportunity)*	n/a (no maximum limit applied in 2013)	100%	0%	0%
PSP vesting outturn *(as a % of maximum opportunity)*	n/a (no award vested in 2013)	n/a (no award vested in 2014)	n/a (no award vested in 2015)	46.5%

[1] From Listing on 13 November 2013 to 28 December 2013.

[2] Includes value of options under UK Sharesave Plan.

[3] Relates to performance from 28 December 2013.

Percentage change in remuneration of the CEO

The table below indicates the change in the CEO's remuneration between 2015 and 2016 and the change in average remuneration for other UK permanent employees between 2015 and 2016. The Remuneration Committee believes that the UK workforce is the most appropriate comparator for this analysis for the UK based CEO.

	Salary increase [1]	Benefits increase/decrease [2]	Annual bonus increase/decrease [3]
CEO	1%	0%	0%
Average for all UK employees	1%	0%	0%

[1] *The CEO's salary was increased by 1% effective 1 October 2016. There has been no further increase since that time.*

[2] *The CEO's benefits remained at the same level as the previous year.*

[3] *For comparative purposes the annual bonus % for the CEO is compared to the average for the participants in the central bonus plan.*

Relative importance of the spend on pay

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

	2015 £m	2016 £m	Increase/decrease
Employee costs	327	382	17.0%
Distribution to shareholders	64	67	4.7%
Underlying operating profit	291	320	9.7%

Consideration by the Directors of matters relating to Directors' remuneration

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

The Committee met three times during 2016. The CEO, CFO, Group HR Director, Group Compensation and Benefits Director, Søren Thorup Sørensen and the Group General Counsel and Company Secretary (in his role as secretary to the Committee) were also present at some of these meetings by invitation.

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

Deloitte LLP was appointed by the Company in 2013 to provide advice on executive remuneration matters. During the year the Committee received independent and objective advice from Deloitte, principally on the drafting of the remuneration report, shareholder consultation and market practice. Deloitte was paid £56,800 in fees during 2016 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided indirect tax advice to the Company during the year.

Shareholder voting on the Remuneration Report

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

	Votes for	Votes against	Votes withheld
Approval of the Policy Report (2014)	896.7 million (99.4%)	5.2 million (0.6%)	7.3 million
Approval of the Annual Report on Remuneration (2016)	840.5 million (96.4%)	31.5 million (3.6%)	0.1 million

External Board appointments

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

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

Annual General Meeting

The Annual Report on Remuneration section of this Remuneration Report will be submitted for an advisory shareholder vote at our Annual General Meeting to be held on 13 June 2017.

On behalf of the Board

Charles Gurassa
Chairman of the Remuneration Committee
1 March 2017

NOMINATION
Committee Report

STATEMENT FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder

This report describes the activities of the Nomination Committee during 2016. The Committee met twice during the year and focused its attention on Board appointments, succession planning and diversity.

Board appointments
During the year the following Board appointments were made:

- Rachel Chiang was appointed as a Non-executive Director with effect from 1 January 2016; and
- Anne-Francoise Nesmes was appointed as Chief Financial Officer on 1 August 2016 to replace Andrew Carr who retired as Chief Financial Officer on 31 July 2016.

The Nomination Committee completed rigorous selection processes for these appointments. To assist us we retained the services of search consultancy firms, Russell Reynolds (Rachel Chiang) and Korn Ferry (Anne-Francoise Nesmes), neither of which has any links with Merlin.

These two Board appointments ensure that its composition continues to bring the appropriate balance of skills and experience. Rachel Chiang brings significant knowledge and experience of the Asia Pacific market, particularly as this region continues to be a key focus of strategic development. Anne-Francoise Nesmes brings extensive finance and international experience to the Board.

The Board is fully compliant with the Board composition provisions of the Code and reflects a wide diversity of skills, experience, regional knowledge and backgrounds.

Committee Memberships
During the year, a number of changes were made to the membership of the Committees.

Following the Nomination Committee meeting on 24 February 2016, Fru Hazlitt stepped down from, and both Trudy Rautio and Rachel Chiang joined the Audit Committee. Trudy Rautio stepped down from the Nomination Committee and joined the Remuneration Committee. Rachel Chiang joined the Health, Safety and Security Committee.

On joining the Board on 1 August 2016 Anne-Francoise Nesmes joined the Health, Safety and Security Committee.

Succession planning
The Board and Nomination Committee continued to assess the succession planning arrangements during 2016, focusing on Executive Director positions as well as other senior manager roles within the Group. This review identified key individuals already in the Group, for whom high level training and development opportunities have been established and implemented.

We continue to discuss the Group's senior management and operational structure and how that might evolve as Merlin continues its international expansion.

The Nomination Committee is satisfied that management has implemented credible and effective succession planning across its senior management and has a management structure which is appropriate to its strategy.

Diversity
Merlin's diversity policy, along with the Committee's Terms of Reference, was reviewed during the year. Our policy is for our employees to have a diversity of thinking, experience, gender, nationality and cultural background. Each Operating Group has a Diversity Development Plan which focuses on improving diversity across the business. We believe a diverse Board and management team is more in touch with our customers, employees and investors and this policy is reflected in our recruitment approach at all levels.

Sir John Sunderland
Chairman of the
Nomination Committee
1 March 2017

DIRECTORS' *Report*

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

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

These sections provide an overview of the strategy, development and performance of the Company's business in the period ended and as at 31 December 2016 together with information on the approach of the Company to Corporate Governance and the constitution, work and effectiveness of the Board and its principal Committees.

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

- The Strategic Report on pages 2 to 59.
- The Corporate Governance Statement on pages 60 to 61.
- The section entitled 'Board of Directors' on pages 62 to 65.
- The Corporate Governance Report on pages 66 to 69.
- The Health, Safety and Security Committee Report on pages 70 to 75.
- The Audit Committee Report on pages 76 to 81.
- The Directors' Remuneration Report on pages 82 to 103.
- The Nomination Committee Report on page 104.

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

Disclosure	Section title	Pages
Future Developments	Strategic Report	2 to 59
Research and Development	Merlin Magic Making	20 to 23
Employee diversity and engagement	Team Merlin	43 to 46
Greenhouse Gas Emissions	'Being a Force for Good' - Corporate Social Responsibility The Merlin Way	53 to 59
Disabled persons	'Being a Force for Good' - Corporate Social Responsibility The Merlin Way	53 to 59
Relationship Agreements (additional details)	Corporate Governance Report	66 to 69
Internal Controls	Audit Committee Report	76 to 81
Financial Instruments	Note 4.3 to the Accounts	142 to 145
Share Capital and Movements therein	Note 4.5 to the Accounts	148 to 149
Subsidiary and Associated Undertakings	Note 5.7 to the Accounts	157 to 162

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

Name
Sir John Sunderland
Nick Varney
Anne-Francoise Nesmes
Charles Gurassa
Ken Hydon
Fru Hazlitt
Trudy Rautio
Yun (Rachel) Chiang
Søren Thorup Sørensen
Andrew Carr

Andrew Carr was a Director from the start of the financial year until 31 July 2016. Anne-Francoise Nesmes has been a Director since 1 August 2016. Rachel Chiang was appointed a Director with effect from 1 January 2016.

Each Director in post at the time of the AGM offered themselves for re-election at the 2016 AGM of the Company and their re-election was approved by shareholders. All Directors (other than Andrew Carr) remained in office at the end of the financial year.

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

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

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

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

Specific details relating to KIRKBI and their rights to appoint Directors are set out in the Corporate Governance section on page 66.

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

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

Power of Directors in respect of share capital
The Directors may exercise all the powers of the Company (including, subject to obtaining the required authority from the shareholders in general meeting, the power to authorise the issue of new shares and the purchase of the Company's shares).

During the year, in connection with the Company's employee share incentive plans, 2,063,234 ordinary shares of 1 pence each were issued.

Contracts with related parties
The only material agreement with related parties during the year was the LEGOLAND Licence and Co-operation Agreement (LCA). This agreement was entered into on 24 August 2005 with KIRKBI and sets out the rights granted to the Group to use the LEGO and LEGOLAND brands in connection with the development, operation and promotion of the Group's present and future LEGOLAND businesses.

It includes certain requirements for the Group to develop LEGOLAND attractions, certain operational requirements for those attractions, and the nature of royalties due to KIRKBI for the use of the rights. The LCA includes rights for KIRKBI to terminate the LCA on a change of control of Merlin but only if this would result in a Licensee (as defined in the LCA) being controlled by a LEGO competitor or an inappropriate party. The LCA defines an inappropriate party as any person or entity (other than a financial institution) where one-third of its revenue is derived from the manufacture and sale of tobacco, armaments and/or pornographic material.

Details of the KIRKBI Relationship Agreement are provided in the Corporate Governance section on page 66.

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.

Change of control
The only other significant agreements to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, are:

- a Multi-currency Facilities Agreement entered into by the Group dated 25 February 2015 which replaced the Group's existing debt facilities. This includes provisions in relation to a change of control or the sale of all or substantially all of the Group's assets, the occurrence of which will, after a negotiation period, give the lenders under the Agreement the right to accelerate outstanding loans and terminate commitments. The outstanding senior unsecured facilities comprise £250 million, $540 million and €50 million in floating rate term debt and a £300 million revolving credit facility, both to mature in 2020.

- an Indenture dated as of 19 March 2015 in relation to an issue of €500 million 2.75% fixed rate notes due in 2022 (the notes) under which, in the event of a change of control of the Company and a ratings event, the holders of the notes may have the right to require that those notes be repurchased at 101% of their principal nominal amount plus any accrued and unpaid interest.

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

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

Branches outside the UK
Merlin Entertainments plc has no branches outside the UK.

Dividend
An interim dividend of 2.2 pence per share was paid on 19 September 2016 to shareholders on the Register on 12 August 2016. A final dividend for the year ended 31 December 2016 of 4.9 pence per share will be recommended for payment to shareholders. The final dividend will be proposed to shareholders for approval at the next Annual General Meeting of the Company.

Political donations
No political donations were made during the year.

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

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

The process followed by the Group in the preparation of the Viability Statement is set out in the Risks and Uncertainties section on page 49.

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

Re-appointment of auditors
As recommended by the Audit Committee, a resolution for the re-appointment of KPMG LLP as auditors to the Company will be proposed at the 2017 Annual General Meeting.

Approval of annual report
The Strategic Report, Corporate Governance Statement and Report and the Directors' Report were approved by the Board on 1 March 2017.

For and on behalf of the Board

Matthew Jowett
General Counsel and
Company Secretary
1 March 2017

Merlin Entertainments plc
Registered number 08700412

DIRECTORS' *Responsibilities Statement*

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

The Directors are required to prepare Group and parent Company financial statements for each financial year. For this purpose, the Company is the parent Company of the Group. The Group financial statements are required to be prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and applicable law. The Company has elected to prepare the Company financial statements in accordance with UK Accounting Standards including FRS 101 'Reduced Disclosure Framework'.

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

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

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

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

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

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

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

The Board confirms to the best of its knowledge that:

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

Nick Varney
Chief Executive Officer
1 March 2017

Anne-Francoise Nesmes
Chief Financial Officer
1 March 2017

INDEPENDENT
Auditor's Report

TO THE MEMBERS OF MERLIN ENTERTAINMENTS PLC ONLY

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 53 week period ended 31 December 2016 set out on pages 115 to 169. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 and of the Group's profit for the 53 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

The context for our audit is that there has been:

- a generally stable environment in which the Group has operated;
- no significant change to the Group's strategy and operations that our audit has had to address (we have considered the accesso® admissions system where it was relevant to our audit in this period); and
- a slight, but not significant increase in our assessed materiality given the growth of the Group in the period.

