Merlin Entertainments plc – 2015 Preliminary Results

Robust financial results despite some challenging trading conditions
Progress in New Business Development across all three Operating Groups
2020 milestones announced

25 February 2016

Merlin Entertainments, Europe's leading and the world's second-largest visitor attraction operator, reports preliminary results for the year ended 26 December 2015.

Financial Summary(1)

	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014	Total growth at constant FX(5)	Total growth at actual FX	Like for like growth(6)
Visitors(2) (m)	**62.9**	62.8		0.3%	
Revenue (£m)	**1,278**	1,249	3.9%	2.3%	0.4%
EBITDA(1) (£m)	**402**	411	(1.1)%	(2.1)%	(4.3)%
Operating profit(1) (£m)	**291**	311	(5.6)%	(6.2)%	
Profit before tax(1), (3) (£m)	**250**	249		0.3%	
Profit for the year(1) (£m)	**180**	179		0.4%	
Adjusted earnings per share (1), (4) (p)	**17.8**	17.7		0.4%	
Dividend per share (p)	**6.5**	6.2		4.8%	
ROCE(7)	**9.7%**	10.6%			

(1) All figures are presented on an underlying basis, excluding exceptional items which are detailed on page 22 (note 2.2).
(2) Visitors represents all individual visits to Merlin owned or operated attractions.
(3) Profit before tax on a statutory basis is £237 million *(2014: £226 million)*.
(4) Basic earnings per share is 16.8p *(2014: 16.0p)*.
(5) Constant currency basis, using 2015 exchange rates.
(6) Like for like growth refers to the growth between 2014 and 2015 on a constant currency basis using 2015 exchange rates and includes all businesses owned and operated before the start of 2014.
(7) As defined on page 13.

Results and Operational Summary

- Robust financial performance despite challenging trading at a number of attractions
- Continued strong performance in the LEGOLAND Parks Operating Group, with like for like revenue growth of 8.2% primarily reflecting growth in revenue per capita (RPC)
- Midway Attractions Operating Group like for like revenue growth of 2.3%
- Despite a strong initial start to 2015, Resort Theme Parks Operating Group revenue declined by 12.4% on a like for like basis due to the significant fall in visitation at Alton Towers following the accident on 2 June
- Continued strong contribution from New Business Development, with the opening of seven new Midway attractions and the addition of 277 new rooms across the theme park estate, driving total revenue growth at constant currency of 3.9%
- Further progress towards the opening of LEGOLAND Dubai (2016), Japan (2017) and South Korea (2018)
- Final dividend of 4.4 pence per share recommended by the Board, representing growth of 4.8% in the full year dividend
- Announcement of new milestone targets for 2020:
    - 2,000 new accommodation rooms by the end of 2020

    - 40 new Midway Attractions by the end of 2020
    - Four new LEGOLAND parks by the end of 2020 (including three already announced)
- Formation of a strategic partnership with Big Bus Tours, the leading global owner-operator of Hop On Hop Off city tours, allowing further cooperation across many of our key city centre markets, and making an investment of $34.4 million (£24.6 million) in the company

Nick Varney, Merlin Entertainments Chief Executive Officer, said:

"Despite a challenging year, the business delivered a robust performance in 2015. We continued to see a strong trading performance in LEGOLAND Parks and a positive contribution from New Business Development, opening seven new Midway attractions and expanding our accommodation offering with the addition of 277 new rooms.

"However, 2015 was a difficult year for Merlin following the accident at Alton Towers early in the summer season. The safety of our guests and employees must always come first and we have sought to learn every possible lesson to help ensure there is no repeat of what happened on 2 June.

"Merlin has a clear strategy, with clear competitive advantages leaving us well positioned in a dynamic marketplace. Today we have announced our New Business Development milestone targets for 2020 including 2,000 new rooms, forty new Midway Attractions and four new LEGOLAND parks. Whilst we remain mindful of macro-economic and geo-political factors outside of our control, we remain confident in the strength of the underlying business and the natural diversification that the growing portfolio creates."

Delivering on the strategy

The Group has made good progress against its strategic growth drivers.

