Merlin Entertainments plc – 2018 Interim Results

4.5% organic revenue growth, in line with expectations
Reported results adversely impacted by FX translation

2 August 2018

Merlin Entertainments, Europe's leading and the world's second-largest visitor attraction operator, today reports results for the 26 weeks ended 30 June 2018.

Key trading highlights

	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	Organic growth (constant currency)[2]	Reported growth (actual currency)
Visitors[1] (m)	**30.0**	29.7		0.8%
Revenue (without the adoption of IFRS 15) (£m)	**694**	685	4.5%	1.3%
Revenue (as reported) (£m)	***709***	*685*		*3.5%*
EBITDA (£m)	**143**	144	4.0%	(1.3)%
Operating profit (£m)	**63**	73	(6.5)%	(14.3)%
Profit before tax (£m)	**43**	50		(13.7)%
Profit for the period (£m)	**33**	37		(10.0)%
Earnings per share (p)	**3.3**	3.7		(10.5)%
Dividend per share (p)	**2.5**	2.4		4.2%
Operating free cash flow (£m)	**58**	51		13.8%

Merlin's reported 2018 results include the adoption of IFRS 15, the new accounting standard for revenue accounting which became effective this year, with no adjustment to previously reported 2017 numbers, and negligible impact on EBITDA. To aid comparability, growth rates within these results refer to movements excluding the impact of IFRS 15 unless otherwise stated.

Summary

- Group organic revenue, before the impact of IFRS 15, grew by 4.5% against a strong comparative period, with like for like revenue growth of 0.5%;
- Adverse movements in foreign exchange, predominantly the weakening of the US Dollar, impacted the reported result;
- First half of the year represents a seasonally quiet period, with approximately 70% of annual EBITDA typically generated in the balance of the year;
- Resort Theme Parks organic revenue grew by 9.7% with like for like growth driven by successful product investment, the continued recovery at Alton Towers and favourable weather;
- LEGOLAND Parks organic revenue increased by 7.8% against very strong trading in the period last year, reflecting the full period benefit of LEGOLAND Japan and the `opening of 644 accommodation rooms;
- Midway Attractions organic revenue decline of 1.1%, due to a challenging market in London, as anticipated, new openings weighted towards the second half of the year, and the adverse effect of warm weather in Europe;
- Accommodation revenue grew by 29.2% on a constant currency basis to now represent 21% of theme park revenue *(2017: 18%)*;
- Decline in operating profit of £10 million (14.3%) due primarily to adverse foreign exchange movements and a higher depreciation charge due to New Business Development;

- Earnings per share decline of 10.5% due to the reduction in operating profit, partially mitigated through a lower effective tax rate and lower net finance costs;
- Strong cash generation, with operating free cash flow of £58 million, representing growth of 13.8%;
- Continued progress against long term opportunities, with LEGOLAND New York under construction, good development on new brands, and progress on the Productivity Agenda to address ongoing cost pressures.

Nick Varney, Chief Executive Officer, said:

"Organic revenue growth of 4.5% has been largely driven by our New Business Development with the early transition of LEGOLAND Japan into a resort through the addition of a SEA LIFE Centre and a 252 room hotel together with the expansion of on-site accommodation at our LEGOLAND resorts in California and Germany.

In the existing estate we have been pleased with trading in the Resort Theme Parks Operating Group which saw organic revenue growth of 9.7%. We have had strong customer reception to our product investments and we continue to see the anticipated recovery at Alton Towers. The business has also undoubtedly benefited from the recent warm weather in Northern Europe which due to the natural balance of our portfolio has conversely had an adverse impact on our indoor Midway attractions. Trading in Midway attractions more broadly has been satisfactory although it is too early to judge if there are definitive signs of a recovery in London. Trading in LEGOLAND Parks has been solid but year on year comparatives are challenging due to 2017's strong Easter, two LEGO movies and momentum behind the 'NINJAGO' based capex investments rolled out across the estate over 2016 and 2017.

Having so far traded in line with expectations we are now entering our peak season where we generate the majority of our annual profit. With many exciting new initiatives and launches to come in the future, we remain confident in our long term prospects."

Delivering on the strategy

The Group has made good progress against its strategic growth drivers so far in 2018, and has further expanded and diversified its portfolio:

Growing the existing estate through planned investment cycles

- Compelling new propositions opened across the estate, including:
  - Midway Attractions – New 'Justice League' feature at Madame Tussauds Orlando and Sydney leveraging the enduring popularity of DC Comics superheroes
  - LEGOLAND Parks – 'LEGO City: Deep Sea Adventure' opened at LEGOLAND California in July
  - Resort Theme Parks – 'Wicker Man' at Alton Towers and 'Peppa Pig Land' at both Heide Park and Gardaland.

Transforming our theme parks into destination resorts

- Total of 644 new rooms planned for 2018 now open, comprising:
  - 252 room hotel at LEGOLAND Japan, developing the park into a resort
  - 250 room LEGOLAND California Castle Hotel, doubling the capacity of on-site accommodation
  - 142 room Pirate Island Hotel at LEGOLAND Deutschland, complementing the existing 319 rooms.

Rolling out new Midway attractions

- Opening of SEA LIFE in LEGOLAND Japan, further supporting the resort development
- LEGOLAND Discovery Centre Birmingham opened in July
- Attractions scheduled for the second half of the year include 'The Bear Grylls Adventure' in Birmingham, UK, 'Peppa Pig World of Play' in Shanghai and 'Little BIG City' in Beijing.

New LEGOLAND park developments

- Full period benefit of LEGOLAND Japan, with investment to develop the park into a resort
- Good progress towards the targeted opening of LEGOLAND New York in 2020
- Study agreements in place regarding a number of opportunities in China.

Dividend

The Board announces its intention to pay an interim dividend of 2.5 pence per share representing a 4.2% increase year on year. This is set to equal one third of the 2017 full year dividend, in accordance with guidance previously provided.

Information regarding the proposed interim dividend

The timetable for the interim dividend payment of 2.5 pence per share is as follows:

Ex-dividend Date	16 August 2018
Record Date	17 August 2018
Payment Date	24 September 2018

The Company will also provide a Dividend Re-Investment Plan (DRIP). The last day for electing for the DRIP will be 3 September 2018.

References to dividend per share are quoted gross of tax.

Footnotes to key trading highlights table:
(1) Visitors represents all individual visits to Merlin owned or operated attractions.
(2) Growth from like for like businesses and new business development at constant currency and excluding growth from acquisitions.

Audio webcast
An audio webcast for analysts will be held this morning at 08:30 and can be accessed via Merlin's corporate website, www.merlinentertainments.biz.

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About Merlin Entertainments plc

Merlin Entertainments plc is a global leader in location based, family entertainment. As Europe's Number 1 and the world's second-largest visitor attraction operator, Merlin operates over 120 attractions, 18 hotels and 6 holiday villages in 25 countries and across 4 continents. The company aims to deliver memorable experiences to more than 65 million visitors worldwide, through its iconic global and local brands, and the commitment and passion of its c.29,000 employees (peak season). It is headquartered in Poole, Dorset, UK and is listed on the London Stock Exchange (MERL.L). In 2017, Merlin had revenues of £1,594 million and EBITDA of £474 million. Reflecting its longstanding strategy of diversification and global expansion, Merlin now generates over 70% of profits from outside of the UK.