We summarise below the risks of material misstatement (unchanged from 2015) that had the greatest effect on our audit (in decreasing order of audit significance) and our key audit procedures to address those risks:

OVERVIEW

Materiality: Group financial statements as a whole

- £14.5 million *(2015: £14.3 million)*
- 5.2% *(2015: 6.0%)* of Group profit before tax

Coverage

- 79% *(2015: 75%)* of Total Profits and Losses [1]

[1] Total Profits and Losses coverage is calculated by considering absolute profits and losses before tax, after eliminating intra-group interest income and expense, foreign exchange movements on intra-group loans, and intra-group dividends.

RISK OF MATERIAL MISSTATEMENT vs 2015

Recurring risks

- Carrying value of non-current assets ◄►
- Revenue recognition ◄►

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

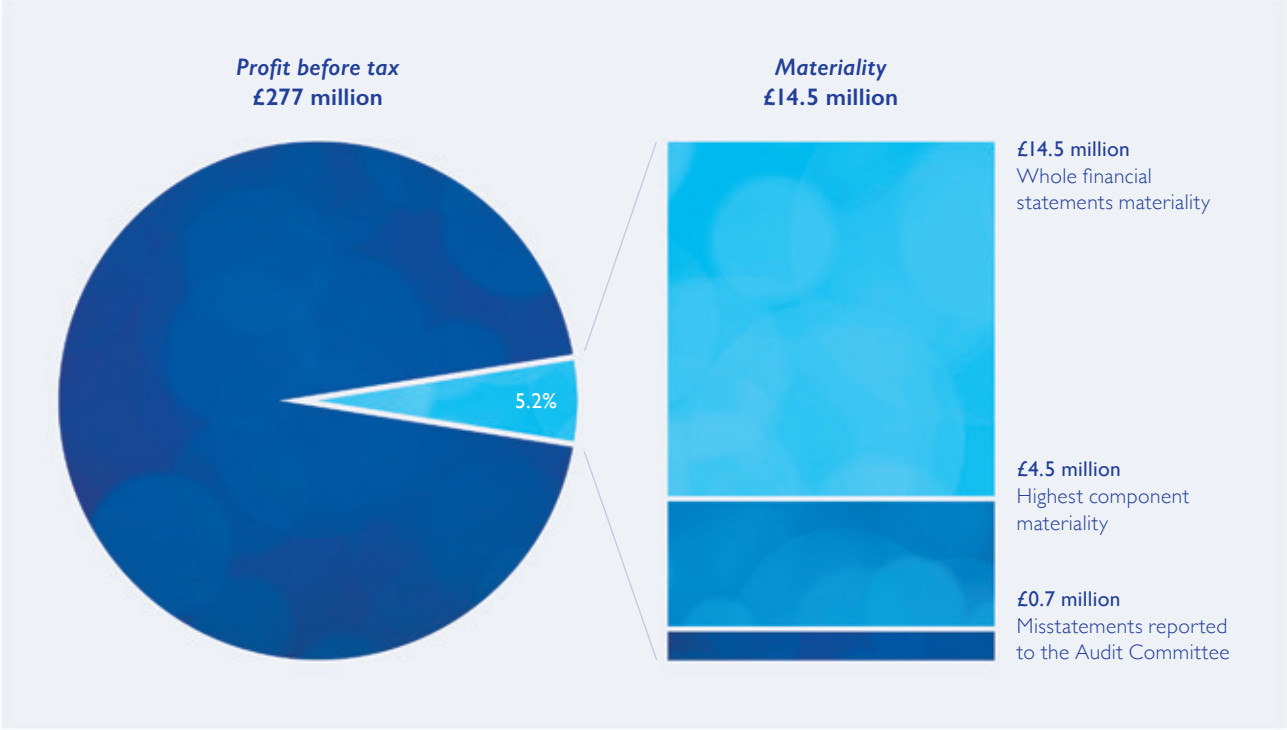
	The risk	Our response
Carrying value of non-current assets £2,958 million *(2015: £2,475 million)* *Refer to pages 76 to 81 (Audit Committee Report) and pages 136 to 138 (accounting policy and financial disclosures).* Risk vs 2015: ◀▶	**Forecast based valuation:** A history of business combinations and the capital intensive nature of the business model increases the magnitude of non-current assets. There is a risk that the future performance may lead to the value of non-current assets not being recoverable in full. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. This uncertainty arises due to challenges in forecasting - expected changes in visitation at existing attractions, particularly where there have been recent changes in the overall offering, promotions or planned customer experience improvements. Other factors such as the unpredictable impact of competition, the weather, and the political and economic environment on trading performance also add to the uncertainty. Specifically in relation to the Resort Theme Parks goodwill, events during 2015 at Alton Towers reduced valuation headroom, disrupted previous trading patterns and created greater uncertainty over forecasts.	Our procedures included: • **Extrapolating past forecasting accuracy:** assessing five years' historical accuracy of the Group's forecasting, and subsequently building comparable variations in forecasting accuracy into our own model that reperformed and sensitised the valuation; • **Challenging forecasts:** comparing expected changes in cash flows (from activities such as new promotions and customer experience improvements) and the planned cost base against the past results of similar activities carried out by the Group; • **Benchmarking assumptions:** supported by valuation experts, benchmarking Group earnings multiple and discount rates against market data, including publicly available analysts' reports and peer comparison; • **Sensitivity analysis:** calculating the impact of changes in key assumptions and performing breakeven analysis of the earnings multiple, discount rates and forecast cash flows; • **Comparing valuations:** comparing the sum of all the discounted cash flows across the Group to the Group's market capitalisation to assess the reasonableness of the underlying assumptions; and • **Assessing transparency:** assessing whether the Group's sensitivity disclosures regarding the impairment testing adequately reflect the risks inherent in the valuation of goodwill.
Revenue recognition £1,457 million *(2015: £1,278 million)* *Refer to pages 76 to 81 (Audit Committee Report) and page 123 (accounting policy).* Risk vs 2015: ◀▶	**Accurate recording:** Merlin's revenues arise from a number of different sources, locations and systems, sometimes featuring manual processes to match cash payments to redemptions or to transfer data to the finance systems. The low value of individual transactions means individual errors would be insignificant, but difficult to detect, and the high volume of transactions mean systemic failure could lead to errors that aggregate rapidly into material balances.	Our procedures are performed by each component auditor, under guidance issued by the Group team, and included: • **System design:** testing of the general IT control environment of the systems used to record revenue, followed by testing of the controls that check completeness and accuracy of revenue entries arising from these systems; • **Control design:** testing of the design, implementation and operating effectiveness of manual controls supporting the systems, including reconciliations of till records to revenue journal entries in the accounting records; • **Analytical review:** predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation); and • **Tests of detail:** performing reconciliations of total cash received to revenue recorded, confirming the appropriate timing of sales cut-off by checking the specific posting of revenue for days either side of the period end; and substantive testing of deferred and accrued revenue balances through agreeing back to ticketing system records and checking underlying calculations.

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

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

Materiality of the Group financial statements



Materiality for the Group financial statements as a whole was set at £14,500,000 *(2015: £14,300,000)*, determined with reference to a benchmark of profit before tax, of which it represents 5.2% *(2015: 6%)*. This is lower than the benchmark percentage used in 2015 to align with emerging industry consensus for audits of businesses of this size and profile.

We reported to the Audit Committee any corrected or uncorrected identified misstatements affecting profit with a value in excess of £700,000 *(2015: £715,000)* or otherwise in excess of £2,000,000 *(2015: £1,600,000)*, in addition to other audit misstatements that warranted reporting on qualitative grounds.

Scope of the Group audit

We audited 79% *(2015: 75%)* of the Total Profits and Losses that made up Group profit before tax, 74% *(2015: 75%)* of total Group revenue and 70% *(2015: 72%)* of total Group assets. This included the audit, for Group reporting purposes, of the financial information of certain components. It also included audit procedures on finance costs and assets arising on consolidation; the total of these balances were audited at Group level.

Audits for Group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: Australia, China (including Hong Kong), Denmark, Germany, Italy, UK and USA.

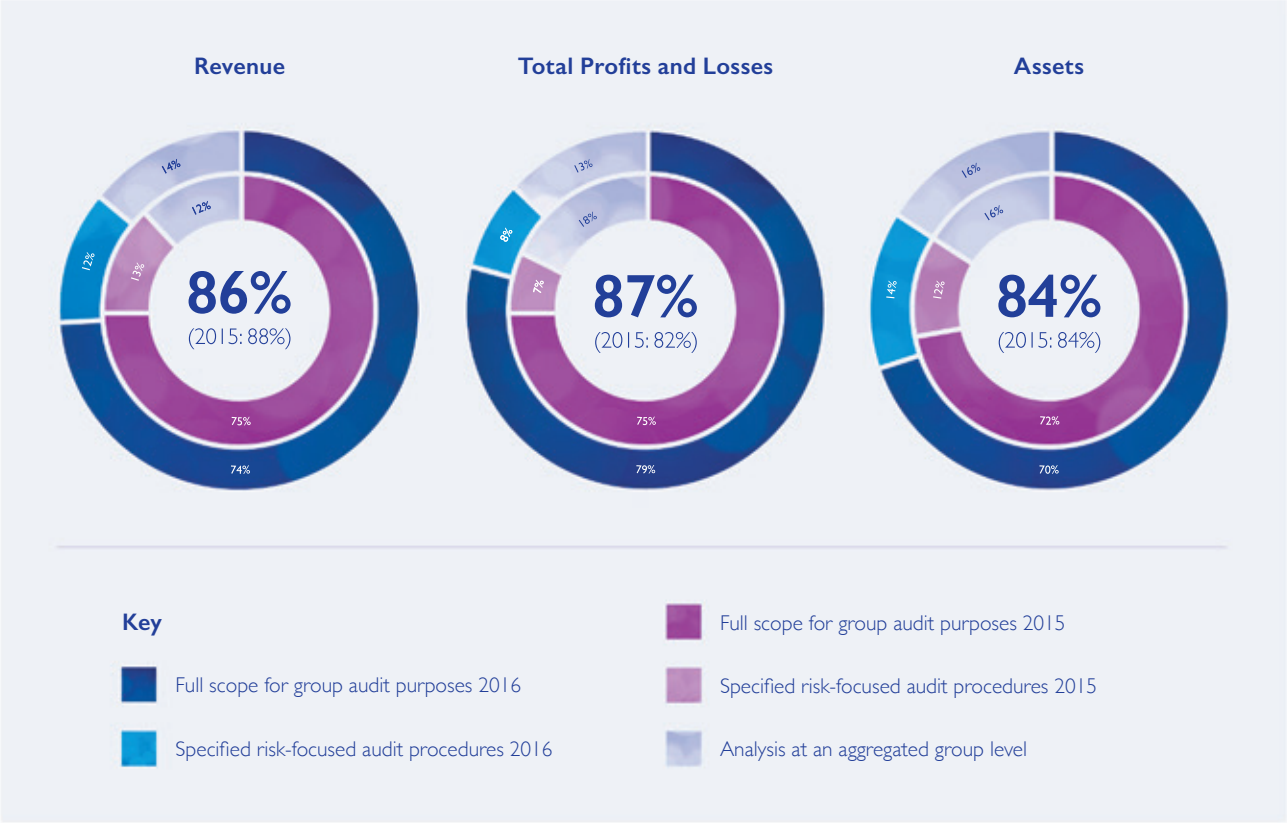
The remaining 21% *(2015: 25%)* of Total Profits and Losses that made up Group profit before tax, 26% *(2015: 25%)* of total Group revenue and 30% *(2015: 28%)* of total Group assets were represented by a large number of smaller reporting components. None of these components individually represent more than 1.8% *(2015: 4.4%)* of any of the Total Profits and Losses that made up Group profit before tax, total Group revenue or total Group assets.

We obtained further coverage by performing specified risk-focused audit procedures over the reasonableness of the financial result and position at 22 of these reporting components covering a further 8% *(2015: 7%)* of Total Profits and Losses that made up Group profit before tax. These components are largely Midway attractions where, although individual sites tend to be relatively small, the Group is growing via the roll out of new attractions. We select these sites on a rotational basis, setting a financial threshold on each of Group profit before tax, Group revenue and Group assets and using our assessment of risk to select a sample of sites from those that meet at least one of these thresholds.