Growing the existing estate through planned capital investment cycles
- New rides, shows or features at every Merlin attraction in 2015, with £125 million (*2014: £107 million)* invested across the estate
- Major investments included the 'Oblivion' dive-coaster at Gardaland, 'LEGO Friends' themed area at LEGOLAND Windsor, and 'Star Wars' features at Madame Tussauds London and Berlin
- In 2016, major investments will include the world-first 'Derren Brown Ghost Train' at THORPE PARK, 'Ninjago – The Ride' at LEGOLAND Billund, and there will be 15 major new product investments across the Midway Attractions Operating Group

Exploiting strategic synergies
- Continued progress on developing the enhanced digital guest journey
- 2016 will see the first full year of the three year accesso® 'Passport' ticketing and admissions system implementation
- Continuation of successful promotions with key partners including Kellogg's and McDonalds

Transforming our theme parks into destination resorts
- In 2015 we opened a new 152 room hotel at LEGOLAND Florida and a 125 lodge holiday village at Alton Towers
- In 2016 we will open a new 100 room hotel at Gardaland, expand our existing accommodation offering at LEGOLAND Deutschland (47 rooms) and Warwick Castle (28 lodges), and introduce the 'Explorer Glamping' (35 rooms) at Chessington World of Adventures
- By the end of 2020, we aim to open 2,000 new rooms

Rolling out new Midway attractions
- Seven new Midway attractions opened in 2015, including the brand new 'DreamWorks Tours - Shrek's Adventure!' which opened in the London cluster
- A further seven attractions will open in 2016 comprising: LEGOLAND Discovery Centres in Arizona (USA), Michigan (USA) and Shanghai (China), SEA LIFE Centres in Rome (Italy) and Chongqing (China), and Madame Tussauds in Istanbul (Turkey) and Chongqing (China)
- By the end of 2020, we aim to open 40 new Midway attractions

Developing new LEGOLAND parks
- LEGOLAND Dubai on schedule to open under a management contract in the fourth quarter of 2016
- LEGOLAND Japan and Korea to open in 2017 and 2018 respectively
- In addition to the three announced openings, we aim to open a fourth park by the end of 2020, most likely to be in either North America or China

Strategic acquisitions

- Formation of a strategic partnership with Big Bus Tours, the leading global owner-operator of Hop On Hop Off city tours, allowing further cooperation across many of our key city centre markets, and making an investment of $34.4 million (£24.6 million) in the company
- Continue to consider opportunities consistent with our long term growth strategy

Outlook and current trading

Trading at this seasonally quiet point in the year is in line with expectations, with planned investments and new developments on track.

A presentation for analysts, which will include a Strategic Update, will be held this afternoon at 14:00 at:
Merlin Entertainments
Riverside Rooms, First Floor County Hall
Belvedere Road Main Entrance
London SE1 7PB

The meeting will also be webcast 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. Europe's Number 1 and the world's second-largest visitor attraction operator, Merlin now operates over 100 attractions, 12 hotels and 4 holiday villages in 23 countries and across 4 continents. The company aims to deliver memorable experiences to it's more than 60 million visitors worldwide, through its iconic global and local brands, and the commitment and passion of its circa 27,000 employees.

Attraction Numbers

Movement in attraction numbers between 27 December 2014 and 26 December 2015:

	UK			Cont. Europe			Americas			Asia Pacific			Total		
	27 Dec 2014	Mov't	26 Dec 2015	27 Dec 2014	Mov't	26 Dec 2015	27 Dec 2014	Mov't	26 Dec 2015	27 Dec 2014	Mov't	26 Dec 2015	27 Dec 2014	Mov't	26 Dec 2015
SEA LIFE	13	-	13	18	-	18	6	2	8	8	-	8	45	2	47
MT(1)	2	-	2	3	-	3	5	1	6	8	-	8	18	1	19
Dungeons	5	-	5	3	-	3	1	-	1	-	-	-	9	-	9
LDC(2)	1	-	1	2	1	3	7	-	7	1	1	2	11	2	13
Eye	2	-	2	-	-	-	-	1	1	1	-	1	3	1	4
Shrek(3)	-	1	1	-	-	-	-	-	-	-	-	-	-	1	1
Other	-	-	-	-	-	-	-	-	-	6	-	6	6	-	6
Midway(4)	**23**	**1**	**24**	**26**	**1**	**27**	**19**	**4**	**23**	**24**	**1**	**25**	**92**	**7**	**99**
LLP(5)	**1**	**-**	**1**	**2**	**-**	**2**	**2**	**-**	**2**	**1**	**-**	**1**	**6**	**-**	**6**
RTP(6), (7)	**4**	**-**	**4**	**3**	**(1)**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**(1)**	**6**
Group	**28**	**1**	**29**	**31**	**-**	**31**	**21**	**4**	**25**	**25**	**1**	**26**	**105**	**6**	**111**

The number of attractions did not change between the pre-close trading update on 1 December 2015 and the year end.

