# Merlin Entertainments plc – 2016 Preliminary Results

## Results delivered in line with expectations
## Confident in growth strategy and outlook

**2 March 2017**

Merlin Entertainments, Europe's leading and the world's second-largest visitor attraction operator, reports preliminary results for the year ended 31 December 2016.

**Financial Summary[1]**

| | **53 weeks ended 31 December 2016** | **52 weeks ended 24 December 2016** | 52 weeks ended 26 December 2015 | 52 weeks total growth at actual FX | 52 weeks total growth at constant FX[5] | 52 weeks like for like growth[6] |
|---|---|---|---|---|---|---|
| Visitors[2] (m) | **65.1** | **63.8** | 62.9 | 1.3% | | |
| Revenue (£m) | **1,457** | **1,428** | 1,278 | 11.7% | 3.6% | 1.4% |
| EBITDA[1] (£m) | **451** | **433** | 402 | 7.7% | (1.8)% | (3.6)% |
| Operating profit[1] (£m) | **320** | **302** | 291 | 3.6% | (6.2)% | |
| Profit before tax[1], [3] (£m) | **277** | **259** | 250 | 3.4% | | |
| Profit for the year[1] (£m) | **211** | **197** | 180 | 9.3% | | |
| Adjusted earnings per share [1], [4] (p) | **20.8** | **19.5** | 17.8 | 9.3% | | |
| Dividend per share (p) | **7.1** | **7.1** | 6.5 | 9.2% | | |
| ROCE[7] | **10.2%** | **9.6%** | 9.7% | | | |

*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 more direct comparison with last year's 52 week period, all operating performance commentary is stated on a 52 week basis, unless otherwise noted. Footnotes to the table above are provided on page 3.*


### Summary

- 2016 revenue growth of 11.7% (3.6% at constant currency) reflecting the diversified nature of the portfolio.
- Underlying earnings per share growth of 9.3%.
- Profit decline at constant currency due to challenging trading in a number of key markets not fully offset by cost mitigation actions taken throughout the year.
- Strong cash flow generation with EBITDA of £433m on a 52 week basis (£451 million on a 53 week basis) which converted to operating cash flow of £433 million *(2015: £325 million)*.
- Like for like revenue growth in the Resort Theme Parks Operating Group (RTP) of 4.3%. Recovery well underway at Alton Towers, with strong performances from the wider RTP estate.
- Like for like revenue growth of 1.6% in the LEGOLAND Parks Operating Group.
- Midway Attractions Operating Group like for like revenue decline of 0.2% due to difficult trading conditions in certain key markets.
- Good progress towards 2020 milestones:
    - Five new Midways opened in 2016; over 20 now opened, under development or approved
    - 210 rooms opened in 2016; over 1,500 now opened, under development or approved
    - LEGOLAND Dubai opened on 31 October 2016, with good progress towards further LEGOLAND park openings.

**Nick Varney, Merlin Entertainments Chief Executive Officer, said:**

"Our performance in 2016 is testament to the benefits of our strategy of portfolio and geographic diversification, with over 70% of our profits coming from outside of the UK. We have seen the continuation of a recovery in Resort Theme Parks, steady growth in LEGOLAND Parks and a strong contribution from New Business Development. The external environment continued to present challenges in a number of our key markets although the impact of this was offset to some degree by cost control measures taken during the year.

We made good progress against our 2020 milestones in 2016. Five new Midway attractions opened, our accommodation offering expanded, and our entry into the Middle East region was celebrated with the opening of LEGOLAND Dubai in October. The pipeline into 2017 and beyond looks exciting with over half of the projects necessary to achieve our 2020 milestones either opened, approved or under development.

As we move into 2017, with ongoing volatility in a number of our markets and continued cost pressures, we will increase our focus on cost efficiency and productivity, while continuing to invest in our product, marketing, and people to deliver safe and memorable experiences to our guests.

We continue to be excited about the long term growth opportunities for Merlin. Whilst we are planning prudently, we remain confident of a good performance in the year ahead."

## Delivering on the strategy

The Group has made good progress against its strategic growth drivers and remains on track to achieve the 2020 milestones set out in February 2016.

*Growing the existing estate through planned investment cycles*

- New product and features in 2016 included 'Derren Brown's Ghost Train' at THORPE PARK, 'NINJAGO – The Ride' at LEGOLAND Billund, and 15 major new product investments across the Midway Attractions Operating Group.
- In 2017, each site will again enjoy new rides, attractions, shows or features with 'high year' investments at Heide Park, LEGOLAND Deutschland and LEGOLAND Florida, and 21 Midway attractions.