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

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only



Performance and oversight of component audits

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to component materiality levels, where applicable giving consideration to the local statutory materiality set by the component teams where this was lower. These component materiality levels were set individually for each component by the Group audit team and ranged from £450,000 to £4,500,000 having regard to the mix of size and risk profile across components.

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 34% *(2015: 39%)* of the Total Profits and Losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited.

The Group audit team also undertook all audit procedures on certain total Group account balances as mentioned above, gaining coverage over a further 3% *(2015: 6%)* of the Total Profits and Losses that made up Group profit before tax. The largest component audited by a component audit team represented 17% *(2015:12%)* of the Total Profits and Losses that made up Group profit before tax.

Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team.

The Group audit team visited two key component locations in the USA and one in Denmark, which included inputting to the audit risk assessment and strategy. Teleconferences were also held with these component auditors and all other reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditor.

INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Entertainments plc only

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the period is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks

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

- the Directors' Viability Statement on page 49, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group continuing in operation over the four years to 2020; or
- the disclosures in note 1.1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 107, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages 60 to 61 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 108, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a** which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Hugh Green (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Gateway House, Tollgate
Chandlers Ford
Southampton
SO53 3TG

1 March 2017

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

For the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	Note	2016 Underlying trading £m	2016 Exceptional items [4] £m	2016 Total £m	2015 Underlying trading £m	2015 Exceptional items [4] £m	2015 Total £m
Revenue	2.1	1,457	-	1,457	1,278	-	1,278
Cost of sales	2.1	(227)	-	(227)	(193)	-	(193)
Gross profit		1,230	-	1,230	1,085	-	1,085
Staff expenses	2.1	(382)	-	(382)	(327)	-	(327)
Marketing		(75)	-	(75)	(68)	-	(68)
Rent		(93)	-	(93)	(87)	-	(87)
Other operating expenses		(229)	-	(229)	(201)	-	(201)
EBITDA [1]	2.1	451	-	451	402	-	402
Depreciation and amortisation	3.1, 3.2	(131)	-	(131)	(111)	-	(111)
Operating profit		320	-	320	291	-	291
Finance income	2.3	3	-	3	5	1	6
Finance costs	2.3	(46)	-	(46)	(46)	(14)	(60)
Profit before tax		277	-	277	250	(13)	237
Taxation	2.4	(66)	-	(66)	(70)	3	(67)
Profit for the year [2]		**211**	**-**	**211**	**180**	**(10)**	**170**
Earnings per share							
Basic earnings per share (p)	2.5			20.8			16.8
Diluted earnings per share (p)	2.5			20.7			16.8
Dividend per share [3] (p)	4.5			7.1			6.5

[1] EBITDA - this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

[2] Profit for the year for 2016 and 2015 is wholly attributable to the owners of the Company.

[3] Dividend per share represents the interim paid and final proposed dividend for the year.

[4] Details of exceptional items are provided in note 2.2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	Note	2016 £m	2015 £m
Profit for the year		211	170
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Defined benefit plan remeasurement gains and losses	5.2	(6)	(1)
Income tax on items relating to components of other comprehensive income	2.4	1	-
		(5)	(1)
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		176	(36)
Exchange differences relating to the net investment in foreign operations		(45)	3
Cash flow hedges - effective portion of changes in fair value		(3)	(2)
Cash flow hedges - reclassified to profit and loss	2.2	-	14
Income tax on items relating to components of other comprehensive income	2.4	(1)	(2)
		127	(23)
Other comprehensive income for the year net of income tax		122	(24)
Total comprehensive income for the year [1]		**333**	**146**

[1] *Total comprehensive income for 2016 and 2015 is wholly attributable to the owners of the Company.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 (2015: 26 December 2015)

	Note	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	3.1	1,841	1,495
Goodwill and intangible assets	3.2	1,017	923
Investments	5.1	49	11
Other receivables	3.4	13	11
Deferred tax assets	2.4	38	35
		2,958	2,475
Current assets			
Inventories	3.4	36	30
Trade and other receivables	3.4	86	76
Derivative financial assets		3	2
Cash and cash equivalents	4.1	215	152
		340	260
Total assets		3,298	2,735
Current liabilities			
Interest-bearing loans and borrowings	4.2	5	4
Derivative financial liabilities		5	1
Trade and other payables	3.4	300	235
Tax payable		39	22
Provisions	3.5	3	4
		352	266
Non-current liabilities			
Interest-bearing loans and borrowings	4.2	1,147	1,003
Finance leases	4.4	88	82
Other payables	3.4	28	24
Provisions	3.5	65	51
Employee benefits	5.2	11	5
Deferred tax liabilities	2.4	179	155
		1,518	1,320
Total liabilities		1,870	1,586
Net assets		**1,428**	**1,149**
Issued capital and reserves attributable to owners of the Company		1,424	1,145
Non-controlling interest		4	4
Total equity	4.5	**1,428**	**1,149**

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	Note	Share capital £m	Share premium £m	Trans-lation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 28 December 2014		10	-	(101)	(11)	1,161	1,059	4	1,063
Profit for the year		-	-	-	-	170	170	-	170
Other comprehensive income for the year net of income tax		-	-	(34)	11	(1)	(24)	-	(24)
Total comprehensive income for the year		-	-	(34)	11	169	146	-	146
Equity dividends	4.5	-	-	-	-	(64)	(64)	-	(64)
Equity-settled share-based payments	4.6	-	-	-	-	4	4	-	4
At 26 December 2015		**10**	**-**	**(135)**	**-**	**1,270**	**1,145**	**4**	**1,149**
Profit for the year		-	-	-	-	211	211	-	211
Other comprehensive income for the year net of income tax		-	-	130	(3)	(5)	122	-	122
Total comprehensive income for the year		-	-	130	(3)	206	333	-	333
Shares issued	4.5	-	2	-	-	-	2	-	2
Equity dividends	4.5	-	-	-	-	(67)	(67)	-	(67)
Equity-settled share-based payments	4.6	-	-	-	-	11	11	-	11
At 31 December 2016	**4.5**	**10**	**2**	**(5)**	**(3)**	**1,420**	**1,424**	**4**	**1,428**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		211	170
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	131	111
Finance income	2.3	(3)	(6)
Finance costs	2.3	46	60
Taxation	2.4	66	67
		451	402
Profit on sale of property, plant and equipment		(1)	-
Working capital changes		23	(19)
Changes in provisions and other non-current liabilities		10	1
		483	384
Tax paid		(50)	(59)
Net cash inflow from operating activities		433	325
Cash flows from investing activities			
Interest received		1	1
Acquisition of remaining share of joint venture	5.1	(1)	-
Acquisition of investments	5.1	(32)	(5)
Acquisition of property, plant and equipment		(259)	(215)
Disposal of property, plant and equipment		4	-
Net cash outflow from investing activities		(287)	(219)
Cash flows from financing activities			
Proceeds from issue of share capital	4.5	2	-
Equity dividends paid	4.5	(67)	(64)
Proceeds from borrowings		-	1,002
Financing costs		-	(14)
Interest paid		(41)	(42)
Settlement of interest rate swaps	2.2	-	(13)
Repayment of borrowings		-	(1,112)
Net cash outflow from financing activities		(106)	(243)
Net increase/(decrease) in cash and cash equivalents		40	(137)
Cash and cash equivalents at beginning of year	4.1	152	285
Effect of movements in foreign exchange		23	4
Cash and cash equivalents at end of year	4.1	**215**	**152**

SECTION 1 BASIS OF PREPARATION

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

1.1 Basis of preparation

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

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

The Company has elected to prepare its parent company financial statements in accordance with 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 53 weeks ended 31 December 2016 *(2015: 52 weeks ended 26 December 2015)*. 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 £211 million *(2015: £170 million)* and generated operating cash inflows of £433 million *(2015: £325 million)*. The Group is funded by senior unsecured bank facilities due for repayment in 2020 and senior unsecured notes due for repayment in 2022. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.2.

After reviewing the Group's statement of financial position, available facilities, cash flow forecasts and trading budgets and making appropriate enquiries, the Directors believe the Group to be operationally and financially sound and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next twelve months. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Basis of consolidation

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

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

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

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

1.1 Basis of preparation *(continued)*

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 year.
- 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.

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

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

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

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

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

In this regard the following areas involve a higher degree of judgement, estimation or complexity and are explained in more detail in the related notes:
- Taxation (note 2.4) - recognition of deferred tax balances and accounting for tax risks.
- Impairment testing (note 3.3) - estimation of discounted cash flows when calculating the value in use of assets.

Other judgements and estimates which are less significant include:
- Provisions (note 3.5) - estimated outflow to settle the obligation and where relevant, the appropriate discount and inflation rates to apply.
- Interest-bearing loans and borrowings (note 4.2) - expected period of borrowings when calculating the effective interest rate on those borrowings.
- Share-based payment transactions (note 4.6) - estimation of future performance when estimating vesting rates on share schemes.
- Investments (note 5.1) - expected period of and eventual return on investments when calculating the effective interest rate for interest income recognised.
- Employee benefits (note 5.2) - assumed discount rate, inflation rate and mortality when valuing defined benefit liabilities.

New standards and interpretations
A full list of new accounting standards and interpretations can be found in note 5.5. This includes standards that have been implemented in the year, which have had no significant impact. It also includes those standards that will be implemented next year or in future years, including our assessment of the potential impacts of the new standards on Revenue and Leasing.

SECTION 2 RESULTS FOR THE YEAR

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

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 results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items [1] £m	Total £m
2016						
Segment revenue	638	495	322	1,455	2	1,457
Segment profit, being segment EBITDA	236	193	70	499	(48)	451
Segment depreciation and amortisation	(64)	(28)	(32)	(124)	(7)	(131)
Segment operating profit	172	165	38	375	(55)	320
2015						
Segment revenue	561	429	285	1,275	3	1,278
Segment profit, being segment EBITDA	221	169	47	437	(35)	402
Segment depreciation and amortisation	(54)	(23)	(29)	(106)	(5)	(111)
Segment operating profit	167	146	18	331	(40)	291

[1] Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

Geographical areas

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

Geographical information

	Revenues 2016 £m	Non-current assets 2016 £m	Revenues 2015 £m	Non-current assets 2015 £m
United Kingdom	486	881	467	851
Continental Europe	367	919	300	764
North America	404	628	336	481
Asia Pacific	200	443	175	333
	1,457	2,871	1,278	2,429
Deferred tax (note 2.4)		38		35
Investments (note 5.1)		49		11
		2,958		2,475

2.1 Profit before tax *(continued)*

Revenue accounting policy
Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts received from customers (excluding VAT and similar taxes) for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship.

Ticket revenue is recognised at point of entry. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Retail and food and beverage sales revenues are recognised at the point of sale. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation. Sponsorship revenue is recognised over the relevant contract term. From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in 2016 and 2015 is not material.

The IASB has issued IFRS 15 'Revenue from contracts with customers' which will become effective from the 2018 accounting period. Details on our assessment of the impact of this new standard and how we are approaching its implementation are set out in note 5.5.

Cost of sales
Cost of sales of £227 million *(2015: £193 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 under this category.

Operating expenses

Staff numbers and costs
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2016	2015
Operations	17,422	16,980
Attraction management and central administration	2,067	1,841
	19,489	18,821

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	321	279
Share-based payments (note 4.6)	11	4
Social security costs	39	34
Other pension costs	11	10
	382	327

SECTION 2 RESULTS FOR THE YEAR *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

2.1 Profit before tax *(continued)*

Related party transactions

Key management comprises Executive and Non-executive Directors of the Board and the members of the Executive Committee. Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 82 to 103.