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
(7) Gardaland Water Park in Milan disposed of during the period, with immaterial financial impact.

Attractions opened in 2015 comprise: SEA LIFE Michigan, LEGOLAND Discovery Centre Osaka, The Orlando Eye, Madame Tussauds and SEA LIFE Orlando, 'DreamWorks Tours – Shrek's Adventure!' in London, and LEGOLAND Discovery Centre Istanbul.

Information regarding the proposed final dividend

The timetable for the final dividend of payment of 4.4 pence per share is as follows:

Ex-dividend Date	28 April 2016
Record Date	29 April 2016
Payment Date	7 June 2016

The Company will also provide a Dividend Re-Investment Plan (DRIP). The last day for electing for the DRIP will be 16 May 2016.

References to dividend per share are quoted gross of tax.

Chief Executive Officer's review

Introduction

2015 has without doubt been the most difficult year in Merlin's history. The accident at Alton Towers in June and the media coverage around it, led to a significant reversal of the strong momentum we had seen in our UK Resort Theme Parks business and consequent impact on overall Company performance. More importantly, people we had a responsibility to safeguard sustained serious injuries and ride safety processes we believed robust on this occasion proved inadequate.

Our focus since June has therefore necessarily been on ensuring we support those injured in every way we can while putting in place extensive measures to ensure such an accident cannot happen again. These measures will be covered in more detail in the Health, Safety and Security (HSS) Committee Report of our 2015 Annual Report and Accounts. In addition, we continue to invest in further improvements to both engineering and health and safety across the estate, including additional compliance managers in all our theme parks and a new Group engineering function.

This represents a substantial additional investment on top of our already extensive HSS and engineering infrastructure which we must remember has delivered hundreds of millions of safe ride experiences over many years.

Merlin Today

While never forgetting the incident at Alton Towers and those affected by it we must nonetheless move forward. Merlin Entertainments remains well placed to deliver exciting growth in one of the most dynamic markets globally. In the world around us macro trends are increasingly evident:

- The rapid growth of the middle classes in emerging countries, notably China, who have an appetite to consume high quality, branded, entertainment options and to travel; a phenomenon contributing to high growth in international tourism to 'gateway cities'
- An increasing focus on Intellectual Property (IP) as the key ingredient to delivering compelling propositions and attractive financial returns. This is fuelling ever greater partnerships between brand/IP owners and delivery platforms such as location based entertainment
- The increasing trend in developed markets towards multiple short breaks at home or abroad
- The rapid and progressive move to an online and mobile transaction model in most countries

Within this evolving global environment it is worth restating the competitive advantages which Merlin possesses:

- We hold global exclusivity for the LEGOLAND brand; the only attraction based representation of the LEGO toy brand which is now No 1 internationally and one of the world's strongest IP's in its own right
- We are the only company to successfully operate the limited dwell time, indoor, Midway format across multiple brands and countries
- We have the most extensive geographic footprint of any company in our industry with the proven international roll out potential of our LEGOLAND resorts and Midway brands
- The addition of themed accommodation continues to deliver the double benefit of positioning our theme parks as short break resorts while yielding attractive returns in its own right
- In Merlin Magic Making we have a unique development resource which enables value enhancing growth from both the existing estate and new attractions

2015 Group performance review

Despite specific challenges in 2015, revenue grew by 3.9% on a constant currency basis reflecting the strength in the underlying brands and strategic growth drivers.

The Group benefited from the continued strong performance in the LEGOLAND Parks Operating Group and the positive contribution from new attractions and accommodation. This was offset to a degree by more challenging market conditions in London and Hong Kong and the impact of the accident at Alton Towers on trading within the Resort Theme Parks Operating Group.

These challenges, particularly the lower visitation at Alton Towers following the accident, created a drag on profitability, resulting in Group EBITDA declining by 1.1% on a constant currency basis.