*Exploiting strategic synergies*

- Continued global implementation of the accesso® 'Passport' ticketing system with roll out targeted to be complete at all major sites by the end of 2017.
- Financial improvement evident through improved mobile conversion rates, up-selling and cross-selling.
- Further leveraging of accesso® platform underway through the development of ticketing for trade channels.
- Progress on implementing the strategic partnership with Big Bus Tours, following the initial $34 million investment announced in February 2016.

*Transforming our theme parks into destination resorts*

- 210 additional rooms added in 2016 across both of our theme park Operating Groups, including a 100 room second hotel at Gardaland.
- 2017 will see a significant step-up in the accommodation roll out, with 381 new rooms opening, comprising the holiday village at LEGOLAND Florida (166 rooms), LEGOLAND Billund Holiday Village expansion (80), CBeebies Land Hotel at Alton Towers (76) and LEGOLAND Windsor second hotel (59).
- Further growth planned in 2018.

*Rolling out new Midway attractions*

- 2016 saw the launch of five new Midway attractions, comprising LEGOLAND Discovery Centres in Michigan, Arizona and Shanghai and Madame Tussauds in Chongqing and Istanbul.
- 2017 openings will include a LEGOLAND Discovery Centre in Melbourne, our first entry to India with a Madame Tussauds, and the launch of our new brand – 'Little Big City' in Berlin.

*New LEGOLAND park developments*

- LEGOLAND Dubai opened on 31 October under a management contract.
- LEGOLAND Japan will open under an operated and leased model in April 2017.
- Further progress made towards the opening of LEGOLAND Korea which is targeted to open in 2019.

- Continue to explore further potential sites in New York and China.

*Strategic acquisitions*

- Continue to consider opportunities consistent with our long term growth strategy.

**Current trading and outlook**

As we enter 2017, Merlin is in a strong position and we remain confident in the prospects for the business.

Trading at this seasonally quiet point in the year is in line with expectations, with planned investments and new developments on track. We are encouraged by recent trends in European visitation to our London attractions as the more competitive exchange rate begins to impact holiday decisions.

Ahead of entering our peak trading periods, we remain alert to geo-political uncertainties, in particular from international terrorism, which has been shown to have a significant and immediate impact on our business. However, with strong underlying growth prospects, a diverse portfolio of global brands, and actions already taken to mitigate cost pressures, we remain confident of a good performance in the year ahead.

**Results presentation**

A presentation for analysts will be held this morning at 0930 at:
The Lincoln Centre
18 Lincoln's Inn Fields
London
WC2A 3ED

The meeting will also be webcast and can be accessed via Merlin's corporate website, www.merlinentertainments.biz

**Reporting schedule**

Reflecting the seasonality of its business, and following the cessation of the requirement to publish Interim Management Statements, Merlin no longer intends to report a 'Q4' pre-close trading update.

Dates for reporting events will be made available on Merlin's corporate website as announced.

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*Footnotes:*

(1) All figures are presented on an underlying basis.
(2) Visitors represents all individual visits to Merlin owned or operated attractions.
(3) Profit before tax on a statutory basis is £277 million *(2015: £237 million)*.
(4) Basic earnings per share is 20.8p *(2015: 16.8p)*.
(5) Constant currency basis, using 2016 exchange rates.
(6) Like for like 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.
(7) As defined on page 13.

**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 now operates over 100 attractions, 13 hotels and 5 holiday villages in 24 countries and across 4 continents. The company aims to deliver memorable experiences to its more than 60 million visitors worldwide, through its iconic global and local brands, and the commitment and passion of its c.27,000 employees (peak season).

**About our attractions:**

Merlin operates two distinct products, managed in three Operating Groups.

Midway

'Midway' attractions are high quality, branded, indoor attractions, with a typical 1-2 hour dwell time, located in city centres or resorts. There are over 100 Midway attractions across 21 countries, with five established chainable brands: SEA LIFE, Madame Tussauds, The Eye (observation attractions), The Dungeons and LEGOLAND Discovery Centres.

Theme Parks

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 – Seven LEGO themed interactive theme parks appealing to younger families with children aged 2-12. The LEGOLAND Parks estate spans six countries across three continents, with plans already announced for further parks in Japan and South Korea.

- Resort Theme Parks – Six nationally recognised destination theme parks arranged around a central theme. The parks offering includes Alton Towers, Chessington World of Adventures, Gardaland (Italy), Heide Park (Northern Germany), THORPE PARK and Warwick Castle.