Merlin's strategy since its formation in 1999 has been to create a high growth, high return family entertainment company based upon strong brands and a global portfolio that is naturally balanced against the impact of external factors. It operates two distinct products; Midway attractions and theme parks.

'Midway' attractions are high quality, branded, indoor attractions, with a typical 1-2 hour dwell time, located in city centres, shopping malls or resorts. There are over 100 Midway attractions across 22 countries, with five established chainable brands: SEA LIFE, Madame Tussauds, The Eye (observation attractions), The Dungeons and LEGOLAND Discovery Centres.

Merlin's theme parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation. These are organised into two specific Operating Groups, based on the brands.

- LEGOLAND Parks: Eight LEGO themed interactive theme parks appealing to younger families with children aged 2-12. The LEGOLAND Parks estate spans seven countries across three continents, with plans already announced for a park in New York, USA and discussions ongoing regarding parks in South Korea and China.

- Resort Theme Parks: Six nationally recognised destination theme parks arranged around a central theme. Resort Theme Parks include Alton Towers, THORPE PARK, Chessington World of Adventures and Warwick Castle in the UK; and Gardaland (Italy) and Heide Park (Northern Germany).

The trend towards shorter, more frequent breaks has supported the growth of Merlin's themed on-site accommodation within its theme parks. Merlin has over 4,100 rooms across a variety of accommodation formats including four-star hotels, lodges and glamping.

In October 2017, Merlin announced global exclusive partnership agreements to roll out location based entertainment centred on two market-leading brands. 'The Bear Grylls Adventure' is a unique, activity-based attraction designed around the challenges experienced by world-famous adventurer Bear Grylls, the first of which will open in Birmingham, UK in 2018. Merlin will further extend its experiences for the pre-school market with an exclusive agreement to develop a range of attraction formats based on Peppa Pig and family, the first two of which opened this year as in-park areas at Gardaland and Heide Park, with the first Peppa Pig World of Play due to open in Shanghai this autumn.

Merlin delivers safe, memorable experiences every day for its guests through its own brands or through exclusive IP partnerships. It is supported by its unique internal department, Merlin Magic Making, providing development, creative, production and project management expertise. Merlin also operates a function dedicated to opening new attractions which incorporates site finding, construction, resourcing and initial operation.

Being a Force for Good is at the heart of Merlin's ethos and the company aims to make a difference to the communities linked to its business. Merlin's Magic Wand is a charity helping disadvantaged and sick children experience the magic of Merlin's attractions, and SEA LIFE Trust promotes and contributes to marine conservation around the word.

See Merlin Backstage (www.merlinentertainments.biz/backstage or www.facebook.com/merlinbackstage) for an insight into how Merlin delivers memorable experiences to its many millions of visitors to its attractions.

Visit www.merlinentertainments.biz for more information.

Number of attractions

Movement in the number of attractions between 30 December 2017 and 30 June 2018:

	UK			Cont. Europe			Americas			Asia Pacific			Total		
	30 Dec 2017	Mov't	30 Jun 2018	30 Dec 2017	Mov't	30 Jun 2018	30 Dec 2017	Mov't	30 Jun 2018	30 Dec 2017	Mov't	30 Jun 2018	30 Dec 2017	Mov't	30 Jun 2018
SEA LIFE	13	(1)	12	18	-	18	8	-	8	9	-	9	48	(1)	47
MT(1)	2	-	2	4	-	4	7	-	7	10	-	10	23	-	23
Dungeons	5	-	5	3	-	3	1	-	1	-	-	-	9	-	9
LDC(2)	1	-	1	3	-	3	10	-	10	4	-	4	18	-	18
Eye	2	-	2	-	-	-	1	(1)	-	1	-	1	4	(1)	3
Other	1	-	1	1	-	1	-	-	-	6	-	6	8	-	8
Midway(3)	**24**	**(1)**	**23**	**29**	**-**	**29**	**27**	**(1)**	**26**	**30**	**-**	**30**	**110**	**(2)**	**108**
LLP(4)	**1**	**-**	**1**	**2**	**-**	**2**	**2**	**-**	**2**	**3**	**-**	**3**	**8**	**-**	**8**
RTP(5)	**4**	**-**	**4**	**2**	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Group	**29**	**(1)**	**28**	**33**	**-**	**33**	**29**	**(1)**	**28**	**33**	**-**	**33**	**124**	**(2)**	**122**

Note:
(1) Madame Tussauds
(2) LEGOLAND Discovery Centre
(3) Midway Attractions Operating Group
(4) LEGOLAND Parks Operating Group
(5) Resort Theme Parks Operating Group

Attractions opened to date in 2018 comprise SLC Nagoya and LDC Birmingham (opened in July)
Merlin ceased to operate three Midway attractions in the period (Manly SEA LIFE Sanctuary, the Orlando Eye and the Cornish Seal Sanctuary), with negligible financial impact

Number of rooms

Movement in the number of accommodation rooms between 30 December 2017 and 30 June 2018:

	30-Dec-17	Mov't	30-Jun-18
Billund (Denmark)	436	-	436
Windsor (UK)	209	-	209
California	250	250	500
Deutschland	319	142	461
Florida	318	-	318
Malaysia	258	-	258
Dubai	-	-	-
Japan	-	252	252
LEGOLAND Parks	**1,790**	**644**	**2,434**
Alton Towers (UK)	592	-	592
Chessington World of Adventures (UK)	254	-	254
Gardaland (Italy)	347	-	347
Heide Park (Germany)	329	-	329
THORPE PARK (UK)	90	-	90
Warwick Castle (UK)	67	-	67
Resort Theme Parks	**1,679**	**-**	**1,679**
Group	**3,469**	**644**	**4,113**

Note:
Excludes campsite pitches at LEGOLAND Deutschland and LEGOLAND Billund.

Chief Executive Officer's review

Market Overview

Merlin operates in a fundamentally attractive marketplace, benefiting from a number of structural growth drivers. We see opportunities in continued growth in international tourism, increased propensity for short breaks, and the general shift in consumer spending towards experiences. Furthermore, the competitive landscape within our markets is fragmented, with high barriers to entry and success.

In this context, Merlin's strategic objective has been to create a high growth, high return, family entertainment business naturally balanced against external factors. In pursuit of this, we employ six strategic growth drivers. We seek to deliver growth in our existing estate through continued product investment and through the Group's increased scale driving Group synergies; we will open accommodation at our theme parks, developing them into multi-day, resort destinations; we will open new Midway attractions in new and existing geographies, increasingly where our scale and track record enables us to partner with Intellectual Property owners; and we will also continue our global roll out of LEGOLAND parks where we see the opportunity for 20 parks around the world in the fullness of time. Finally, strategic acquisitions can offer further opportunities, often to support our other strategic growth drivers or for entry into new markets.

2018 performance to date

We continue to see 2018 as a year of transition, with the performance of the business to date reflecting this. In Midway Attractions, the London tourist market has continued to experience the effect of the terrorist atrocities which took place throughout 2017. Trading in London remains suppressed, and it is too early to judge if there are definitive signs of a recovery. In LEGOLAND Parks, performance has been impacted by the absence of a LEGO movie, although we continue to expect the launch of 'The LEGO Movie 2' in 2019 to support future performance. Finally, Merlin's portfolio is, by design, balanced with both indoor and outdoor attractions. Whilst we were adversely impacted by weather in 2017, we have so far seen a positive overall effect from the warm weather in Northern Europe, with strong trading in Resort Theme Parks (RTP) offsetting a softer performance in our Midway attractions.