Whilst there will always be macro-economic or geo-political factors outside of our control, we remain confident in the strength of the underlying business and the natural diversification that the growing portfolio creates.

Operating Group Review

Midway Attractions

	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014	Total growth at Constant FX	Total growth at Actual FX	Like for like Growth
Revenue	561	529	7.5%	6.0%	2.3%
EBITDA(1)	221	214	2.0% (2)	1.2% (2)	
Operating Profit(1)	167	167	(1.9)% (2)	(2.4)% (2)	

(1) Underlying basis, excluding exceptional items.
(2) Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 13. Including this reallocation, reported EBITDA and operating profit growth were 3.0% and 0.0% respectively, and 3.8% and 0.4% respectively on a constant currency basis

Revenue grew by 2.3% on a like for like basis. This reflected a strong performance in Midway Asia, particularly in mainland China, and Midway Europe which benefited from good new product and relatively favourable weather over the summer season. This was however offset by lower volumes in London, primarily due to the persistent weakness of the Euro against Sterling impacting both domestic city breaks and inbound tourism from the key Eurozone region.

Within Midway Asia, trading in Hong Kong continued to be adversely impacted by travel restrictions imposed on visitors from the neighbouring city of Schenzhen. We continue to expect volumes to remain subdued whilst this policy continues.

Margins declined by 1.8%, excluding the effect of changes in the allocation of costs across the Group, as a result of the dilutive effect of new openings, and the investment in regional structures and support functions across our developing markets as we expand the estate in both North America and Asia. This was compounded by the lower like for like revenue growth and the relatively fixed cost nature of the Midway Attractions Operating Group.

Our Midway roll out strategy continued apace in 2015 driving overall constant currency revenue growth of 7.5%. Seven attractions were opened throughout the year including the new 'DreamWorks Tours – Shrek's Adventure!' attraction which opened in our London cluster in July.

LEGOLAND Parks

	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014	Total growth at Constant FX	Total growth at Actual FX	Like for like Growth
Revenue	429	386	10.6%	11.2%	8.2%
EBITDA(1)	169	142	16.7% (2)	18.6% (2)	
Operating Profit(1)	146	120	19.7% (2)	21.8% (2)	

(1) Underlying basis, excluding exceptional items.
(2) Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 13. Including this reallocation, reported EBITDA and operating profit growth were 19.3% and 22.6% respectively, and 17.4% and 20.5% respectively on a constant currency basis.

Revenue grew by 8.2% on a like for like basis, despite the tough comparatives created in 2014 which saw like for like revenue growth of 13.2%. This strong performance was primarily driven by growth in RPC, reflecting the opportunity to close the pricing differential with competitors in the North American market, coupled with lower overall promotional activity compared to 2014 which included promotions related to 'The LEGO Movie'.

Like for like growth in EBITDA and operating profit was strong, reflecting the RPC-led revenue growth and the non-recurrence of certain one-off costs related to the LEGOLAND Windsor Hotel which suppressed the 2014 result.

In May, we opened the fantastic new 152 room hotel at LEGOLAND Florida. The hotel benefited from being the first on-site themed accommodation and delivered a strong opening performance, both directly in the hotel and in its contribution to park volumes. We also ran a trial of 14 'giant-sized' beer barrel chalets in LEGOLAND Deutschland which has proved extremely popular.

2015 has seen continued progress on the three new LEGOLAND parks currently being developed in Dubai (2016), Japan (2017) and South Korea (2018).

LEGOLAND Dubai is on schedule to open in the fourth quarter of 2016. Together with its associated waterpark, which will be run as a 'second gate' attraction, the park will operate under a management contract, and be funded primarily by Dubai Parks and Resorts.

Resort Theme Parks

	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014	Total growth at Constant FX	Total growth at Actual FX	Like for like Growth
Revenue	285	331	(10.2)%	(14.0)%	(12.4)%
EBITDA(1)	47	87	(46.5)% (2)	(49.2)% (2)	
Operating Profit(1)	18	60	(73.6)% (2)	(75.0)% (2)	

(1) Underlying basis, excluding exceptional items.
(2) Excluding the effect of the change in allocation of central costs in 2015. Reference in the narrative below is made to these adjusted figures, unless otherwise stated. Further detail is provided on page 13. Including this reallocation, reported EBITDA and operating profit growth were (46.2)% and (70.7)% respectively, and (43.3)% and (69.0)% respectively on a constant currency basis.