The remuneration of key management was as follows:

	2016 £m	2015 £m
Key management emoluments including social security costs	4.8	4.2
Contributions to money purchase pension schemes	0.2	0.3
Share-based payments and other related payments	2.8	1.4
	7.8	5.9

Auditor's remuneration

	2016 £m	2015 £m
Audit of these financial statements	1.3	1.2
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services	0.3	0.4
Other services relating to taxation compliance	0.4	0.4
	2.3	2.3

2.2 Exceptional items

Accounting policy

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

Exceptional items

There were no exceptional items in 2016. The following items were exceptional in 2015 and were shown separately on the face of the consolidated income statement:

	2016 £m	2015 £m
Within finance income and costs		
Foreign exchange gain	-	(1)
Cash flow hedges - reclassified to profit and loss	-	14
Exceptional items before income tax	-	13
Income tax credit on exceptional items above	-	(3)
Exceptional items for the year	-	10

As part of the refinancing undertaken during 2015, the Group incurred net exceptional financing costs of £13 million. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities, and paid a net £13 million to cash settle certain swaps. In respect of these swaps, £14 million had previously been hedge accounted through equity and was therefore recycled through the income statement. This was then offset by foreign exchange gains of £1 million as part of the wider refinancing.

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

	2016 £m	2015 £m
Underlying trading		
In respect of assets not held at fair value		
Interest income	2	2
Other		
Net foreign exchange gain	1	3
	3	5
Exceptional items		
Other		
Net foreign exchange gain (note 2.2)	-	1
	3	6

Finance costs

	2016 £m	2015 £m
Underlying trading		
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	43	44
Other interest expense	3	2
	46	46
Exceptional items		
In respect of liabilities not held at fair value		
Cash flow hedges - reclassified to profit and loss (note 2.2)	-	14
	46	60

Capitalised borrowing costs amounted to £2 million in 2016 *(2015: £2 million)*, with a capitalisation rate of 2.9% *(2015: 3.2%)*. Tax relief on capitalised borrowing costs amounted to £1 million in 2016 *(2015: £nil)*.

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 budget and strategic plan.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Tax provisions are based on management's judgement of the amount of tax payable and the likelihood of settlement in relation to matters which have yet to be concluded. These include matters arising from ongoing audits, as well as other uncertain positions. A combination of in-house tax experts, previous experience and professional firms is used when assessing tax risks. It is currently unclear when these matters will be settled.

Recognised in the income statement

	2016 £m	2015 £m
Current tax expense		
Current year	63	60
Adjustment for prior periods	2	(4)
Total current income tax	65	56
Deferred tax expense		
Origination and reversal of temporary differences	7	7
Changes in tax rate	(5)	-
Adjustment for prior periods	(1)	4
Total deferred tax	1	11
Total tax expense in income statement	66	67

SECTION 2 RESULTS FOR THE YEAR *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

2.4 Taxation *(continued)*

Reconciliation of effective tax rate

	2016 %	2016 £m	2015 %	2015 £m
Profit before tax		277		237
Income tax using the UK domestic corporation tax rate	20.0%	56	20.3%	48
Non-deductible expenses		9		9
Income not subject to tax		(12)		(4)
Effect of tax rates in foreign jurisdictions		19		18
Effect of changes in tax rate		(5)		-
Unrecognised temporary differences		(1)		-
Effect of recognising deferred tax assets previously unrecognised		(1)		(4)
Adjustment for prior periods		1		-
Total tax expense in income statement	23.8%	66	28.1%	67

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 23.8% and the UK standard tax rate of 20.0% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, such as the US. In addition, the reported rate is favourably affected by the Group's internal financing arrangements which have been put in place to support development and ongoing funding needs in overseas territories. This is offset by non-deductible expenses which primarily arise as a result of depreciation on capital expenditure from continued investment in our attractions.

The Group's ETR has fallen from 27.9% (based on underlying results) to 23.8%, primarily due to the restructure of the Group's external debt and internal financing arrangements in 2015. In addition, the revaluation of deferred tax liabilities due to the future fall in the Italian tax rate resulted in a one off benefit.

The Group's future ETR will primarily be affected by the geographic mix of profits and any changes to local tax rates, particularly in the USA. Other significant factors include the ability to continue current financing arrangements and changes to local or international tax laws.

Recognised directly in equity through the statement of other comprehensive income

	2016 £m	2015 £m
Foreign exchange translation differences relating to the net investment in foreign operations	1	1
Effective portion of changes in fair value of cash flow hedges	-	1
Remeasurement gains and losses on defined benefit plans	(1)	-
Total tax expense in statement of other comprehensive income	-	2

2.4 Taxation *(continued)*

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Property, plant and equipment	20	21	(148)	(123)	(128)	(102)
Other short term temporary differences	42	32	(6)	(6)	36	26
Intangible assets	-	-	(50)	(47)	(50)	(47)
Tax value of loss carry-forwards	1	3	-	-	1	3
Tax assets/(liabilities)	63	56	(204)	(176)	(141)	(120)
Set-off tax	(25)	(21)	25	21	-	-
Net tax assets/(liabilities)	38	35	(179)	(155)	(141)	(120)

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

	27 December 2015 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	31 December 2016 £m
Property, plant and equipment	(102)	(5)	-	(21)	(128)
Other short term temporary differences	26	4	1	5	36
Intangible assets	(47)	2	-	(5)	(50)
Tax value of loss carry-forwards	3	(2)	-	-	1
Net tax assets/(liabilities)	(120)	(1)	1	(21)	(141)

In 2016 movements recognised in the income statement in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA offset by the impact of rate reductions in Italy. Movements in other short term temporary differences were mainly due to providing for future deductions in respect of employee share options.

SECTION 2 RESULTS FOR THE YEAR *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

2.4 Taxation *(continued)*

Movement in deferred tax during the previous year

	28 December 2014 £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	26 December 2015 £m
Property, plant and equipment	(84)	(18)	-	-	(102)
Other short term temporary differences	24	4	(2)	-	26
Intangible assets	(47)	-	-	-	(47)
Tax value of loss carry-forwards	-	3	-	-	3
Net tax liabilities	(107)	(11)	(2)	-	(120)

In 2015 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to movements in financial assets and liabilities, accruals and prepayments in the USA.

Unrecognised deferred tax assets

	2016 £m	2015 £m
Property, plant and equipment	2	3
Other short term temporary differences	16	16
Intangible assets	-	1
Tax value of loss carry-forwards	57	47
Net unrecognised tax assets	75	67

The unrecognised deferred tax assets relating to loss carry-forwards include £2 million *(2015: £1 million)* expiring in 0-5 years and £2 million *(2015: £1 million)* expiring 6-10 years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be utilised.

2.5 Earnings per share

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016 £m	2015 £m
Profit attributable to ordinary shareholders	211	170
Exceptional items net of tax (see note 2.2)	-	10
Adjusted profit attributable to ordinary shareholders	211	180

	2016	2015
Basic weighted average number of shares	1,014,358,232	1,013,746,032
Dilutive potential ordinary shares	3,785,770	1,720,789
Diluted weighted average number of shares	1,018,144,002	1,015,466,821

Share incentive plans (see note 4.6) are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2016 and 2015, the PSP has a dilutive effect as the performance measures have been partially achieved. The DBP, CSOP and AESP are dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2016 Pence	2015 Pence
Basic earnings per share on profit for the year	20.8	16.8
Exceptional items net of tax	-	1.0
Adjusted earnings per share on adjusted profit for the year	20.8	17.8

Diluted earnings per share

	2016 Pence	2015 Pence
Diluted earnings per share on profit for the year	20.7	16.8
Exceptional items net of tax	-	1.0
Diluted adjusted earnings per share on adjusted profit for the year	20.7	17.8

SECTION 3 OPERATING ASSETS AND LIABILITIES

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

3.1 Property, plant and equipment

Accounting policies

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

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

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

Assets acquired through business combinations

At the time of a business combination PPE is separately recognised and valued. Given the specialised nature of the PPE acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out below. Residual values are based on industry specific indices.

New sites

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

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

Existing sites

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction or which extends the operational life of, or enhances existing items of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and 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

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				
Balance at 28 December 2014	919	954	91	1,964
Additions	25	42	151	218
Movements in asset retirement provisions	3	-	-	3
Disposals	(6)	(10)	-	(16)
Transfers	53	88	(141)	-
Effect of movements in foreign exchange	(17)	(16)	(1)	(34)
Balance at 26 December 2015	977	1,058	100	2,135
Acquisition of remaining share of joint venture (note 5.1)	-	1	-	1
Additions	13	55	205	273
Movements in asset retirement provisions (note 3.5)	5	1	-	6
Disposals	(5)	(8)	-	(13)
Transfers	39	86	(125)	-
Effect of movements in foreign exchange	157	116	10	283
Balance at 31 December 2016	1,186	1,309	190	2,685
Depreciation				
Balance at 28 December 2014	187	367	-	554
Depreciation for the year - owned assets	28	78	-	106
Depreciation for the year - leased assets	1	3	-	4
Disposals	(6)	(10)	-	(16)
Effect of movements in foreign exchange	-	(8)	-	(8)
Balance at 26 December 2015	210	430	-	640
Depreciation for year - owned assets	38	87	-	125
Depreciation for year - leased assets	1	3	-	4
Disposals	(3)	(7)	-	(10)
Effect of movements in foreign exchange	35	50	-	85
Balance at 31 December 2016	281	563	-	844
Carrying amounts				
At 28 December 2014	732	587	91	1,410
At 26 December 2015	767	628	100	1,495
At 31 December 2016	905	746	190	1,841

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

3.1 Property, plant and equipment *(continued)*

Depreciation is calculated in line with the policy stated above. During the year the Group reviews useful economic lives and tests PPE for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result no material adjustments were made in either 2015 or 2016.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 31 December 2016 the net carrying amount of leased buildings was £16 million *(2015: £16 million)* and the net carrying amount of leased plant and equipment was £29 million *(2015: £30 million)*. Further details in respect of leases and lease obligations are provided in note 4.4.

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, and for Midway attractions that are under construction. These are expected to be settled within two financial years of the reporting date. These amount to £82 million *(2015: £32 million)* for which no provision has been made.

At year end foreign exchange rates, the Group is expecting to invest a further £62 million *(2015: £36 million)* in the LEGOLAND Japan Resort. In addition, at year end foreign exchange rates, the Group is intending to invest £72 million *(2015: £62 million)* in LEGOLAND Korea.

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 regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the ability to roll out our brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a finite life on the brands. The brands are tested annually for impairment.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets comprise software licences, sponsorship rights and other contract based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

3.2 Goodwill and intangible assets *(continued)*

Goodwill and intangible assets

		Intangible assets		
	Goodwill £m	Brands £m	Other £m	Total £m
Cost				
Balance at 28 December 2014	925	186	26	1,137
Additions	-	-	3	3
Effect of movements in foreign exchange	(19)	(4)	(1)	(24)
Balance at 26 December 2015	906	182	28	1,116
Additions	-	-	1	1
Effect of movements in foreign exchange	87	14	4	105
Balance at 31 December 2016	993	196	33	1,222
Amortisation				
Balance at 28 December 2014	171	12	12	195
Amortisation for the year	-	-	1	1
Effects of movements in foreign exchange	(2)	-	(1)	(3)
Balance at 26 December 2015	169	12	12	193
Amortisation for the year	-	-	2	2
Effect of movements in foreign exchange	8	1	1	10
Balance at 31 December 2016	177	13	15	205
Carrying amounts				
At 28 December 2014	754	174	14	942
At 26 December 2015	737	170	16	923
At 31 December 2016	816	183	18	1,017

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 *(2015: £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.

	2016 £m	2015 £m
Midway Attractions	572	524
LEGOLAND Parks	42	37
Resort Theme Parks	202	176
	816	737

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

3.2 Goodwill and intangible assets *(continued)*

Brands

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2016 £m	2015 £m
Midway Attractions		
Madame Tussauds	29	26
SEA LIFE	16	15
London Eye	10	10
Other	8	8
	63	59
Resort Theme Parks		
Gardaland Resort	49	42
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	12	10
Other	12	12
	120	111
	183	170

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. The London Eye, Gardaland Resort, Alton Towers Resort, THORPE PARK and Heide Park brands all arise from those specific visitor attractions.