Against this backdrop, we have made good progress so far in 2018 against our strategic growth drivers. This has included successful product investment, with the 'Wicker Man' wooden roller coaster at Alton Towers and 'Peppa Pig Lands' in our European parks driving visitation in RTP, whilst the opening of a 252 bedroom hotel and SEA LIFE Centre has developed LEGOLAND Japan into a resort. Additionally we expanded the existing resort offering at LEGOLAND California and LEGOLAND Deutschland with further on-site accommodation. In July, we opened 'LEGO City: Deep Sea Adventure', a major new investment at LEGOLAND California, and our Midway roll out in the second half of the year will include the world first 'Peppa Pig World of Play' in Shanghai and 'The Bear Grylls Adventure' in Birmingham.

Productivity Agenda

We continue to see significant cost pressures across the business. In addition to the legislative pressures previously discussed, there are growing signs that tighter labour markets across Europe and the USA, particularly in our theme parks, are resulting in increased employment costs. Whilst these costs can be largely mitigated in the short term, this further necessitates an evolution of the way we work. A number of work streams are underway in this regard, as our global Productivity Agenda gathers pace and can be categorised under three main strands: back office systems; model evolution; and technology. Recent progress has included the early stage development of our new finance back office systems, the launch of an initiative seeking to simplify and streamline the operations of our smaller Midway attractions, and the continued roll out of self-service ticketing terminals.

Progress against long term opportunities

In addition to near term opportunities, Merlin remains focused upon investing for the long term, ensuring sustainable growth and value creation. Accordingly, during the first half of 2018 we have made good progress towards the construction of LEGOLAND New York, and have strengthened the broader LEGOLAND pipeline, with multiple study agreements for parks in China now in place. Within our Midway Attractions Operating Group, the ongoing development of our new brands will support our pipeline of our 'core' brands by accessing new demographics and markets.

Being a Force for Good

Merlin defines its values not just by the passionate way we do business but also the way we treat our people, our visitors, our suppliers, the creatures in our charge and the communities, and environment in which we operate. We call this 'Being a Force for Good' and focus our efforts in the following key areas: Sustainability and the Environment; Accessibility; Marine and Wildlife conservation; and Merlin's Magic Wand Children's Charity.

Beluga Sanctuary

Since the acquisition of Living and Leisure Australia in 2012, Merlin has been committed to finding a sustainable solution to the long term care of the beluga whales at Changfeng Ocean World in Shanghai, one of Merlin's largest aquaria. This reflects our long held view that cetaceans should not be kept in captivity. To this end, working with its partner charity the SEA LIFE Trust and Whale and Dolphin Conservation (WDC), Merlin has found a suitable location in a small bay on Heimaey Island on the south coast of Iceland. Work is underway in constructing the world's first beluga sanctuary, which is expected to be ready to receive the two whales in Spring 2019. The facility will be built and operated by the SEA LIFE Trust and WDC, together with a visitor centre. It is hoped the project will help to encourage the rehabilitation of more captive whales into natural environments in the future. Merlin is in the process of developing alternative features for the attraction in Shanghai, which are not likely to be launched before 2020. Whilst there has been some impact on visitation from the pending move of the whales, is it assumed that this will escalate in the balance of the year. Visit www.sealifetrust.org for further information.

Operating Group Review

Midway Attractions

£million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	Organic growth (constant currency)	Reported growth (actual currency)	Like for like growth
Revenue (without the adoption of IFRS 15)	288	300	(1.1)%	(4.2)%	(2.7)%
Revenue (as reported)	*300*	*300*		*(0.2)%*	
EBITDA	79	89	(9.2)%	(11.6)%	
Operating profit	45	57	(19.5)%	(21.1)%	

Organic revenue declined by 1.1% in the Midway Attractions Operating Group reflecting a decline in like for like revenue of 2.7% and the timing of New Business Development, with the majority of 2018 openings scheduled for the second half of the year. Trading has overall been in line with expectations.

During the period, our LEGOLAND Discovery Centre in Shanghai was temporarily closed due to the closure of the wider shopping mall. This was anticipated, but lasted longer than initially assumed. Excluding the impact of the closure, as well as the sales tax rebate recognised in the comparative period, Midway revenue declined on a like for like basis by 1.7%.

Trading in London, the largest of our five regional Divisions, continues to be the largest contributor to the performance of the Midway Attractions Operating Group. Visitation to London, which benefited from favourable currency movements in early 2017, was down in the period due to the continued impact of the UK terror attacks which took place in March, May, June and September of last year. This decline was consistent with our expectations but it is too early to judge if there are definitive signs of a recovery.

Elsewhere, trading has overall been in line with expectations, with notable dynamics including the adverse impact of the warm weather in our European businesses and strong trading in markets such as Istanbul and Paris, which are recovering from previous terrorist attacks.

Our Midway roll out programme contributed an additional £4 million revenue in the period, or £5 million including SEA LIFE Nagoya which is reported in the LEGOLAND Parks Operating Group results. This represents the full period benefit of the attractions opened in 2017 and reflects the phasing of the openings, with the majority of this year's scheduled attractions opening in the second half of the year.

Organic EBITDA declined by 9.2% as a result of the decline in like for like revenue and in particular the non-recurrence of the £2 million sales tax rebate recognised in the comparative period. The decline in Midway margin from 29.7% to 27.4% is due primarily to the like for like revenue decline relative to a largely fixed cost base. Reflecting our continued focus on efficiencies, we have however limited like for like growth in operating costs to approximately 1% in the period.

The £10 million decline in EBITDA, combined with growth in depreciation driven by continued investment in the existing estate and New Business Development, resulted in a decline in operating profit of £12 million (19.5%).

LEGOLAND Parks

£million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	Organic growth (constant currency)	Reported growth (actual currency)	Like for like growth
Revenue (without the adoption of IFRS 15)	274	267	7.8%	2.7%	0.9%
Revenue (as reported)	*274*	*267*		*2.8%*	
EBITDA	87	85	7.9%	1.4%	
Operating profit	64	67	2.1%	(4.7)%	

Organic revenue grew by 7.8% in the LEGOLAND Parks Operating Group, driven by the continued roll out of new accommodation, the full period benefit of LEGOLAND Japan and like for like revenue growth of 0.9% against a strong comparative period.

644 accommodation rooms have been opened to date, comprising new hotels in Japan, California and Germany. Total accommodation revenue grew by 35.3% on a constant currency basis to represent 22% of revenue *(2017: 17%)*.

Similar to our experience of previous LEGOLAND park openings, LEGOLAND Japan, which opened in April 2017, has seen visitation trends soften following the initial uplift associated with its opening. This has however been offset to a degree by the full period benefit, resulting in revenue of £2 million more than the comparative period. In addition to the investment in the 252 bedroom hotel, we have also opened a SEA LIFE Centre as a second gate, allowing us to further develop the resort and drive guest satisfaction and visitation.