Revenue in the Resort Theme Parks Operating Group fell by 12.4% on a like for like basis, primarily reflecting the significant decline in visitation at Alton Towers following the incident of 2 June.

The performance of the Operating Group was dominated by the impact of the incident at Alton Towers and the resulting significant decline in park visitation through the main trading season. Whilst the majority of the impact was experienced at Alton Towers Resort, this created a difficult day-visit theme park market across the UK. As a result THORPE PARK, our other major rides park, also experienced a decline in visitation.

Action was taken to limit the decline in volumes and refocus marketing efforts towards younger families and the broader short break appeal of the resort. However, this had limited effect over the key summer trading period in the face of ongoing media coverage of the incident.

Outside of the UK, Gardaland - Italy's largest theme park - traded well, benefiting from a major new ride investment.

Whilst our larger resorts typically have a significant element of variable costs, the vast majority of these costs for the 2015 season had been committed by the end of May. As a result of this, and despite good trading in Gardaland, the significant revenue shortfall at Alton Towers resulted in a significant decline in EBITDA and operating profit. As a result, EBITDA margins declined to 16.5%.

Our strategy of developing our resorts into short break destinations continued in 2015. The new 125 lodge holiday village at Alton Towers performed broadly in line with our expectations, notwithstanding the challenges within the day-visit market and we also benefited from the full year impact of the new 'Azteca' hotel at Chessington World of Adventures.

Looking ahead

We continue to be confident in our strategy and the long term growth trajectory of the business, focused around the core six growth drivers. As we look to quicken the pace of expansion, against the backdrop of the macro trends identified above, we have set new strategic milestones out to 2020:

- 2,000 new accommodation rooms by the end of 2020
- 40 new Midway attractions by the end of 2020
- Four new LEGOLAND parks by the end of 2020 (including the three already announced)

The main geographic focus of this expansion will be North America and Asia. Within the latter we regard China, Japan and South Korea as priority markets.

With regard to our existing estate the planned capex cycles are working well with a pipeline of innovative and compelling propositions coming out of Merlin Magic Making. The 'Derren Brown Ghost Train' at THORPE PARK and 'Galactica', the fusion of Virtual Reality into an existing roller coaster at Alton Towers, are good examples which will be launching this year.

We also continue to develop new ways of exploiting the synergies which arise from the Group's scale. Over the next few years the biggest focus of this will be on the ways in which we can enhance the customer journey via imaginative use of technology. The central aspect of this will be the accesso® admissions / ticketing system, which started to rollout in 2015 after successful pilots, augmented by on-site downloadable apps and ibeacons to send visitors targeted messages. These new systems are also facilitating the data capture which will enable us to expand our CRM activities considerably in key markets meaning we can communicate with our customers on an ongoing basis.

Finally we are able to contemplate acquisitions and investments which strengthen our strategic position. We are today announcing that Merlin is acquiring a minority stake in Big Bus Tours, the leading global owner-operator of Hop On Hop Off city tours. We see significant synergies from this business with our own city centre attractions and there is already a clear overlap in cities such as London, New York, Hong Kong and San Francisco. This investment will facilitate a closer working relationship on the ground while enabling us to learn about a highly complementary business.

<u>The Sparkle</u>

With the increasing importance of IP in all areas of entertainment we have been working hard to establish a network of core partnerships which have value to both our existing estate and new developments business.

The relationship with the LEGO Group is well established and 2016/2017 will see major co-operation around the relaunched LEGO Ninjago brand with new rides and attractions at all parks and LEGOLAND Discovery Centres. This will be supported by the Ninjago movie, scheduled for release by Warner Bros. in 2017.

Our partnership with DreamWorks Animation (DWA) is also developing with new themed lands in 2016 in Gardaland (Kung Fu Panda) and Heide Park (How to Train Your Dragon) in addition to the new Midway brand 'DreamWorks Tours - Shrek's Adventure!' being piloted in London.

Beyond this, brand partnerships with specific IP's such as 'Star Wars' (Madame Tussauds), 'CBeebies' (Alton Towers) and 'Derren Brown' (THORPE PARK) clearly demonstrate both the direction of travel and Merlin's favourable position.