**Milestones:**

In February 2016, Merlin announced the introduction of three New Business Development milestones, comprising:

- 2,000 new rooms by the end of 2020
- 40 new Midway attractions by the end of 2020
- Four new LEGOLAND parks by the end of 2020

Visit http://www.merlinentertainments.biz for more information.

## Attraction Numbers

Movement in attraction numbers between 26 December 2015 and 31 December 2016:

| | UK | | | Cont. Europe | | | Americas | | | Asia Pacific | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 26 Dec 2015 | Mov't | 31 Dec 2016 | 26 Dec 2015 | Mov't | 31 Dec 2016 | 26 Dec 2015 | Mov't | 31 Dec 2016 | 26 Dec 2015 | Mov't | 31 Dec 2016 | 26 Dec 2015 | Mov't | 31 Dec 2016 |
| SEA LIFE | 13 | - | 13 | 18 | - | 18 | 8 | - | 8 | 8 | - | 8 | 47 | - | 47 |
| MT(1) | 2 | - | 2 | 3 | 1 | 4 | 6 | - | 6 | 8 | 1 | 9 | 19 | 2 | 21 |
| Dungeons | 5 | - | 5 | 3 | - | 3 | 1 | - | 1 | - | - | - | 9 | - | 9 |
| LDC(2) | 1 | - | 1 | 3 | - | 3 | 7 | 2 | 9 | 2 | 1 | 3 | 13 | 3 | 16 |
| Eye | 2 | - | 2 | - | - | - | 1 | - | 1 | 1 | - | 1 | 4 | - | 4 |
| Shrek(3) | 1 | - | 1 | - | - | - | - | - | - | - | - | - | 1 | - | 1 |
| Other | - | - | - | - | - | - | - | - | - | 6 | - | 6 | 6 | - | 6 |
| **Midway(4)** | **24** | **-** | **24** | **27** | **1** | **28** | **23** | **2** | **25** | **25** | **2** | **27** | **99** | **5** | **104** |
| **LLP(5)** | **1** | **-** | **1** | **2** | **-** | **2** | **2** | **-** | **2** | **1** | **1** | **2** | **6** | **1** | **7** |
| **RTP(6)** | **4** | **-** | **4** | **2** | **-** | **2** | **-** | **-** | **-** | **-** | **-** | **-** | **6** | **-** | **6** |
| **Group** | **29** | **-** | **29** | **31** | **1** | **32** | **25** | **2** | **27** | **26** | **3** | **29** | **111** | **6** | **117** |

*Note:*
(1) Madame Tussauds
(2) LEGOLAND Discovery Centre
(3) DreamWorks Tours – Shrek's Adventure!
(4) Midway Attractions Operating Group
(5) LEGOLAND Parks Operating Group
(6) Resort Theme Parks Operating Group

Attractions opened in 2016 comprise: LEGOLAND Discovery Centre Michigan, LEGOLAND Discovery Centre Shanghai, LEGOLAND Discovery Centre Arizona, Madame Tussauds Chongqing, LEGOLAND Dubai, and Madame Tussauds Istanbul.

## Information regarding the proposed final dividend

The timetable for the final dividend of payment of 4.9 pence per share is as follows:

| | |
|---|---|
| Ex-dividend Date | 11 May 2017 |
| Record Date | 12 May 2017 |
| Payment Date | 19 June 2017 |

The Company will also provide a Dividend Re-Investment Plan (DRIP). The last day for electing for the DRIP will be 26 May 2017.

References to dividend per share are quoted gross of tax.

**Chief Executive Officer's review**

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.

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.

With pressures on our cost line from external factors such as legislation-driven wage increases around the world and increased business 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.

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 on 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 were 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.

In summary, 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.

## Operating Group Review

### Midway Attractions

| | **53 weeks ended 31 December 2016** | **52 weeks ended 24 December 2016** | 52 weeks ended 26 December 2015 | 52 week total growth at actual FX | 52 week total growth at constant FX | 52 week like for like growth |
|---|---|---|---|---|---|---|
| Revenue | **638** | **621** | 561 | 10.8% | 3.4% | (0.2)% |
| EBITDA (1) | **236** | **224** | 221 | 1.5% | (4.7)% | |
| Operating profit (1) | **172** | **160** | 167 | (4.3)% | (9.7)% | |

(1) Underlying basis, excluding exceptional items.

Midway 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.