Like for like revenue grew by 0.9% due to the particularly strong trading in the comparative period, which benefited from 'The LEGO Batman Movie' and a good Easter. The timing of product investment has also affected growth, with LEGOLAND Windsor's major 'NINJAGO' investment in 2017 opening towards the beginning of its season, and LEGOLAND California's 'LEGO City: Deep Sea Adventure' opening in July of this year.

Organic EBITDA grew by 7.9%, in line with growth in revenue. The decrease in the margin to 31.7% from 32.1% is due to movements in currency throughout the period, with margins unchanged on a constant currency basis.

Operating profit growth of 2.1% was lower than EBITDA growth due in part to increased depreciation associated with LEGOLAND Japan.

Resort Theme Parks

£million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	Organic growth (constant currency)	Reported growth (actual currency)	Like for like growth
Revenue (without the adoption of IFRS 15)	130	118	9.7%	10.6%	7.7%
Revenue (as reported)	*133*	*118*		*12.8%*	
EBITDA	1	(4)	nm	nm	
Operating loss	(17)	(21)	21.5%	20.0%	

Organic revenue grew by 9.7% in the Resort Theme Parks Operating Group, reflecting like for like revenue growth of 7.7% and the full period benefit of the 76 accommodation rooms opened at Alton Towers in 2017. Total accommodation revenue grew by 17.1% on a constant currency basis to represent 21% of revenue *(2017: 20%)*.

Strong trading has been driven by successful product investment, the continued recovery at Alton Towers and favourable weather in the UK.

At Alton Towers, the launch of the park's 'high year' investment, 'Wicker Man' has been well received by guests, appealing to both family and thrill-seeker markets. Following a difficult start to the year's weather, with snow in Northern Europe over the Easter period, weather in May and June was highly favourable in contrast to 2017, further supporting the Operating Group's performance.

In Gardaland and Heide Park, investments in the new 'Peppa Pig Lands' have proved highly popular, driving significant growth in the pre-school market, and providing us with confidence for the Midway roll out opportunity.

As a result of the revenue growth, and reflecting the seasonality of the Resort Theme Park Operating Group, EBITDA improved to a profit of £1 million, from a loss of £4 million in the comparative period. The operating loss narrowed to £17 million.

Chief Financial Officer's review

	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m	**Organic growth (constant currency)**	**Reported growth (actual currency)**
Revenue (as reported)	***709***	*685*		*3.5%*
Revenue (without the adoption of IFRS 15)	**694**	685	4.5%	1.3%
EBITDA	**143**	144	4.0%	(1.3)%
Margin (based upon revenue without the adoption of IFRS 15)	***20.6%***	*21.1%*		
Depreciation and amortisation	**(80)**	(71)	(14.9)%	(12.0)%
Operating profit	**63**	73	(6.5)%	(14.3)%
Net finance costs	**(20)**	(23)		15.7%
Profit before tax	**43**	50		(13.7)%
Taxation	**(10)**	(13)		24.3%
Profit for the period	**33**	37		(10.0)%
Adjusted earnings per share	**3.3**	3.7		(10.5)%
Operating free cash flow	**58**	51		13.8%

IFRS 15

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

Revenue

Reported revenue was £709 million. Organic revenue, excluding the impact of IFRS 15, grew by 4.5% to £694 million.

On a like for like basis, revenues grew by 0.5%, or £3 million, reflecting growth in the Resort Theme Parks (RTP) and LEGOLAND Parks Operating Groups, and a decline in the Midway Attractions Operating Group.

New Business Development added a total of £27 million to growth, including £18 million from the roll out of accommodation, £5 million due to the Midway roll out and £2 million due to the full period benefit of LEGOLAND Japan which opened in April 2017.

EBITDA

EBITDA declined by 1.3% on a reported basis, and grew by 4.0% at constant currency. The margin decline from 21.1% to 20.1% (to 20.6% excluding the impact of IFRS 15) is predominantly due to foreign exchange movements. RTP and LEGOLAND Parks contributed positively to the margin change, whilst Midway Attractions had an adverse impact, in part due to the non-recurrence of the £2 million sales tax rebate recognised in the prior period. We continue to focus on cost efficiencies and productivity as we seek to offset ongoing cost pressures.

Operating profit

Depreciation and amortisation grew by 12.0% to £80 million. This primarily reflects the continued investment in the existing estate, and the roll out of new attractions and accommodation. We continue to expect a depreciation charge of approximately £170 million in 2018.

Reflecting the seasonality of the business, with the expectation of growth in EBITDA to be weighted towards the second half of 2018, and as a result of the growth in depreciation, operating profit declined by 14.3%, or 6.5% on a constant currency basis.

Interest

Net finance costs of £20 million were £3 million lower than the prior period. This was due in part to the benefit of closing of certain derivative positions as part of the refinancing, referred to below, which took place during the period and the benefit of foreign exchange movements. We expect the charge for 2018 to be approximately £48 million.

Taxation

A tax charge of £10 million represents an effective tax rate of 22.8%, in line with our guidance of 22% to 24% for the full year.

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

Foreign exchange rate sensitivity

Merlin's income statement is exposed to fluctuations in foreign currency exchange rates principally on the translation of our non-Sterling earnings. The tables below show the impact on 2018 revenues and EBITDA of re-translating them at 2017 foreign exchange (FX) rates. The seasonality of the Group results in a bias towards non-European earnings in the first half of the year.

Currency	**H1 2018 average FX rates**	**H1 2017 average FX rates**	**%age movement in FX rates**	**Revenue impact £m**
USD	1.37	1.26	9.0%	19
EUR	1.14	1.16	(2.0)%	(2)
AUD	1.77	1.68	5.5%	2
Other				3
Change in 2018 revenues at 2017 FX rates				**22**

Note: Weighted-average FX rates

Currency	**H1 2018 average FX rates**	**H1 2017 average FX rates**	**%age movement in FX rates**	**EBITDA impact £m**
USD	1.37	1.26	9.0%	7
EUR	1.14	1.15	(0.3)%	-
AUD	1.74	1.68	3.9%	-
Other				1
Change in 2018 EBITDA at 2017 FX rates				**8**

Note: Weighted-average FX rates

Earnings per share (EPS)

Basic earnings per share was 3.3p (*2017: 3.7p)*.

	26 weeks ended 30 June 2018 £m	**26 weeks ended 1 July 2017 £m**
Profit attributable to shareholders	33	37
Weighted average number of shares (million)	1,020	1,018
Basic earnings per share (p)	3.3p	3.7p

Dividend

Merlin is today declaring a 2.5 pence per share interim dividend *(2017: 2.4p)*. This will be paid on 24 September 2018 to shareholders on the register on 17 August 2018.

Cash flow

	26 weeks ended 30 June 2018 £m	**26 weeks ended 1 July 2017 £m**
EBITDA	143	144
Working capital and other movements	78	70
Tax paid	(22)	(34)
Net cash inflow from operating activities	**199**	**180**
Capital expenditure – existing estate	(85)	(93)
Capital expenditure – new business development	(105)	(109)
Investments	-	(12)
Net (decrease)/increase in borrowings	(126)	134
Interest paid, net of interest received	(23)	(21)
Refinancing and other costs	(1)	(2)
Dividend paid	(51)	(50)
Other	3	6
Net cash (outflow)/inflow for the period	**(189)**	**33**

Merlin continues to be highly cash generative, delivering operating free cash flow (being EBITDA less existing estate capital expenditure) of £58 million in the period *(2017: £51 million)*. Net cash flow from operating activities of £199 million was £19 million higher than the prior year, due primarily to lower tax payments made in the period.