<u>Merlin People</u>

After a challenging year we saw staff engagement at an all time high and Merlin voted one of the best 25 big companies to work for (for a second year in a row). We have a team that is passionate about the business and able to produce consistently high performances. This has yet again translated into increased visitor satisfaction. I am proud of and grateful to, in equal measure, the fantastic people who work for Merlin.

<u>And Finally….</u>

In the first half of 2015 I had the opportunity to visit five of the 'Merlin's Magical Spaces' installed at hospices and hospitals by the Merlin's Magic Wand Charity. These multisensory experiences use Merlin's brands and creativity to bring enjoyment to children whose lives are often tragically affected by illness and who, for this reason, cannot visit our attractions. The money for these projects is raised by the Merlin team, our guests and our partners and of all the things we do, this is the one of which we are most proud.

Merlin is first and foremost an entertainment company. We exist to deliver memorable experiences to our millions of visitors and are doing so on an increasingly diverse, international, stage. Our market too is dynamic with an ever increasing interface between screen based and location based content and rapidly growing international tourism. With a clear strategy, a strong development pipeline and the brands and people to deliver them, Merlin is well placed to continue the magic well into the future.

Chief Financial Officer's review

Trading performance

Total revenue grew by 3.9% in 2015 on a constant currency basis, reflecting our like for like businesses combined with the contribution of new Midway attractions and accommodation. Like for like revenue grew by 0.4%, with strong growth in the LEGOLAND Parks Operating Group offset by challenging trading in Resort Theme Parks (RTP). Movements in foreign exchange rates reduced the reported results however, resulting in revenue growth of 2.3% to £1,278 million. Further detail on the impact of foreign exchange movements is provided on the next page.

Visitor numbers grew by 0.3% during the year, reflecting the continued strong performance in LEGOLAND off the back of a record year in 2014 and the benefit of new attractions, offset by a sharp decline in RTP and a lower Midway Attractions like for like performance.

Revenue per capita (RPC) was £18.31, in line with the prior year (2014: £18.15). This was driven by general underlying price increases and mix improvements, with proportionally higher visitation in the LEGOLAND parks which bring higher average spend levels. This was offset by adverse net foreign exchange translation impacts. Our focus continues to be on revenue maximisation rather than specific volume or RPC targets.

Reported EBITDA fell by £9 million, or 2.1%, to £402 million. EBITDA declined by 4.3% on a like for like basis and by 1.1% including the contribution of new attractions and accommodation, on a constant currency basis.

Merlin's operating model is such that increased revenues at existing attractions should flow through to operating profit less incremental expenditure on a number of variable costs, such as direct cost of sales, incremental labour costs and variable rents. Similarly, if an attraction experiences significant unplanned reductions in revenue, some costs may be variable but a proportion of costs will be relatively fixed. Operating margins are also impacted by the mix of revenues across attractions, including the impact of foreign exchange translation, as well as the nature of additional revenues generated by each site.

In 2015, EBITDA margins fell by 1.4% to 31.5%, as a result of the lower like for like revenue growth, the significant decline in RTP revenue and a cost base that can only be flexed to a limited degree in the short term. Additionally, the dilutive impact of new openings has further dampened the Group margin. A number of one-off central cost savings were made during the year, including savings in variable remuneration. This resulted in a reduction in central costs of 12.7%, excluding the effect of the change in allocation of costs to the three Operating Groups (see page 13 for more details).

In 2016, central costs are expected to be around £45 million reflecting the expected reversal of the majority of the savings made in 2015, as well as further investment in both a new Group engineering department and central Health and Safety functions.

Operating profit declined by £20 million, or 6.2%. This reflected both the decline in EBITDA and an increase in the depreciation and amortisation charge from £100 million to £111 million, reflecting our continued capital investment across the estate.

Finance costs

Net underlying finance costs reduced by £21 million to £41 million *(2014: £62 million)*. In March 2015 the Group completed a refinancing of its core debt facilities which provided further flexibility for the Group and significantly reduced the cost of debt finance (see note 2.3 to the financial statements). More details on the refinancing are set out below.

Profit before tax

Underlying profit before tax of £250 million was in line with the prior year. This was consistent with the revised expectations we announced for the year on 27 July 2015 in the light of challenging trading conditions following the accident at Alton Towers.