3.3 Impairment testing

Accounting policies

The carrying amounts of the Group's goodwill, intangible assets and PPE are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss whenever the carrying amount of those assets exceeds the recoverable amount.

The level at which the assets concerned are reviewed varies as follows:

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

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. 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 being extrapolated by using a long term growth rate.

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

Estimate	
Future cash flows	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure. The Group uses EBITDA as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
Growth in EBITDA	EBITDA is forecast by an analysis of both projected revenues and costs. Visitor numbers and revenue projections are based on market analysis, including the total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions as well as marketing activity. Operating costs projections are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities as well as general market conditions.
Timing and quantum of future capital and maintenance expenditure	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
Long term growth rate	A growth rate of 2.5% *(2015: 2.5%)* was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.
Discount rates to reflect the risks involved	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Net present values are calculated using an appropriate pre-tax discount rate of between 9.0% and 12.9% *(2015: 9.1% and 12.7%)*, derived from the Group's post-tax weighted average cost of capital of between 7.1% and 9.6% *(2015: 7.2% and 9.4%)*.

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 of EBITDA, discount rate and long term growth rate in relation to value in use calculations.

When reviewing the outputs of the sensitivity analysis, particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £26 million *(2015: £55 million)*. The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

3.3 Impairment testing *(continued)*

For RTP, where recoverable amount was based upon value in use, testing was performed on forward looking data extracted from the Group's strategic plan. As this plan was prepared before the peak summer trading season, revised amounts have been included in the four year outlook period that reflect management's latest best estimates of future performance. These take into account trading in this first full year following the accident at Alton Towers in 2015. This first full year of trading also informs management's forecasts of the ongoing anticipated recovery of Alton Towers.

In undertaking sensitivity analysis for RTP, consideration has been given to increases in discount rates, movements in EBITDA and long term growth rates. At the year end the Directors consider that the forecasts used reflect the current best estimate of future trading in RTP. It is noted however that the calculations are inherently sensitive to the pace of the recovery at Alton Towers. While in the short term a delay in the pace of the ongoing recovery would be highly unlikely to affect valuations by a substantial amount, longer term shortfalls that affect the outlook for the fourth year of the plan (which drives the terminal value) would have a more significant impact. If EBITDA for RTP as a whole were forecast to be 3% *(2015: 6%)* lower than currently anticipated for 2021, headroom would be absorbed in full. While it is not impossible for such a shortfall to occur, the Directors do not consider it to be probable based on the strength of the product development, diversity across the businesses in RTP and our proven track record in scaling our cost base to respond to changing demand.

Discount rates have been derived from market data. As these rates are intended to be long term in nature they are expected to be reasonably stable in the short term, however market discount rates could increase in future. If the discount rate used across RTP had been higher by a factor of 3% *(2015: 6%)*, headroom would have been absorbed in full. The Directors have formed their best estimate of the discount rate and do not consider that such a move in the rate is appropriate, but it is not impossible that a different view of discount rates could be required in the future.

The long term growth rate, which is applied to the cash flows of the final year in the business plan, was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth. The Directors do not consider it probable that this rate will prove to be inappropriate in the future, but note that if circumstances caused the rate to lower to 2.1% *(2015: 1.7%)*, headroom would be absorbed in full.

3.4 Working capital

Accounting policies

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

Inventories

	2016 £m	2015 £m
Maintenance inventory	9	7
Goods for resale	27	23
	36	30

3.4 Working capital *(continued)*

Trade and other receivables

	Current assets		Non-current assets	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade receivables	20	20	-	-
Other receivables	29	25	-	-
Prepayments and accrued income	37	31	13	11
	86	76	13	11

Ageing of trade receivables

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

	2016 £m	2015 £m
Neither past due nor impaired	13	10
Up to 30 days overdue	4	8
Between 30 and 60 days overdue	1	1
Over 60 days overdue	2	1
	20	20

Trade and other payables

	Current liabilities		Non-current liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade payables	63	41	-	-
Accruals	139	108	1	2
Deferred income	84	72	-	-
Other payables	14	14	27	22
	300	235	28	24

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.

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

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 27 December 2015	40	15	55
Provisions made during the year	6	2	8
Utilised during the year	-	(2)	(2)
Unused amounts reversed	-	(1)	(1)
Unwinding of discount	2	-	2
Effect of movements in foreign exchange	4	2	6
Balance at 31 December 2016	52	16	68
2016			
Current	-	3	3
Non-current	52	13	65
	52	16	68
2015			
Current	-	4	4
Non-current	40	11	51
	40	15	55

Asset retirement provisions

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term. These leases are typically of a duration of between ten and 60 years.

They are established on inception and reviewed annually. The provisions are discounted back to present value with the discount then being unwound through the income statement as part of finance costs. The cost of establishing these provisions is capitalised within the cost of the related asset.

Other

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

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

4.1 Net debt

Analysis of net debt

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	27 December 2015 £m	Net cash flows £m	Non-cash movement £m	Effect of movements in foreign exchange [1] £m	31 December 2016 £m
Cash and cash equivalents	152	40	-	23	215
Interest-bearing loans and borrowings (note 4.2)	(1,007)	-	(4)	(141)	(1,152)
	(855)	40	(4)	(118)	(937)
Finance leases (note 4.4)	(82)	-	(1)	(5)	(88)
Net debt	(937)	40	(5)	(123)	(1,025)

[1] As disclosed in note 4.2 a substantial proportion of the Group's borrowings are denominated in Euros and US Dollars.

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 subsequently determines that the expected life has changed, 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.

Interest-bearing loans and borrowings

	2016 £m	2015 £m
Non-current		
Floating rate bank facilities due 2020	723	640
£300 million floating rate revolving credit facility due 2020	-	-
€500 million fixed rate notes due 2022	424	363
	1,147	1,003
Current		
Interest payable	5	4
	1,152	1,007

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

4.2 Interest-bearing loans and borrowings *(continued)*

The Group's facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.37%, 0.99% and (0.32)% respectively at 31 December 2016 *(2015: 0.59%, 0.57% and (0.13)%)*. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 31 December 2016 was 2.0% *(2015: 2.0%)*.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 31 December 2016 was at a margin of 1.75% *(2015: 1.75%)* over the same floating interest rates when drawn.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

The fees related to the facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term. The borrowings under the bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €500 million notes. All covenant requirements were satisfied throughout the year.

4.3 Financial risk management

Liquidity risk

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury Department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or other short term liquid investments such as money market funds. In some countries bank cash pooling arrangements are in place to optimise the use of cash.

As at the reporting date the Group had £215 million of cash and cash equivalents *(2015: £152 million)* and a £300 million revolving credit facility, of which £nil was drawn down *(2015: £300 million of which £nil drawn down)*, in order to meet its obligations and commitments that will fall due.

The following table sets out the contractual maturities of financial liabilities, including interest payments. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2016					
Floating rate bank facilities due 2020	(20)	(20)	(754)	-	(794)
€500 million fixed rate notes due 2022	(12)	(12)	(24)	(444)	(492)
Finance lease liabilities	(7)	(7)	(20)	(170)	(204)
Trade payables and derivatives	(66)	(3)	(4)	-	(73)
	(105)	(42)	(802)	(614)	(1,563)
2015					
Floating rate bank facilities due 2020	(17)	(17)	(685)	-	(719)
€500 million fixed rate notes due 2022	(10)	(10)	(31)	(382)	(433)
Finance lease liabilities	(6)	(6)	(19)	(162)	(193)
Trade payables and derivatives	(45)	(4)	(8)	-	(57)
	(78)	(37)	(743)	(544)	(1,402)

4.3 Financial risk management *(continued)*

Interest rate risk
The Group is exposed to interest rate risk on both interest bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt and interest rate swaps.

At 31 December 2016 the Group had €500 million of fixed rate debt *(2015: €500 million)*. Taken together with those floating rate bank facilities that have been swapped to a fixed rate using interest rate swaps (the accounting of which is set out below), in aggregate 74% *(2015: 75%)* of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 4.2 years *(2015: 5.2 years)*.

Interest rate swaps are recognised at fair value which is determined by reference to market rates. The fair value is the estimated amount that the Group would receive or pay to exit the swap, taking into account current interest rates, credit risks and bid/ask spreads. Following initial recognition, changes in fair value are recognised immediately in the income statement, 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. The effective portion of changes in fair value is 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. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income would be recognised immediately in profit or loss. All interest rate swaps held by the Group are hedge accounted.

Sensitivity analysis
Based on the net debt position as at 31 December 2016, taking into account interest rate swaps, each 100 basis points (bp) fall or rise in market interest rates would result in an increase or decrease in net interest paid of £1 million *(2015: £nil)*. This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

Foreign currency risk
As the Group operates internationally the performance of the business is sensitive to movements in foreign exchange rates. The Group's potential currency exposures comprise transaction and translation exposures.

The Group ensures that its net exposure to foreign currency balances is kept to a minimal level by using foreign currency swaps to exchange balances back into Sterling or by buying and selling foreign currencies at spot rates when necessary. The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates. At 31 December 2016 the fair value of foreign currency swaps was £1 million *(2015: £1 million)*.

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 are 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. The Group's debt is therefore denominated in Euros, US Dollars and Sterling and at 31 December 2016 consisted of €550 million, $540 million and £250 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 on the following page.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

4.3 Financial risk management *(continued)*

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 2014	Weighted average rate for 2015	Closing rate for 2015	Weighted average rate for 2016	Closing rate for 2016
US Dollar	1.56	1.54	1.49	1.37	1.24
Euro	1.28	1.39	1.36	1.23	1.17
Australian Dollar	1.92	2.04	2.05	1.83	1.71

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
2016					
Cash and cash equivalents	117	10	27	61	215
Floating rate bank facilities due 2020	(248)	(42)	(433)	-	(723)
€500 million fixed rate notes due 2022	-	(424)	-	-	(424)
Finance lease liabilities	(54)	(34)	-	-	(88)
	(185)	(490)	(406)	61	(1,020)
2015					
Cash and cash equivalents	90	7	10	45	152
Floating rate bank facilities due 2020	(247)	(36)	(357)	-	(640)
€500 million fixed rate notes due 2022	-	(363)	-	-	(363)
Finance lease liabilities	(54)	(28)	-	-	(82)
	(211)	(420)	(347)	45	(933)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £83 million *(2015: £72 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 £5 million *(2015: £4 million)*.

4.3 Financial risk management *(continued)*

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 *(2015: £nil)*. The Group has no collateral in respect of its investments.

Fair values

Fair value hierarchy

The Group analyses financial instruments in the following ways:

- Level 1: uses unadjusted quoted prices in active markets.
- Level 2: uses inputs that are derived directly or indirectly from observable prices (other than quoted prices).
- Level 3: uses inputs that are not based on observable market data.

Fair value versus carrying amounts

The fair values of financial assets and liabilities are presented in the table below, together with the carrying amounts shown in the statement of financial position. Short term receivables, payables and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

		2016		2015	
	Fair value hierachy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at amortised cost					
Floating rate bank facilities due 2020	Level 2	(723)	(724)	(640)	(631)
€500 million fixed rate notes due 2022	Level 1	(424)	(445)	(363)	(358)
Finance lease liabilities	Level 3	(88)	(88)	(82)	(82)
Investments	Level 3	37	37	-	-
Held at fair value					
Derivative financial instruments	Level 2	(2)	(2)	1	1
Investments	Level 3	12	12	11	11
		(1,188)	(1,210)	(1,073)	(1,059)

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

There have been no transfers between levels in 2016 or 2015.

4.4 Lease obligations

Accounting policies
Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. In January 2016 the IASB issued IFRS 16 'Leases' which is expected to become effective from the 2019 accounting period. Details on our assessment of the impact of this new standard and how we are approaching its implementation are set out in note 5.5.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term. This therefore excludes the potential impact of future performance or rent increases based on inflationary indices.