The Group invested £190 million *(2017: £202 million)* in capital projects during the period, including £85 million in the existing estate and £105 million on New Business Development. Guidance of £340 to £360 million (excluding LEGOLAND New York of £30 - £50 million) for the full year 2018 remains unchanged.

The net cash outflow of £189 million *(2017: £33 million inflow)* reflects the use of cash to pay down term loans as part of the refinancing.

Loan facilities and refinancing

	June 2018 £m	Dec 2017 £m	June 2017 £m
Interest-bearing loans and borrowings	1,157	1,278	1,283
Less: cash and cash equivalents	(117)	(309)	(250)
Finance lease obligations	195	191	203
Net debt	**1,235**	**1,160**	**1,236**

During the period, we successfully refinanced the Group. Our existing term loans were repaid through the issuance of a US Dollar denominated bond, and utilising cash on the balance sheet. This resulted in cash and cash equivalents at 30 June 2018 of £117 million which is lower than prior periods, and is supported through an increase in our Revolving Credit Facility to £600 million from £300 million. The refinancing has extended our average maturity, as well as providing us with greater flexibility.

Net debt increased by £75 million in the 26 week period reflecting the seasonality of the business, and was approximately flat on the comparative period.

Risks and uncertainties

The Directors consider that the principal risks and uncertainties which could have a material effect on the Group's performance in the remaining 26 weeks of 2018 are the same as described on pages 34-39 of the 2017 Annual Report and Accounts. These are summarised as:

- Health, safety and security risks including those related to international terrorism; and
- Commercial and strategic risks including those over innovation; brand development and customer satisfaction; people availability and expertise; competition and Intellectual Property (IP); foreign exchange rates impacting international tourism; animal welfare; availability and delivery of new sites and attractions; IT robustness; technological developments and cyber security; and
- Financial process risks including those over anti-bribery and corruption; liquidity and cash flow risk; and foreign exchange translation risk.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the 26 weeks ended 30 June 2018 *(2017: 26 weeks ended 1 July 2017)*

	Note	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
Revenue (1)	1.1	709	685
Cost of sales (1)	1.1	(127)	(111)
Gross profit		582	574
Staff expenses	2.1	(211)	(206)
Marketing		(47)	(48)
Rent		(50)	(51)
Other operating expenses		(131)	(125)
EBITDA (2)	2.1	143	144
Depreciation and amortisation	3.1, 3.2	(80)	(71)
Operating profit		63	73
Finance income	2.2	5	2
Finance costs	2.2	(25)	(25)
Profit before tax		43	50
Taxation	2.3	(10)	(13)
Profit for the period (3)		**33**	**37**
Earnings per share			
Basic earnings per share (p)	2.4	3.3	3.7
Diluted earnings per share (p)	2.4	3.3	3.6
Dividend per share (4) **(p)**	4.2	2.5	2.4

(1) *For the 26 weeks ended 30 June 2018 revenue and cost of sales are impacted by the adoption of IFRS 15. The amounts excluding the adoption of IFRS 15 would be £694 million and £112 million respectively (see note 1.1).*

(2) *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 jointly controlled entities.*

(3) *Profit for the 26 weeks ended 30 June 2018 and the 26 weeks ended 1 July 2017 is wholly attributable to the owners of the Company.*

(4) *Dividend per share represents the interim proposed dividend for the year.*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 30 June 2018 *(2017: 26 weeks ended 1 July 2017)*

		26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
Profit for the period		33	37
Other comprehensive income			
Items that may be reclassified to the income statement			
Exchange differences on the retranslation of net assets of foreign operations		(7)	9
Exchange differences relating to the net investment in foreign operations		2	(10)
Cash flow hedges - effective portion of changes in fair value		4	(1)
Cash flow hedges - reclassified to profit and loss	2.2	(3)	-
Other comprehensive income for the period net of income tax		(4)	(2)
Total comprehensive income for the period [(1)]		**29**	**35**

(1) *Total comprehensive income for the 26 weeks ended 30 June 2018 and the 26 weeks ended 1 July 2017 is wholly attributable to the owners of the Company.*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 *(2017: 30 December 2017, 1 July 2017)*

	Note	30 June 2018 £m	30 December 2017 £m	1 July 2017 £m
Non-current assets				
Property, plant and equipment	3.1	2,215	2,092	2,065
Goodwill and intangible assets	3.2	1,017	1,018	1,022
Investments	5.1	60	59	60
Other receivables		13	11	12
Deferred tax assets		32	33	37
		3,337	3,213	3,196
Current assets				
Inventories		52	37	52
Trade and other receivables		142	100	119
Derivative financial assets		2	5	-
Cash and cash equivalents	4.1	117	309	250
		313	451	421
Total assets		3,650	3,664	3,617
Current liabilities				
Interest-bearing loans and borrowings	4.1	9	7	7
Finance leases	4.1	2	1	-
Derivative financial liabilities		-	3	3
Trade and other payables		418	306	402
Tax payable		25	37	19
Provisions		5	5	3
		459	359	434
Non-current liabilities				
Interest-bearing loans and borrowings	4.1	1,148	1,271	1,276
Finance leases	4.1	193	190	203
Other payables		48	28	29
Provisions		72	72	67
Employee benefits		6	6	9
Deferred tax liabilities		171	171	176
		1,638	1,738	1,760
Total liabilities		2,097	2,097	2,194
Net assets		**1,553**	**1,567**	**1,423**
Issued capital and reserves attributable to owners of the Company		1,549	1,563	1,419
Non-controlling interest		4	4	4
Total equity		**1,553**	**1,567**	**1,423**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 26 weeks ended 30 June 2018 *(2017: 26 weeks ended 1 July 2017)*

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 1 January 2017		10	2	(5)	(3)	1,420	**1,424**	4	**1,428**
Profit for the period		-	-	-	-	37	**37**	-	**37**
Other comprehensive income for the period net of income tax		-	-	(1)	(1)	-	**(2)**	-	**(2)**
Total comprehensive income for the period		-	-	(1)	(1)	37	**35**	-	**35**
Shares issued		-	6	-	-	-	**6**	-	**6**
Equity dividends	4.2	-	-	-	-	(50)	**(50)**	-	**(50)**
Equity-settled share-based payments	4.3	-	-	-	-	4	**4**	-	**4**
At 1 July 2017		**10**	**8**	**(6)**	**(4)**	**1,411**	**1,419**	**4**	**1,423**
Profit for the period		-	-	-	-	172	**172**	-	**172**
Other comprehensive income for the period net of income tax		-	-	(12)	5	2	**(5)**	-	**(5)**
Total comprehensive income for the period		-	-	(12)	5	174	**167**	-	**167**
Shares issued		-	2	-	-	-	**2**	-	**2**
Equity dividends		-	-	-	-	(24)	**(24)**	-	**(24)**
Equity-settled share-based payments		-	-	-	-	(1)	**(1)**	-	**(1)**
At 30 December 2017		**10**	**10**	**(18)**	**1**	**1,560**	**1,563**	**4**	**1,567**
Profit for the period		-	-	-	-	33	**33**	-	**33**
Other comprehensive income for the period net of income tax		-	-	(5)	1	-	**(4)**	-	**(4)**
Total comprehensive income for the period		-	-	(5)	1	33	**29**	-	**29**
Shares issued	4.2	-	3	-	-	-	**3**	-	**3**
Equity dividends	4.2	-	-	-	-	(51)	**(51)**	-	**(51)**
Equity-settled share-based payments	4.3	-	-	-	-	5	**5**	-	**5**
At 30 June 2018		**10**	**13**	**(23)**	**2**	**1,547**	**1,549**	**4**	**1,553**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the 26 weeks ended 30 June 2018 *(2017: 26 weeks ended 1 July 2017)*