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.

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).

Five new Midway attractions opened in 2016 – comprising LEGOLAND Discovery Centres in Michigan, Arizona and Shanghai and Madame Tussauds in Chongqing and Istanbul.

### LEGOLAND Parks

| | **53 weeks ended 31 December 2016** | **52 weeks ended 24 December 2016** | 52 weeks ended 26 December 2015 | 52 week total growth at actual FX | 52 week total growth at constant FX | 52 week like for like growth |
|---|---|---|---|---|---|---|
| Revenue | **495** | **486** | 429 | 13.5% | 2.9% | 1.6% |
| EBITDA (1) | **193** | **188** | 169 | 11.1% | 0.5% | |
| Operating profit (1) | **165** | **160** | 146 | 9.1% | (1.4)% | |

(1) Underlying basis, excluding exceptional items.

LEGOLAND Parks 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.

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).

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 further 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.

LEGOLAND Dubai opened under a management contract on 31 October whilst LEGOLAND Japan remains well on track for a planned opening in April 2017 and we target opening LEGOLAND Korea in 2019.

<u>Resort Theme Parks</u>

| | **53 weeks ended 31 December 2016** | **52 weeks ended 24 December 2016** | 52 weeks ended 26 December 2015 | 52 week total growth at actual FX | 52 week total growth at constant FX | 52 week like for like growth |
|---|---|---|---|---|---|---|
| Revenue | **322** | **319** | 285 | 11.8% | 5.8% | 4.3% |
| EBITDA [(1)] | **70** | **69** | 47 | 45.9% | 28.1% | |
| Operating profit [(1)] | **38** | **37** | 18 | 109.7% | 61.3% | |

[(1)] Underlying basis, excluding exceptional items. The underlying results include a £5 million charge related to the Smiler fine.

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.

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).

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 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.

Beyond 2016, 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.

## Chief Financial Officer's 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 | **20.8** | **19.5** | 17.8 | 9.3% | |
| ROCE | **10.2%** | **9.6%** | 9.7% | | |
| Leverage on net debt to underlying EBITDA | **2.3x** | **-** | 2.3x | | |

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.

EBITDA

| | 52 weeks ended 24 December 2016 £m | 52 week 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 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 flow 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.

A charge of approximately £150 million is anticipated in 2017, with growth thereafter reflecting the acceleration in capital investment.

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, and anticipate a rate of approximately 26% in 2017. 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 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** |

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.

Cash flow

| | 2016<br>53 weeks<br>£m | 2015<br>52 weeks<br>£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 a £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 respectively, related to both 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.

Capital expenditure of approximately £360 to £390 million is expected in 2017, reflecting our accelerating New Business Development pipeline and continued growth in the existing estate.

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.

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.

Loan facilities

Merlin's current loan facilities are detailed in note 4.1.

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.

# CONSOLIDATED INCOME STATEMENT

*For the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)*

| | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | Note | Underlying trading £m | Exceptional items [4] £m | Total £m | Underlying trading £m | Exceptional items [4] £m | Total £m |
| **Revenue** | 2.1 | 1,457 | - | 1,457 | 1,278 | - | 1,278 |
| Cost of sales | | (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)** | 4.2 | | | 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 | | (6) | (1) |
| Income tax on items relating to components of other comprehensive income | | 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 | | (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 | | 49 | 11 |
| Other receivables | | 13 | 11 |
| Deferred tax assets | | 38 | 35 |
| | | 2,958 | 2,475 |
| **Current assets** | | | |
| Inventories | | 36 | 30 |
| Trade and other receivables | | 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 | 4.1 | 5 | 4 |
| Derivative financial liabilities | | 5 | 1 |
| Trade and other payables | | 300 | 235 |
| Tax payable | | 39 | 22 |
| Provisions | | 3 | 4 |
| | | 352 | 266 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 4.1 | 1,147 | 1,003 |
| Finance leases | 4.1 | 88 | 82 |
| Other payables | | 28 | 24 |
| Provisions | | 65 | 51 |
| Employee benefits | | 11 | 5 |
| Deferred tax liabilities | | 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** | | **1,428** | **1,149** |

# 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** | **Translation 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 | 4.2 | - | - | - | - | (64) | **(64)** | - | **(64)** |
| Equity-settled share-based payments | | - | - | - | - | 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 | | - | 2 | - | - | - | **2** | - | **2** |
| Equity dividends | 4.2 | - | - | - | - | (67) | **(67)** | - | **(67)** |
| Equity-settled share-based payments | | - | - | - | - | 11 | **11** | - | **11** |
| **At 31 December 2016** | | **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 | | (1) | - |
| Acquisition of investments | | (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 | | 2 | - |
| Equity dividends paid | 4.2 | (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 | | 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 for the 53 weeks ended 31 December 2016 have been prepared 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. They were approved by the Directors on 1 March 2017 along with this preliminary announcement.