Lease arrangements
The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the PPE of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

Each of these sale and 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.

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten and 60 years, with rent increases determined based on local market practice. In addition to a fixed rental element, rents within the Midway Attractions Operating Group can also contain a performance related element, typically based on turnover at the site concerned. Options to renew leases exist at these sites in line with local market practice in the territories concerned.

The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. The potential impact on rent charges of future performance or increases based on inflationary indices are each excluded from these calculations.

There are no significant operating restrictions placed on the Group as a result of its lease arrangements.

Lease costs and commitments
During 2016 £96 million *(2015: £89 million)* was recognised as an expense in the income statement in respect of operating leases. Of this £13 million *(2015: £12 million)* was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

4.4 Lease obligations *(continued)*

Finance leases

These tables provide information about the future minimum lease payments and contractual terms of the Group's finance lease liabilities, as follows:

	Future minimum lease payments 2016 £m	Interest 2016 £m	Present value of minimum lease payments 2016 £m	Future minimum lease payments 2015 £m	Interest 2015 £m	Present value of minimum lease payments 2015 £m
Less than one year	7	7	-	6	6	-
Between one and five years	27	27	-	25	25	-
More than five years	258	170	88	244	162	82
	292	204	88	275	193	82

	Currency	Nominal interest rate	Year of maturity	2016 £m	2015 £m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	34	28
				88	82

The nominal interest rate for finance leases in the table above represents the weighted average effective interest rate. This is used because the table above aggregates finance leases with the same maturity date and currency.

Operating leases

The minimum rentals payable as lessee under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Less than one year	83	76
Between one and five years	329	291
More than five years	1,325	1,271
	1,737	1,638

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases from the date the parks start operating depending on the specific circumstances of each lease and the nature of the assets at the attractions.

4.5 Equity and capital management

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 4.2), cash and cash equivalents and equity attributable to equity holders of the parent Company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to ensure investor and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Directors monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and the requirements of the Group's debt covenants are met.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance to fund significant acquisitions or developments intended to increase the overall value of the Group.

Share plans have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market.

Share capital and reserves

Share capital

	2016 Number	2016 £m	2015 Number	2015 £m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,013,746,032	10	1,013,746,032	10
Issued in the year	2,063,234	-	-	-
On issue and fully paid at end of year	1,015,809,266	10	1,013,746,032	10

Issue of new shares

During the year the Company issued 2,063,234 ordinary shares for consideration of £2 million (taken to the share premium account) in connection with the Group's employee share incentive plans (note 4.6).

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

The Company has entered into a Relationship Agreement with its major shareholder, KIRKBI, in connection with the exercise of its rights as a major shareholder in the Company and the right to appoint Directors to the Board.

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

4.5 Equity and capital management *(continued)*

Dividends

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

	2016 £m	2015 £m
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	-	43
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	-	21
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	45	-
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	22	-
Total dividends paid	**67**	**64**

The Directors of the Company propose a final dividend of 4.9 pence per share for the year ended 31 December 2016 *(2015: 4.4 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.1 pence per share *(2015: 6.5 pence per share)*.

Translation reserve

The translation reserve of £(5) million *(2015: £(135) 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 £(3) million *(2015: £nil)* comprises the effective portion of the cumulative net change in interest rate swaps related to hedged transactions that have not yet occurred.

4.6 Share-based payment transactions

Accounting policy

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

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

Equity-settled plans

The Group operates four employee share incentive plans: the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP) as set out in the Directors' Remuneration Report and the tables below. A summary of the rules for the plans and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

SECTION 4 CAPITAL STRUCTURE AND FINANCING *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

4.6 Share-based payment transactions *(continued)*

Analysis of share-based payment charge

	2016 £m	2015 £m
PSP	7	1
DBP	1	-
CSOP	1	1
AESP	2	2
	11	4

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2016	Number of shares 2015
PSP	November 2013 - September 2016	-	2017 - 2019	1.2	7,430,215	5,633,093
DBP	March 2015 - March 2016	-	2018 - 2019	1.3	308,272	361,734
CSOP	November 2013 - September 2016	3.15 - 4.81	2017 - 2026	8.0	3,893,704	3,192,347
AESP	January 2014 - March 2016	2.96 - 3.53	2017 - 2019	1.6	6,311,715	5,502,199
Total					17,943,906	14,689,373

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

	PSP [1]	DBP [1]	CSOP		AESP	
	Number	Number	Number	WAEP (£)	Number	WAEP (£)
At 28 December 2014	3,611,209	-	2,305,252	3.19	3,180,962	2.98
Granted during the year	2,426,028	383,843	1,083,850	4.38	2,823,813	3.24
Forfeited during the year	(404,144)	(22,109)	(196,755)	3.46	(473,366)	3.11
Exercised during the year	-	-	-	-	(4,213)	2.98
Expired during the year	-	-	-	-	(24,997)	2.98
At 26 December 2015	5,633,093	361,734	3,192,347	3.58	5,502,199	3.10
Granted during the year	2,300,004	27,519	1,337,925	4.61	1,692,389	3.19
Forfeited during the year	(502,882)	(5,518)	(382,014)	3.89	(530,897)	3.13
Exercised during the year	-	(75,463)	(239,561)	3.19	(235,360)	3.13
Expired during the year	-	-	(14,993)	3.61	(116,616)	3.10
At 31 December 2016	7,430,215	308,272	3,893,704	3.93	6,311,715	3.12
Exercisable at end of year						
At 26 December 2015	-	-	-	-	-	-
At 31 December 2016	-	-	1,584,579	3.15	-	-

[1] Nil cost options

4.6 Share-based payment transactions *(continued)*

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2015 and 2016 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	2 April 2015	-	4.47	4.47	n/a	n/a	3.0	n/a
	1 April 2016	-	4.65	4.65	n/a	n/a	3.0	n/a
DBP	25 March 2015	-	4.45	4.45	n/a	n/a	3.0	n/a
	24 March 2016	-	4.54	4.54	n/a	n/a	3.0	n/a
CSOP	1 April 2015	4.42	4.42	0.99	1.4%	24%	4.7	1.0%
	1 April 2016	4.60	4.65	0.91	1.4%	21%	4.6	0.7%
AESP	17 February 2015	3.43	4.04	0.71	1.5%	18%	2.2	0.7%
	17 March 2015	3.23	4.38	1.20	1.4%	20%	3.3	0.9%
	16 February 2016	3.53	4.15	0.77	1.6%	21%	2.2	0.4%
	16 March 2016	3.15	4.62	1.46	1.4%	21%	3.3	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 estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.

SECTION 5 OTHER NOTES

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.1 Investments

Accounting policy

The Group holds investments in two forms. Investments in loan notes are accounted for as financial assets at historic cost with interest accrued on an effective interest rate basis. This calculation requires estimation of the expected period over which the investment will be held together with the value of the investment at the end of that period. Interest on loan notes is recognised within finance income (see note 2.3).

Minority equity investments are accounted for as 'available for sale' financial assets at fair value. They are not consolidated. As no observable market data is available for these minority equity holdings, fair value is determined by reference to discounted future cash flows, with movements recorded in other comprehensive income. No fair value movements have been recorded and there is no material sensitivity to the assumptions used.

	LEGOLAND Malaysia £m	LEGOLAND Korea £m	Big Bus Tours £m	Total £m
Balance at 27 December 2015	8	3	-	11
Additions	-	-	32	32
Interest income receivable	-	-	1	1
Movements in fair value	-	-	-	-
Effects of movement in foreign exchange	1	-	4	5
Balance at 31 December 2016	9	3	37	49

LEGOLAND Malaysia

The Group has a minority equity investment in IDR Resorts Sdn. Bhd. (IDR). IDR and its subsidiaries are deemed to be related parties as together they own LEGOLAND Malaysia (see note 5.3).

LEGOLAND Korea

The Group has a minority equity investment in the consortium company developing LEGOLAND Korea.

Big Bus Tours Group Holdings Limited

In 2016 the Group invested $44 million (£32 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The investment was substantially all in the form of loan notes. The transaction also provided Merlin with a minority equity investment valued at £nil.

Investments in joint ventures

On 16 June 2016 the Group acquired the remaining 50% of the SEA LIFE Helsinki joint venture *(2015: carrying value of £nil)*. The consideration was £1 million, settled in cash and the fair value of the net assets acquired was £1 million. SEA LIFE Helsinki was accounted for as a wholly owned subsidiary from 16 June 2016.

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 £11 million *(2015: £10 million)*.

Defined benefit pension schemes
The principal scheme that the Group operates is a closed scheme for certain former UK employees of The Tussauds Group, which was acquired in 2007. The scheme entitles retired employees to receive an annual payment based on a percentage of final salary for each year of service that the employee provided. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

The most recent full actuarial valuation of the scheme was carried out as at 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 which was paid in 2014. The 2016 valuation is currently being finalised. We do not anticipate any material increase in ongoing contributions as a result.

The Group expects £1 million in ongoing contributions to be paid to its defined benefit schemes in 2017. The weighted average duration of the defined benefit obligation at 31 December 2016 was 21 years *(2015: 20 years)*.

The assets and liabilities of the schemes are:

	2016 £m	2015 £m
Equities	22	19
Corporate bonds and cash	6	5
Property	4	4
Fair value of scheme assets	32	28
Present value of defined benefit obligations	(43)	(33)
Net pension liability	(11)	(5)

SECTION 5 OTHER NOTES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.2 Employee benefits *(continued)*

Movement in the net pension liability

	Present value of scheme assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 28 December 2014	28	(33)	(5)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement loss	(1)	-	(1)
At 26 December 2015	28	(33)	(5)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement gain/(loss)	3	(9)	(6)
Effect of movement in foreign exchange	-	(1)	(1)
At 31 December 2016	32	(43)	(11)

The amount recognised in the income statement was £nil *(2015: £nil)*. The amount recognised in the statement of other comprehensive income was a loss of £6 million *(2015: loss of £1 million)*. This primarily results from changes in actuarial estimates in respect of discount rates.

Actuarial assumptions

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

	2016	2015
Discount rate	2.7%	3.9%
Future salary increases	3.7%	3.5%
Rate of price inflation	3.4%	3.2%

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is S2PxA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 87 and a female would have a life expectancy to age 89.

5.3 Related party transactions

Identity of related parties

The Group has related party relationships with a major shareholder, key management personnel, joint ventures and IDR Resorts Sdn. Bhd. All dealings with related parties are conducted on an arm's length basis.

Transactions with shareholders

During the year the Group entered into transactions with a major shareholder, KIRKBI Invest A/S, and the LEGO Group, a related party of KIRKBI Invest A/S.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 31 December 2016 and 26 December 2015, were as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases and royalties £m	Amounts owed to related party £m
2016				
KIRKBI Invest A/S	1	2	11	5
LEGO Group	1	1	51	3
	2	3	62	8
2015				
KIRKBI Invest A/S	-	-	9	2
LEGO Group	1	1	47	2
	1	1	56	4

Transactions with key management personnel

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.2% *(2015: 1.7%)* of the voting shares of the Company.

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 82 to 103. The remuneration of key management is disclosed in note 2.1.

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park (see note 5.1). On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 31 December 2016 and 26 December 2015, are as follows:

	2016 £m	2015 £m
Sales to related party	6	5
Amounts owed by related party	2	3

5.4 Contingent liabilities

The Group has no material contingent liabilities.

At 26 December 2015 the Group disclosed a contingent liability relating to the accident at Alton Towers Resort on 'The Smiler' ride. This was settled in 2016.

5.5 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IFRS 11 'Joint arrangements' - accounting for acquisitions of interests in joint operations.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' - clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements' - equity method.
- IFRS 5 'Non-current assets held for sale and discontinued operations' - changes in method for disposal.
- IFRS 7 'Financial Instruments: Disclosures' - continuing involvement for servicing contracts.
- IAS 19 'Employee Benefits' - discount rate in a regional market sharing the same currency - e.g. the Eurozone.
- IAS 1 'Presentation of financial statements' - disclosure initiative.