	Note	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
Cash flows from operating activities			
Profit for the period		33	37
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	80	71
Finance income	2.2	(5)	(2)
Finance costs	2.2	25	25
Taxation	2.3	10	13
		143	144
Working capital changes		56	68
Changes in provisions and other non-current liabilities		22	2
		221	214
Tax paid		(22)	(34)
Net cash inflow from operating activities		199	180
Cash flows from investing activities			
Acquisition of investments		-	(12)
Acquisition of property, plant and equipment		(190)	(202)
Net cash outflow from investing activities		(190)	(214)
Cash flows from financing activities			
Proceeds from issue of share capital	4.2	3	6
Equity dividends paid	4.2	(51)	(50)
Proceeds from borrowings	4.1	613	178
Repayment of borrowings	4.1	(738)	(43)
Capital repayment of finance leases		(1)	(1)
Interest paid		(23)	(21)
Financing costs		(6)	(2)
Settlement of interest rate swaps	2.2	5	-
Net cash (outflow)/inflow from financing activities		(198)	67
Net (decrease)/increase in cash and cash equivalents		(189)	33
Cash and cash equivalents at beginning of period	4.1	309	215
Effect of movements in foreign exchange		(3)	2
Cash and cash equivalents at end of period	4.1	**117**	**250**

SECTION 1
BASIS OF PREPARATION

26 weeks ended 30 June 2018

1.1 BASIS OF PREPARATION

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom. The condensed consolidated interim financial statements as at and for the 26 weeks ended 30 June 2018 *(2017: 26 weeks ended 1 July 2017)* comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interests in jointly controlled entities.

The consolidated financial statements of the Group as at and for the 52 weeks ended 30 December 2017 are available on request from the Company's registered office at Link House, 25 West Street, Poole, Dorset, BH15 1LD.

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

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting' as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the 52 weeks ended 30 December 2017.

These interim financial statements are not statutory accounts. The statutory accounts for the 52 weeks ended 30 December 2017 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern

The Group continues to trade profitably, reporting a profit for the period of £33 million *(26 weeks ended 1 July 2017: £37 million)* and continues to generate cash with net operating cash inflows of £199 million. In the equivalent period for 2017, the Group generated net operating cash inflows of £180 million, and went on to generate £413 million for the full year.

Following refinancing activities that completed in May 2018, the Group is now funded by senior unsecured notes due for repayment in 2022 and 2026 and a multi-currency revolving credit facility maturing in April 2023. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.1.

After reviewing the Group's statement of financial position, available facilities, cash flow forecasts and trading budgets, the Directors believe the Group to be operationally and financially sound and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. Accordingly, the Group continues to adopt the going concern basis in preparing its condensed consolidated financial statements.

Significant accounting policies

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with the policies applied by the Group in its consolidated financial statements as at and for the 52 weeks ended 30 December 2017, except for the adoption as of 31 December 2017 of IFRS 15 'Revenue from contracts with customers'.

IFRS 15 'Revenue from contracts with customers'

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

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). This approach requires the effect of applying this standard to be recognised at the date of initial application (i.e. 31 December 2017). There is no impact to retained earnings on transition because the timing of recognition of each category of Merlin's revenue under the transfer of risks and rewards principles in IAS 18 matches the timing under the control principles in IFRS 15.

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

SECTION 1
BASIS OF PREPARATION (CONTINUED)

26 weeks ended 30 June 2018

1.1 BASIS OF PREPARATION (CONTINUED)

We have reviewed how this change affects situations where a third party is involved, together with Merlin, in providing visitors to Merlin attractions with admission tickets and/or accommodation, or commercial offerings such as photos and games services once inside a Merlin attraction:

- Trade partners – Merlin engages with trade partners (such as online travel agents), in selling admission tickets and accommodation to the visiting customer. In instances where this leads to trade partners being considered Merlin's agent, Merlin records revenue at the amount paid by the visiting customer ('gross') and records the amount of underlying commission retained by the agent within cost of sales.
- Commercial offerings – Merlin partners with third parties in the operation of commercial offerings within theme park resorts and Midway attractions. The most significant of these are photo and games operations where the Group has analysed which party is considered to control the relevant operation. The nature of the operations concerned, and the judgements made, impact each Operating Group in different ways. At a Group level, there is no material change in revenue.

The following table summarises the impacts of adopting IFRS 15 on the Group's interim condensed consolidated income statement for the 26 weeks ended 30 June 2018 and each of the line items affected. There was no material impact on the Group's interim condensed statement of financial position, condensed statement of cash flows or condensed statement of comprehensive income:

	As reported £m	Adjustments £m	Amounts without adoption of IFRS 15 £m
26 weeks ended 30 June 2018			
Revenue	709	(15)	694
Cost of sales	(127)	15	(112)
Gross profit	582	-	582

In line with adopting IFRS 15 using the cumulative effect method the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

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

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

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

SECTION 1
BASIS OF PREPARATION (CONTINUED)

26 weeks ended 30 June 2018

1.1 BASIS OF PREPARATION (CONTINUED)

Other standards

The following new standards and interpretations have been adopted by the Group with no significant impact on its consolidated financial statements:

- IFRS 9 'Financial instruments'.
- IFRIC 22 'Foreign currency transactions and advance consideration'.
- IFRIC 23 'Uncertainty over income tax treatments'.
- Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'.
- Annual improvements to IFRS standards 2014–2016 cycle: IFRS 1 and IAS 28.

New standards and interpretations

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 and introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low value items.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements and is in the process of refining this assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the composition of the Group's lease portfolio at that date, any significant events or significant changes in circumstances that affect whether it is reasonably certain to exercise options and the extent to which the Group chooses to use recognition exemptions.

The Group has considered its entire lease portfolio and it substantially relates to operating leases for land, buildings and infrastructure assets. As such, the most significant impact is that the Group will recognise new assets and liabilities for these leases. In addition, the nature of expenses will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group's rental expenses linked to turnover, which totalled £18 million during 2017, will continue to be recorded as a rent charge within operating expenses. The effect of this will be an increase in reported EBITDA. Due to the Group's most significant leases being in their earlier stages, the 'front loading' impact of the finance costs will result in an initial reduction in reported earnings albeit this would be expected to even out over the lease term.

The Group's leverage threshold loan covenants are under 'frozen-GAAP' and as such the adoption of IFRS 16 is not expected to impact the ability to comply with them.

Transition

The Group plans to apply the practical expedient at transition to grandfather which transactions are accounted for as leases. This means that it will apply IFRS 16 to all contracts entered into before 30 December 2018 that are identified as leases in accordance with previous guidance. The effect of this is not expected to be material.