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.

The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 (the "Act"). The financial information for the 53 weeks ended 31 December 2016 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the 53 weeks ended 31 December 2016 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors have consented to the publication of the preliminary announcement as required by Listing Rule 9.7a having completed their procedures under APB bulletin 2008/2.

### 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 4.1.

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

### Significant accounting policies

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:

- 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.

## 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 attributable 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 | | 38 | | 35 |
| Investments | | 49 | | 11 |
| | | 2,958 | | 2,475 |

## 2.1 Profit before tax *(continued)*

### 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 |
| Attractions 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 | 11 | 4 |
| Social security costs | 39 | 34 |
| Other pension costs | 11 | 10 |
| | 382 | 327 |

## 2.2 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

### 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 held at fair value* | | |
| Cash flow hedges - reclassified to profit and loss (note 2.2) | - | 14 |
| | - | 14 |
| | 46 | 60 |

## 2.4 Taxation

### 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 |

### Reconciliation of effective tax rate

| | 2016 £m | 2016 £m | 2015 £m | 2015 £m |
|---|---|---|---|---|
| Profit before tax | | 277 | | 237 |
| Income tax using the 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.

## 2.5 Earnings per share

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

| | 2016<br>£m | 2015<br>£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 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 Group's Performance Share Plan has a dilutive effect as the performance measures have been partially achieved. The Deferred Bonus Plan, Company Share Option Plan and All Employee Sharesave Plan 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<br>Pence | 2015<br>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<br>Pence | 2015<br>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 |

## 3.1 Property, plant and equipment

| | Land and buildings £m | Plant and equipment £m | Under construction £m | Total £m |
|---|---|---|---|---|
| Balance at 27 December 2015 | 767 | 628 | 100 | 1,495 |
| Acquisition of remaining share of joint venture | - | 1 | - | 1 |
| Additions | 13 | 55 | 205 | 273 |
| Movements in asset retirement provisions | 5 | 1 | - | 6 |
| Disposals | (2) | (1) | - | (3) |
| Transfers | 39 | 86 | (125) | - |
| Depreciation for the year - owned assets | (38) | (87) | - | (125) |
| Depreciation for the year - leased assets | (1) | (3) | - | (4) |
| Effect of movements in foreign exchange | 122 | 66 | 10 | 198 |
| **Balance at 31 December 2016** | **905** | **746** | **190** | **1,841** |

### 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

| | | Intangible assets | | |
|---|---|---|---|---|
| | Goodwill £m | Brands £m | Other £m | Total £m |
| Balance at 27 December 2015 | 737 | 170 | 16 | 923 |
| Additions | - | - | 1 | 1 |
| Amortisation for the year | - | - | (2) | (2) |
| Effect of movements in foreign exchange | 79 | 13 | 3 | 95 |
| **Balance at 31 December 2016** | **816** | **183** | **18** | **1,017** |

## 3.3 Impairment testing

The carrying amounts of the Group's goodwill, intangible assets and property, plant and equipment were tested for impairment in accordance with the Group's accounting policy. As a result of these tests, no impairment losses were recorded in 2016 or 2015.

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 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.

In undertaking sensitivity analysis for the Resort Theme Parks Operating Group (RTP), consideration has been given to increases in discount rates, movements in EBITDA and long term growth rates. 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 drive the terminal value) would have a more significant impact.

## SECTION 4 CAPITAL STRUCTURE AND FINANCING
*53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)*

### 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.

| | 27 December 2015 £m | Net cash flows £m | Non-cash movement £m | Effect of movements in foreign exchange £m | 31 December 2016 £m |
|---|---|---|---|---|---|
| Cash and cash equivalents | 152 | 40 | - | 23 | 215 |
| Interest-bearing loans and borrowings | (1,007) | - | (4) | (141) | (1,152) |
| | (855) | 40 | (4) | (118) | (937) |
| Finance leases | (82) | - | (1) | (5) | (88) |
| **Net debt** | (937) | 40 | (5) | (123) | (1,025) |

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.

### 4.2 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)*.

## 5.1 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 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 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 |

## 5.2 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.