EU endorsed IFRS and interpretations with effective dates after 31 December 2016 relevant to the Group will be implemented in the financial year when the standards become effective.

The IASB has issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2017. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IAS 7 'Statement of cash flows' - disclosure initiative.
- IAS 12 'Income taxes' - recognition of deferred tax assets for unrealised losses.

During 2014 the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2018 accounting period. Therefore the new standard will be relevant to the 2017 comparative period in that year's financial statements. The Group's revenue is generated by high volumes of low value cash transactions. These are predominantly in respect of visits to the Group's attractions, stays in the Group's accommodation, or spend on retail sales or food and beverage while at an attraction. They require very limited judgement on the timing or pattern of revenue recognition compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

In January 2016 the IASB issued IFRS 16 'Leases', which is expected to become effective from the 2019 accounting period and will result in significant changes to the presentation of the Group's consolidated financial statements. Under IAS 17 the Group has lease commitments of £1,737 million (see note 4.4). Under IFRS 16 the Group's lease commitments will be accounted for 'on balance sheet'. Typically IFRS 16 will result in an increase in reported EBITDA as rentals will predominantly be accounted for as finance costs rather than as an operating expense. A combination of the 'front loading' impact of those finance costs together with depreciation charged on the right of use asset also may result in an initial reduction in reported earnings albeit this would even out over the lease term.

We are currently performing impact assessments and financial modelling on the potential impact of the new standard. Substantially all of the Group's lease costs and ongoing commitments are in respect of leases for attractions and support functions so our initial focus has therefore been on significant sites within the portfolio. We will expand this review across the estate during 2017.

5.5 New standards and interpretations *(continued)*

IFRS 9 'Financial instruments' is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard may require the Group to revise its accounting processes and internal controls related to reporting financial instruments. Based on its preliminary assessment, the Group's accounting for investments may be altered, but is not expected to be material.

5.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

5.7 Subsidiary and joint venture undertakings

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
AAE Unit Trust	Australia [1]	-	100.0%	100.0%
AQDEV Pty Limited	Australia [2]	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia [3]	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia [3]	Ordinary	65.0%	65.0%
Illawarra Tree Topps Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia [2]	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd	Australia [4]	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia [1]	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia [1]	-	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia [1]	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia [1]	-	100.0%	100.0%
LLA Aquariums Pty Limited	Australia [1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia [1]	-	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia [2]	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia [1]	-	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia [5]	Ordinary	50.0%	50.0%

SECTION 5 OTHER NOTES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.7 Subsidiary and joint venture undertakings *(continued)*

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
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%
Parkthorn Properties Pty Ltd [e]	Australia	Ordinary	-	100.0%
Sydney Attractions Group Pty Ltd	Australia [2]	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia [2]	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia [2]	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia [1]	-	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia [2]	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia [1]	Ordinary	100.0%	100.0%
US Fly Trust	Australia [1]	-	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia [3]	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria [6]	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria [6]	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium [7]	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	British Virgin Islands [8]	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada [9]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China [10]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China [11]	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China [12]	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China [13]	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China [14]	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China [15]	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China [16]	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark [17]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark [17]	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy [f]	Finland [18]	Ordinary	100.0%	50.0%
SEA LIFE France SARL	France [19]	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany [20]	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany [21]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany [22]	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany [22]	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany [20]	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany [23]	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany [23]	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany [22]	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany [20]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany [20]	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany [20]	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany [24]	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany [21]	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany [21]	Ordinary	100.0%	100.0%

5.7 Subsidiary and joint venture undertakings *(continued)*

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
Merlin Entertainments India Private Limited	India [25]	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 1 Limited	Ireland [26]	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 2 Limited	Ireland [26]	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland [27]	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy [28]	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy [29]	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy [28]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy [28]	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy [28]	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy [30]	Ordinary	[a] 49.4%	[a] 49.4%
Ronchi S.p.A.	Italy [28]	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan [31]	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan [32]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l. [b]	Luxembourg [33]	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg [33]	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg [33]	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia [34]	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia [52]	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia [34]	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands [35]	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands [36]	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands [37]	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands [38]	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand [39]	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand [39]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal [40]	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore [41]	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea [42]	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea [43]	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea [42]	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain [44]	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand [45]	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand [46]	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey [47]	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE [48]	-	[c] 48.0%	-
Merlin Holdings Limited	UAE [53]	Ordinary	[c] 1.0%	-
Alton Towers Limited	UK [49]	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK [49]	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK [49]	-	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK [49]	-	100.0%	100.0%
Charcoal Holdco Limited	UK [49]	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK [49]	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK [49]	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK [49]	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK [49]	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK [49]	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK [49]	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK [49]	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK [49]	Ordinary	100.0%	100.0%

SECTION 5 OTHER NOTES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.7 Subsidiary and joint venture undertakings *(continued)*

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
Iconic Images International Limited	UK [49]	Ordinary	100.0%	100.0%
KZ China Holdco Limited [d]	UK [49]	Ordinary	-	100.0%
KZ Mexico Holdco Limited [d]	UK [49]	Ordinary	-	100.0%
LEGOLAND US Holdings Limited	UK [49]	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK [49]	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK [49]	Ordinary	100.0%	100.0%
London Dungeon Limited	UK [49]	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK [49]	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK [49]	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK [49]	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK [49]	Ordinary	100.0%	100.0%
M.E.G.H. Limited [d]	UK [49]	Ordinary	-	100.0%
Merlin Attractions Management Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited [d]	UK [49]	Ordinary	-	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited [d]	UK [49]	Ordinary	-	100.0%
Merlin Entertainments Group Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK [49]	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK [49]	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK [49]	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited *(formerly Tussauds Hotels Limited)*	UK [49]	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK [49]	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK [49]	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK [49]	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK [49]	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK [49]	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK [49]	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK [49]	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK [49]	Ordinary	100.0%	100.0%
Tussauds Holdings Limited [d]	UK [49]	Ordinary	-	100.0%
Tussauds Limited	UK [49]	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited [d]	UK [49]	Ordinary	-	100.0%
Warwick Castle Limited	UK [49]	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited [d]	UK [49]	Ordinary	-	100.0%
Wizard BondCo Limited [d]	UK [49]	Ordinary	-	100.0%
Wizard EquityCo Limited [d]	UK [49]	Ordinary	-	100.0%

5.7 Subsidiary and joint venture undertakings *(continued)*

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
Wizard NewCo Limited [d]	UK [49]	Ordinary	-	100.0%
Lake George Fly LLC	USA [50]	-	100.0%	100.0%
LEGOLAND California LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA [51]	-	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA [51]	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA [51]	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA [51]	-	100.0%	100.0%
Madame Tussauds Nashville LLC	USA [51]	-	100.0%	-
Madame Tussaud's New York LLC	USA [51]	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA [51]	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA [51]	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA [51]	-	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA [51]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA [51]	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA [51]	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA [51]	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA [51]	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA [51]	-	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA [51]	-	100.0%	-
Merlin Entertainments US NewCo LLC	USA [51]	-	100.0%	100.0%
San Francisco Dungeon LLC	USA [51]	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA [51]	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA [51]	-	100.0%	100.0%
SEA LIFE Michigan LLC	USA [51]	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA [51]	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA [51]	-	100.0%	100.0%
SEA LIFE US LLC	USA [51]	-	100.0%	100.0%
The Tussauds Group LLC	USA [51]	-	100.0%	100.0%
Joint venture				
Pirate Adventure Golf Limited	UK [49]	Ordinary	50.0%	50.0%

[a] Merlin Entertainments plc has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity.
[b] Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries.
[c] Merlin Entertainments plc has 100% of the beneficial ownership of these entities.
[d] Company dissolved in 2016.
[e] Company disposed of in 2016.
[f] The Group acquired the remaining 50% of the SEA LIFE Helsinki joint venture in 2016.

SECTION 5 OTHER NOTES *(continued)*

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.7 Subsidiary and joint venture undertakings *(continued)*

Registered offices

(1) Level 11, 50 Queen Street, Melbourne, VIC, 3000, Australia
(2) Level 16, 201 Elizabeth Street, Sydney, NSW, 2000, Australia
(3) 3 Ireland Street Bright, VIC, 3741, Australia
(4) Falls Creek Road, 3699 Falls Creek, Victoria, Australia
(5) Doncaster Road 861, 3109 Melbourne - Doncaster East, Victoria, Australia
(6) Riesenradplatz 5-6, 1020 Wien, Vienna, Austria
(7) Koning Albert 1 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) Shop P101, The Peak Tower, The Peak, Hong Kong
(14) 4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China
(15) L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
(16) 189, Dadhue Road, Pu Tuo District, Shanghai, 200062, China
(17) Aastvej 10, 7190 Billund, Denmark
(18) Tivolitie 10, Helsinki 00510, Finland
(19) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 7711 MARNE LA VALLEE, France
(20) Cremon 11, 20457 Hamburg, Germany
(21) Heidenhof 1, 29614 Soltau, Germany
(22) Legoland Allee, 89312, Gunzburg, Germany
(23) Prinzregentenstrasse 18, 80538 Munich, Germany
(24) Klein Vehedig, Hafenstrasse 9, 78462 Konstanz, Germany
(25) 44, Regal Building, Connaught Place, New Delhi, Central Delhi DL, 110001, India
(26) 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
(27) First Floor, Fitzwilton House, Wilton Place, Dublin 2, Ireland
(28) Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy
(29) Via Vivaldi n.7, Castelnuovo del Garda Verona, 37014, Verona, Italy
(30) Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy
(31) 2-2-1, Kinjoufutou Minato-ku, Nagoya-shi, Japan
(32) Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan
(33) Polaris-Vertigo Building, 2-4 rue Eugene Rupprt, L-2453, Luxembourg
(34) Suite 2-4, Level 2, Tower Block, Menera Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
(35) Fred. Roeskestraat 123, 1076 EE Amsterdam, Netherlands
(36) Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
(37) Croeselaan 18, Utrecht, Netherlands
(38) Rokin 78, 1012 KW Amsterdam, Netherlands
(39) Level 12, 55 Shortland Street, Auckland 1010, New Zealand
(40) Avenida Da Boavista 3265, 7th Floor, 4100 - 137 Porto, Portugal
(41) 10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore
(42) 1411-4, Jung 1-dong, Haenudee-Gu, Busan, Republic of Korea
(43) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
(44) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
(45) 989 Siam Discovery Center 6th, 6Ath, 7th and 8th Floors, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok 10330, Thailand
(46) B1-B2 Floor Siam Paragon, 991 Rama 1 Road, Khweng Patumwan, Bangkok 10330, Thailand
(47) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
(48) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
(49) 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom
(50) 80 State Street, Albany, New York 12207-2543, United States
(51) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
(52) No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor, Malaysia
(53) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates

MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Statement of Financial Position at 31 December 2016 (2015: 26 December 2015)

	Note	2016 £m	2015 £m
Non-current assets			
Investments	iii	3,126	3,115
Other receivables	iv	1,214	1,062
		4,340	4,177
Current assets			
Other receivables	iv	4	31
		4	31
Total assets		4,344	4,208
Current liabilities			
Interest-bearing loans and borrowings	vi	5	4
Other payables	v	2	91
		7	95
Non-current liabilities			
Interest-bearing loans and borrowings	vi	1,147	1,003
Total liabilities		1,154	1,098
Net assets		**3,190**	**3,110**
Issued capital and reserves attributable to owners of the Company	vii	3,190	3,110
Total equity		**3,190**	**3,110**

The notes on pages 165 to 169 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Francoise Nesmes
Chief Financial Officer

MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Statement of Changes in Equity at 31 December 2016 (2015: 26 December 2015)

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 28 December 2014		10	-	3,157	3,167
Profit for the year		-	-	3	3
Total comprehensive income for the year		-	-	3	3
Equity dividends		-	-	(64)	(64)
Share incentive schemes: Movement in reserves for employee share schemes	iii	-	-	4	4
At 26 December 2015		**10**	**-**	**3,100**	**3,110**
Profit for the year		-	-	134	134
Total comprehensive income for the year		-	-	134	134
Shares issued		-	2	-	2
Equity dividends		-	-	(67)	(67)
Share incentive schemes: Movement in reserves for employee share schemes	iii	-	-	11	11
At 31 December 2016	vii	**10**	**2**	**3,178**	**3,190**

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

i Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2015/16 Cycle) issued in July 2016 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 3 Market Close, Poole, Dorset, BH15 1NQ. Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Merlin Entertainments plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 'Share-based payment' in respect of group settled share-based payments;
- Certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared for the 53 weeks ended 31 December 2016 *(2015: 52 weeks ended 26 December 2015)*.