The Group plans to apply IFRS 16 using the retrospective approach. Under this approach the cumulative effect of adopting IFRS 16 will be recognised by making an opening equity adjustment as at 31 December 2017, and then restating the 52 week period ending 29 December 2018.

SECTION 2
RESULTS FOR THE PERIOD

26 weeks ended 30 June 2018

2.1 PROFIT BEFORE TAX

Segmental information

An operating segment, as defined by IFRS 8 'Operating segments' is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group is managed through its three Operating Groups, which form the operating segments on which the information shown below is prepared. The Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker, and the Board. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

Information regarding the results of each segment is included below:

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items [1] £m	Total £m
26 weeks ended 30 June 2018						
Visitor revenue	288	203	101	592	-	592
Accommodation revenue	-	61	28	89	-	89
Other revenue	12	10	4	26	2	28
Segment revenue	**300**	**274**	**133**	**707**	**2**	**709**
Segment profit/(loss), being segment EBITDA	**79**	**87**	**1**	**167**	**(24)**	**143**
Segment depreciation and amortisation	(34)	(23)	(18)	(75)	(5)	(80)
Segment operating profit/(loss)	45	64	(17)	92	(29)	63
26 weeks ended 1 July 2017 [2]						
Visitor revenue	287	209	91	587	-	587
Accommodation revenue	-	46	23	69	-	69
Other revenue	13	12	4	29	-	29
Segment revenue	**300**	**267**	**118**	**685**	**-**	**685**
Segment profit/(loss), being segment EBITDA	**89**	**85**	**(4)**	**170**	**(26)**	**144**
Segment depreciation and amortisation	(32)	(18)	(17)	(67)	(4)	(71)
Segment operating profit/(loss)	57	67	(21)	103	(30)	73

(1) Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributable to the reportable segments.
(2) The Group has initially applied IFRS 15 and IFRS 9 at 31 December 2017. Under the transition methods chosen, comparative information is not restated.

2.1 PROFIT BEFORE TAX (CONTINUED)

Staff expenses

The aggregate payroll costs of the persons employed by the Group (including Directors) during the period were as follows:

	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
Wages and salaries	178	174
Share-based payments (note 4.3)	5	4
Social security costs	23	22
Other pension costs	5	6
	211	206

Seasonality of operations

The Group's portfolio of attractions operates on different trading cycles and across different geographies. Being predominantly indoor attractions, Midway attractions are generally open throughout the year with high points around public holidays and vacation periods. In contrast, as outdoor attractions, the Group's theme parks are predominantly closed or operate reduced opening times during the winter. The operations of these attractions are also weighted towards vacation periods, normally around June to September.

Information regarding the results for the 52 weeks to 30 June 2018 is included below:

	52 weeks ended 30 June 2018 £m	53 weeks ended 1 July 2017 £m
Revenue (1)	1,618	1,569
EBITDA	473	469
Operating profit	313	323
Profit before tax	264	277

(1) *For the 52 weeks ended 30 June 2018 revenue is impacted by the adoption of IFRS 15. The amount excluding the adoption of IFRS 15 would be £1,603 million (see note 1.1).*

2.2 FINANCE INCOME AND COSTS

Finance income

	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
In respect of assets not held at fair value		
Interest income	-	2
In respect of assets held at fair value		
Cash flow hedges – reclassified to profit and loss [(1)]	3	-
Other		
Net foreign exchange gain	2	-
	5	2

Finance costs

	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	24	22
Other interest expense	1	1
Other		
Net foreign exchange loss	-	2
	25	25

(1) As part of the refinancing undertaken during the period (see note 4.1), the Group restructured its interest rate swaps and was paid a net £5 million to cash-settle certain swaps. The swaps had previously been hedge accounted through equity and £3 million has therefore been recycled through the income statement in the period to the 30 June 2018 with the remainder to be recycled in the period to 2020. Further details of the Group's debt are presented in note 4.1.

2.3 TAXATION

The tax charge on profit before taxation for the 26 weeks ended 30 June 2018 is based on management's best estimate of the full year effective tax rate of 22.8% *(26 weeks ended 1 July 2017: 26.0%; 52 weeks ended 30 December 2017: 22.9%).*

Significant factors that could impact the Group's future effective tax rate include USA tax reforms, the ability to continue current financing arrangements and changes to local or international tax laws. With regard to the latter, The European Commission (EC) published its preliminary decision in November 2017 finding that certain elements of the UK's Controlled Foreign Company rules amount to unlawful State Aid. The impact of a negative decision could result in an increase in the Group's future effective tax rate. A final decision from the EC is expected in late 2018 but is subject to possible appeal.

SECTION 2
RESULTS FOR THE PERIOD (CONTINUED)

26 weeks ended 30 June 2018

2.4 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	26 weeks ended 30 June 2018 £m	26 weeks ended 1 July 2017 £m
Profit attributable to ordinary shareholders	33	37

	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Basic weighted average number of shares	1,020,396,625	1,017,649,504
Dilutive potential ordinary shares	456,866	2,312,202
Diluted weighted average number of shares	1,020,853,491	1,019,961,706

Share incentive schemes (see note 4.3) 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.

For the 26 week periods ended 30 June 2018 and 1 July 2017, the PSP is not dilutive as the performance measures have not been achieved, whereas the DBP, CSOP and AESP are marginally dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

Earnings per share

	26 weeks ended 30 June 2018 Pence	26 weeks ended 1 July 2017 Pence
Basic earnings per share on profit for the period (1)	3.3	3.7
Diluted earnings per share on profit for the period (1)	3.3	3.6

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

SECTION 3 OPERATING ASSETS AND LIABILITIES

26 weeks ended 30 June 2018

3.1 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Balance at 31 December 2017	1,024	863	205	2,092
Additions - owned assets	23	10	155	188
Transfers	104	75	(179)	-
Depreciation for the period - owned assets	(20)	(55)	-	(75)
Depreciation for the period - leased assets	(2)	(2)	-	(4)
Effect of movements in foreign exchange	9	2	3	14
Balance at 30 June 2018	1,138	893	184	2,215

Capital commitments

At the period end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions (including accommodation), as well as for Midway attractions that are under construction. These commitments are expected to be settled within two financial years of the reporting date. These amount to £68 million *(1 July 2017: £69 million and 30 December 2017: £104 million)* for which no provision has been made.

In addition, at period end foreign exchange rates, the Group is intending to invest a further £246 million in LEGOLAND New York *(1 July 2017: £nil and 30 December 2017: £250 million)* and £72 million in LEGOLAND Korea *(1 July 2017: £72 million and 30 December 2017: £73 million)*.

3.2 GOODWILL AND INTANGIBLE ASSETS

		Intangible assets		
	Goodwill £m	Brands £m	Other £m	Total £m
Balance at 31 December 2017	814	185	19	1,018
Additions	-	-	1	1
Amortisation for the period	-	-	(1)	(1)
Effect of movements in foreign exchange	(1)	-	-	(1)
Balance at 30 June 2018	813	185	19	1,017

In the 2017 Annual Report and Accounts, disclosure was provided regarding the valuation at 30 December 2017 of the goodwill associated with the Resort Theme Parks Operating Group of £209 million. Having reviewed the development of trading performance and prospects over the interim period, the market conditions which inform the discount rate and long term growth rate used in these valuations, and the areas of sensitivity disclosed in the 2017 Annual Report and Accounts, the Directors remain satisfied that no impairment has arisen in the 26 weeks ended 30 June 2018.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

26 weeks ended 30 June 2018

4.1 NET DEBT

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	31 December 2017 £m	Net cash flows £m	Interest charge and amortisation of finance costs £m	Effect of movements in foreign exchange £m	30 June 2018 £m
Cash and cash equivalents	309	(189)	-	(3)	117
Interest-bearing loans and borrowings	(1,278)	150	(21)	(8)	(1,157)
Finance leases	(191)	5	(4)	(5)	(195)
Net debt	(1,160)	(34)	(25)	(16)	(1,235)

Interest-bearing loans and borrowings

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

The Group's facilities are:

- A £600 million multi-currency revolving credit facility of which £231 million had been drawn down at 30 June 2018 *(30 December 2017: £nil)*. The margin on this facility is dependent on the Group's adjusted leverage ratio and at 30 June 2018 was at a margin of 1.25% *(30 December 2017: 1.75%)* over the floating interest rates when drawn. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.51% *(30 December 2017: 0.51%)*, and 2.33% *(30 December 2017: 1.61%)* respectively at 30 June 2018.
- A bond in the form of €700 million seven year notes with a coupon rate of 2.75% to mature in March 2022.
- A bond in the form of $400 million eight year notes with a coupon rate of 5.75% to mature in May 2026.

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

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

SECTION 4 CAPITAL STRUCTURE AND FINANCING (CONTINUED)

26 weeks ended 30 June 2018

4.2 EQUITY

Share capital

	Ordinary shares of £0.01 each	
	Number	**£m**
On issue and fully paid at 31 December 2017	1,019,572,449	10
Issued in the period	2,500,000	-
On issue and fully paid at 30 June 2018	1,022,072,449	10

During the period the Company issued 2,500,000 ordinary shares at par in connection with the Group's employee share incentive schemes (note 4.3).

The Company also received £3 million in relation to the exercise of options under the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP). This was taken to the share premium account.

Dividends

The following dividends were declared and paid by the Company:

	26 weeks ended 30 June 2018 £m	**26 weeks ended 1 July 2017 £m**
Final dividend for the 53 weeks ended 31 December 2016 of 4.9 pence per share	-	50
Final dividend for the 52 weeks ended 30 December 2017 of 5.0 pence per share	51	-
	51	50

The Directors have declared their intention to pay an interim dividend of 2.5 pence per share *(2017: 2.4 pence per share)*, amounting to £26 million *(2017: £24 million)*. The dividend will be paid on 24 September 2018 to ordinary shareholders on the Register at the close of business on 17 August 2018.

4.3 SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled schemes

The Group operates four employee share incentive schemes: the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP). The movements in the period, together with the weighted average exercise prices (WAEP) over the period, are set out in the tables below.

	PSP [1]	DBP [1]	CSOP		AESP	
	Number	Number	Number	WAEP (£)	Number	WAEP (£)
At 31 December 2017	6,547,590	315,461	4,305,685	4.25	5,385,690	3.49
Granted during the period	3,803,227	454	2,059,750	3.47	4,546,781	2.83
Forfeited during the period	(137,243)	-	(172,150)	4.33	(1,087,644)	3.65
Exercised during the period	(245,389)	(281,772)	(104,277)	3.15	(838,387)	3.26
Lapsed during the period	(1,510,150)	-	-	-	-	-
Expired during the period	-	-	(8,965)	4.52	(12,355)	3.35
At 30 June 2018	8,458,035	34,143	6,080,043	4.01	7,994,085	3.12

[1] Nil cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants during the period are as follows:

Scheme	Date of grant	Exercise price (£)	Share price at grant date (£)	Fair value per award (£)	Expected dividend yield	Expected volatility	Award life (years)	Risk free rate
PSP	11 April 2018	-	3.43	3.43	n/a	n/a	3.0	n/a
CSOP	11 April 2018	3.47	3.43	0.65	2.2%	23%	4.5	1.0%
AESP	9 April 2018	2.83	3.46	0.79	2.1%	24%	3.2	0.9%
AESP	9 April 2018	2.97	3.46	0.65	2.1%	24%	2.1	0.8%

The total charge for the period relating to employee share-based payment plans was £5 million *(26 weeks ended 1 July 2017: £4 million)* which was charged to staff expenses.

SECTION 5
OTHER NOTES

26 weeks ended 30 June 2018

5.1 INVESTMENTS

	LEGOLAND Malaysia £m	LEGOLAND Korea £m	Big Bus Tours £m	LEGOLAND Dubai Hotel £m	Total £m
Balance at 31 December 2017	9	3	35	12	59
Effect of movements in foreign exchange	-	-	1	-	1
Balance at 30 June 2018	9	3	36	12	60

Financial instruments

There have been no changes to the valuation techniques used for financial assets or liabilities held at fair value and no transfers in the hierarchy of financial assets or liabilities. There has been no effect of fair value movements on assets classified as level 3 and the valuations are not highly sensitive to changes in unobservable inputs.

5.2 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 period the Group entered into transactions with a major shareholder, KIRKBI Invest A/S; the LEGO Group, a related party of KIRKBI Invest A/S; and LLJ Investco K.K., a subsidiary of KIRKBI A/S.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 30 June 2018 and 1 July 2017, were as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases, royalties and rent £m	Amounts owed to related party £m
30 June 2018				
KIRKBI Invest A/S	-	-	6	4
LEGO Group	1	1	28	4
LLJ Investco K.K.	-	-	6	-
	1	1	40	8
1 July 2017				
KIRKBI Invest A/S	-	-	6	5
LEGO Group	-	1	29	5
LLJ Investco K.K.	-	-	3	3
	-	1	38	13

5.2 RELATED PARTY TRANSACTIONS (CONTINUED)

In 2017 the Group entered into a 50 year lease with LLJ Investco K.K.. The Group's obligations come in the form of fixed rental payments of £6 million per year in addition to turnover rent and ongoing repair obligations under the terms of the lease. The amount in the table above represents the rental payment incurred during the period.

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. On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 30 June 2018 and 1 July 2017, are as follows:

	30 June 2018 £m	1 July 2017 £m
Sales to related party	1	2
Amounts owed by related party	3	-

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim financial reporting' as adopted by the EU;

- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the current financial period and their impact on the condensed set of consolidated financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial period; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial period and that have materially affected the financial position or the performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report and Accounts that could do so.

Andrew Fisher was appointed as a Non-executive Director to the Board of Merlin Entertainments plc with effect from 1 July 2018. Ken Hydon retired from the Board at the 2018 Annual General Meeting. There have been no further appointments or resignations in the period and the remaining Directors are listed in the Merlin Entertainments plc 2017 Annual Report and Accounts. A list of current Directors is maintained on the website (www.merlinentertainments.biz).

By order of the Board

Nick Varney
Chief Executive Officer
1 August 2018

Anne-Francoise Nesmes
Chief Financial Officer
1 August 2018

INDEPENDENT REVIEW REPORT TO MERLIN ENTERTAINMENTS PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 30 June 2018 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1.1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Hugh Green
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Gateway House, Tollgate
Chandlers Ford
Southampton
SO53 3TG

1 August 2018