The Directors have taken advantage of the exemption available under s408 of the Companies Act 2006 and have not presented a profit and loss account of the Company.

A summary of the Company's significant accounting policies is set out below.

Investments in subsidiaries
Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the income statement.

Foreign currency
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS
(continued)

i Accounting policies *(continued)*

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

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

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

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

Loans to group undertakings
Loans to group undertakings are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

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

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

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

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

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS
(continued)

i Accounting policies *(continued)*

Interest-bearing loans and borrowings
These are initially recognised at the principal value of the loan concerned, less any related fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate).

If the Group subsequently determines that the expected life has changed, 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 Employees

The average number of employees of the Company during the year was nine *(2015: seven)*. All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report on pages 82 to 103. One Director accrued benefits under defined contribution schemes during the year *(2015: one)*.

iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 28 December 2014	3,111
Capital contributions to subsidiaries	4
At 26 December 2015	3,115
Capital contributions to subsidiaries	11
At 31 December 2016	3,126

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the year end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Holding company	Luxembourg	100.0%	Ordinary

A full list of Group companies is included in note 5.7 of the consolidated financial statements on page 157.

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS
(continued)

iv Other receivables

	Current assets		Non-current assets	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts owed by group undertakings	4	31	1,214	1,062

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. The non-current loans have maturities of 2020 and 2022 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

v Other payables

	2016 £m	2015 £m
Amounts owed to group undertakings	1	90
Accruals	1	1
	2	91

vi Borrowings

	2016 £m	2015 £m
Non-current		
Floating rate bank facilities due 2020	723	640
£300 million floating rate revolving credit facility due 2020	-	-
€500 million fixed rate notes due 2022	424	363
	1,147	1,003
Current		
Interest payable	5	4
	1,152	1,007

The facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.37%, 0.99% and (0.32)% respectively at 31 December 2016. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 31 December 2016 was 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 31 December 2016 was at a margin of 1.75% over the same floating interest rates when drawn.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

The fees related to the facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term. The borrowings under the bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Company is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €500 million notes. All covenant requirements were satisfied throughout the year.

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS
(continued)

vii Equity

Share capital

	2016 Number	2016 £m	2015 Number	2015 £m
Ordinary shares of £0.01 each				
At beginning of the year	1,013,746,032	10	1,013,746,032	10
Shares issued	2,063,234	-	-	-
At end of the year	1,015,809,266	10	1,013,746,032	10

Issue of new shares
During the year the Company issued 2,063,234 ordinary shares for consideration of £2 million (taken to the share premium account) in connection with the Group's employee share incentive plans (note 4.6).

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Retained earnings
The profit after tax for the year in the accounts of Merlin Entertainments plc is £134 million *(2015: 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

	2016 £m	2015 £m
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	-	43
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	-	21
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	45	-
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	22	-
Total dividends paid	67	64

The Directors of the Company propose a final dividend of 4.9 pence per share for the year ended 31 December 2016 *(2015: 4.4 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.1 pence per share *(2015: 6.5 pence per share)*.

In making this proposal the Directors have considered the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits, as noted above, as well as the position and liquidity of the Group disclosed in the consolidated statement of financial position as explained in the Group going concern disclosures on page 120.

FINANCIAL RECORD

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Results					
Revenue	1,457	1,278	1,249	1,192	1,074
Underlying EBITDA	451	402	411	390	346
Underlying operating profit	320	291	311	290	258
Operating profit	320	291	311	260	199
Profit before tax	277	237	226	172	98
Adjusted earnings per share (p)	20.8	17.8	17.7	16.9	n/a
Dividend per share (p)	7.1	6.5	6.2	n/a	n/a
Consolidated statement of financial position					
Property, plant and equipment	1,841	1,495	1,410	1,321	1,290
Intangible assets	1,017	923	942	961	970
Cash and cash equivalents	215	152	285	264	142
Non-current interest-bearing loans and borrowings	1,147	1,003	1,131	1,179	1,333
Total equity	1,428	1,149	1,063	944	617
Consolidated statement of cash flows					
Net cash flow from operating activities	433	325	357	365	348
Changes in working capital	23	(19)	(4)	30	24
Net increase/(decrease) in cash and cash equivalents	40	(137)	16	125	81

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 2015 revenues and EBITDA of re-translating them at 2016 foreign exchange (FX) rates.

Currency	2015 average FX rates	2016 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.54	1.37	11.3%	42
EUR	1.39	1.23	11.5%	30
AUD	2.04	1.83	10.4%	9
Other				20
Increase in 2015 revenues at 2016 FX rates				**101**

Currency	2015 average FX rates	2016 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.54	1.37	11.3%	17
EUR	1.40	1.21	13.4%	12
AUD	2.06	1.81	12.1%	3
Other				7
Increase in 2015 EBITDA at 2016 FX rates				**39**

Return on capital employed (ROCE)

The return is based on underlying operating profit after tax. Tax is calculated for the purposes of ROCE by applying the Group's underlying ETR for the year *(2016: 23.8%, 2015: 27.9%)* to the Group's underlying operating profit.

The capital employed element of the calculation is based on average net operating assets for the relevant period between the opening and closing statements of financial position. Net operating assets include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

On a 52 week basis no change in net assets is assumed, except for the 53rd week return, which has adjusted net debt.

	2016 (53 weeks) £m	2016 (52 weeks) £m	2015 £m
Underlying operating profit	320	302	291
Taxation	(76)	(72)	(81)
Return	**244**	**230**	**210**
Net assets	1,428	1,414	1,149
Less:			
Deferred tax assets	(38)	(38)	(35)
Deferred tax liabilities	179	179	155
Net debt (note 4.1)	1,025	1,039	937
Derivative financial assets	(3)	(3)	(2)
Derivative financial liabilities	5	5	1
Net operating assets at the period end	2,596	2,596	2,205
Capital employed	**2,401**	**2,401**	**2,160**
ROCE	**10.2%**	**9.6%**	**9.7%**

GLOSSARY

Key terms	Definition
Adjusted EPS	Adjusted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders, adjusted for exceptional items, by the weighted average number of ordinary shares in issue during the year.
Capex	Capital Expenditure.
Cluster	A group of attractions located in a city close to one another.
Constant currency growth	Using 2016 exchange rates.
DreamWorks Tours - Shrek's Adventure!	This attraction opened in 2015. It is part of the Midway Attractions Operating Group.
EBITDA	Profit before finance income and costs, taxation, depreciation and amortisation and after taking account of attributable profit after tax of joint ventures.
EPS	Earnings per share.
Exceptional items	Due to their nature, certain one-off and non-trading items can be classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
Existing estate (EE)	EE comprises all attractions other than new openings.
High year	Year of high spend in capital investment cycle of an attraction.
IP	Intellectual Property.
IPO	Initial Public Offering.
KIRKBI	KIRKBI owns 75% of LEGO A/S and owns 29.83% of the share capital of Merlin Entertainments plc.
KPI	Key Performance Indicator.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Lead price	Face value of a ticket, which may then be discounted.
Like for like (LFL)	2016 LFL growth refers to the growth between 2015 and 2016 on a constant currency basis using 2016 exchange rates and includes all businesses owned and operated before the start of 2015.
Listing	Listing on the London Stock Exchange.
Little Big City	This is a new attraction opening in 2017. It is part of the Midway Attractions Operating Group.
LLP	LEGOLAND Parks Operating Group.
Merlin Magic Making (MMM)	MMM is the unique resource that sits at the heart of everything Merlin does. It is our specialist in-house site-search and business development; creative design; production; and project management team. MMM also pursues acquisition and investment opportunities.

GLOSSARY

Key terms	Definition
Merlin's Magic Wand (MMW)	MMW forms a key element of Merlin's Corporate Social Responsibility commitment. Our very own children's charity delivers magical experiences around the world to children who are disadvantaged through sickness and disability.
Midway or Midway attractions	The Midway Attractions Operating Group and/or the Midway attractions within it. Midway attractions are typically smaller, indoor attractions located in city centres or resorts.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
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.
ROCE	Return on Capital Employed. The profit measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.
ROIC	Return on Invested Capital. Incremental EBITDA divided by the capital invested.
Rooms	A single accommodation unit at one of our theme parks, for example a hotel room, lodge or 'glamping' tent.
RPC	Revenue per capita, defined as visitor revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
Top Box	The highest level of customer satisfaction that we record in our customer surveys.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements.
Visitors	Represents all individual visits to Merlin owned or operated attractions.
Wizard Wants to Know (WWTK)	WWTK is our annual online employee survey.

Terms used

Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', 'the Group', 'We' and 'Us' refer to the Company (Merlin Entertainments plc) and, as applicable, its subsidiaries and/or interests in joint ventures. Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

SHAREHOLDER INFORMATION

Share listing
The Company's shares are listed on the London Stock Exchange.

Share register and registrars
The Company's share register is maintained and administered in the UK by Computershare Investor Services PLC (Computershare) at the following address:

Computershare
Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Telephone:
+44 (0)370 703 6259
Investor Centre:
www.investorcentre.co.uk/contactus
Website:
www.computershare.com

Computershare operates a portfolio service for Merlin shareholders called Investor Centre. This provides our shareholders with online access to information about their investments as well as a facility to help manage their holdings online, such as being able to:

- Update dividend mandate bank instructions and review dividend payment history.
- Update member details and address changes.
- Register to receive Company communications electronically.

Computershare also offers an internet and telephone share dealing service to existing shareholders which can also be accessed through the Investor Centre.

Dividends
An interim dividend of 2.2 pence per share was paid on 19 September 2016 to shareholders on the share register on 12 August 2016.

A final dividend for the year ended 31 December 2016 of 4.9 pence per share will be recommended to shareholders for approval at the 2017 Annual General Meeting of the Company.

Dividend Re-Investment Plan
The Company has a Dividend Re-Investment Plan (DRIP) which allows holders of ordinary shares, who choose to participate, to use their cash dividends to acquire additional shares in the Company which will be purchased on their behalf by the DRIP administrator. Further information in relation to the DRIP will be sent to shareholders in advance of the 2017 Annual General Meeting.

Financial calendar
The principal dates in our financial calendar for 2017 are as follows:

Preliminary Announcement of Results	2 March
Trading Update	13 June
Annual General Meeting	13 June
Interim Results Announcement	4 August
Trading Update	5 October

Shareholder communications
We encourage our shareholders to receive their communications from the Company electronically using email and web-based communications. This means that information about the Company can be received as soon as it is available. The use of electronic communications also reduces costs and the impact on the environment. Shareholders can register for electronic communications through Investor Centre or by contacting Computershare. Shareholders with any queries regarding their shareholding should contact Computershare.

The Investor Relations section of our corporate website also contains information which shareholders may find helpful (**www.merlinentertainments.biz/investor-relations**).

Annual General Meeting (AGM)
The AGM of the Company will be held on 13 June 2017 at LEGOLAND Windsor, Winkfield Road, Windsor, Berkshire, SL4 4AY at 2.00pm. The Notice of AGM will be sent to shareholders separately.

Registered in
England and Wales

Company number
08700412

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MERL

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