Taxation

An underlying tax charge of £70 million is equivalent to an effective tax rate of 27.9% *(2014: 28.0%)* of underlying profit before tax. The difference between the reported effective tax rate and the UK standard weighted tax rate of 20.3% is mainly due to the different tax rates that apply in the various jurisdictions we operate in around the world.

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

Exceptional items

There were no exceptional costs impacting EBITDA or operating profit in 2015 or 2014.

Exceptional finance costs of £13 million were incurred in the period. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities and as a result recycled £14 million through the income statement that had previously been hedge accounted through equity. This was then offset by foreign exchange gains of £1 million, also as part of the refinancing. Tax on exceptional items amounted to a credit of £3 million *(2014: credit of £6 million)*.

Foreign exchange rate sensitivity

Merlin is exposed to fluctuations in foreign currency exchange rates principally on the translation of the results of our overseas operations. The table below shows the impact on 2014 revenues of re-translating them at 2015 foreign exchange (FX) rates. Operating profits would be similarly impacted.

Currency	**2014 average FX rates**	**2015 average FX rates**	**%age movement in FX rates**	**Revenue impact £m**
USD	1.66	1.54	7.4%	22
EUR	1.24	1.39	(11.5%)	(26)
AUD	1.82	2.04	(11.9%)	(9)
Other				(6)
Reduction in 2014 revenues at 2015 FX rates				**(19)**

Earnings per share (EPS)

Basic earnings per share was 16.8p (*2014: 16.0p)*.

Adjusted earnings per share, which excludes the impact of exceptional items, was 17.8p (*2014: 17.7p)*.

Reconciliation between basic and adjusted earnings

	2015 £m	**2014 £m**
Profit attributable to shareholders	**170**	162
Exceptional items after tax	**10**	17
Adjusted profit attributable to shareholders	**180**	179
Weighted average number of shares (million)	**1,014**	1,014
Basic earnings per share	**16.8p**	16.0p
Adjusted earnings per share	**17.8p**	17.7p

Dividend

The Company has adopted a progressive dividend policy with a target range of payout 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 investment across our six strategic growth drivers.

In September 2015 we paid an interim dividend of 2.1 pence per share and the Board is recommending a final dividend of 4.4 pence per share. This equates to a full year dividend of 6.5 pence per share.

When making proposals for the payment of dividends, the Directors consider the resources available to the Company and its subsidiaries. Specifically they have taken account of the Company's significant distributable profits, as well as the liquidity of the Group.

Cash flow

	2015 £m	2014 £m
EBITDA	**402**	411
Working capital and other movements	**(18)**	-
Tax paid	**(59)**	(54)
Net cash inflow from operating activities	**325**	357
Capital expenditure	**(215)**	(192)
Other investing activities	**(5)**	(3)
Interest paid, net of interest received	**(41)**	(56)
Dividends paid	**(64)**	(20)
Net cash inflow before refinancing and repayment of borrowings	**-**	86
Refinancing and repayment of borrowings	**(137)**	(70)
Net cash (outflow)/inflow for the year	**(137)**	16

Merlin continues to be highly cash generative, with a net operating cash flow after tax of £325 million *(2014: £357 million)*. This reflects EBITDA less £18 million of working capital and other outflows, primarily relating to the payment of 2014 performance related bonuses, together with tax payments in the year of £59 million.

Capital expenditure of £215 million was incurred, comprising of £125 million on the existing estate, and £90 million on new attractions and accommodation.

Consistent with Merlin's strategy, our capital investment programme creates new rides, themed areas or features for the existing businesses, following the specific investment cycles laid down for each Operating Group.

In addition to the £125 million invested in the existing estate, we have invested £40 million in new accommodation offerings across our theme park resorts, including the 'Enchanted Village' lodges at Alton Towers and the new LEGOLAND Florida hotel. The Group invested £44 million opening new Midway attractions. Seven new attractions were opened in 2015 and we plan to open a further seven in 2016.

Capital expenditure of £6 million was incurred in respect of the new LEGOLAND parks currently under development in Japan and South Korea.

All major capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing their viability and to ensure appropriate prioritisation. We expect capital expenditure to be in the range of £250 million to £270 million in 2016.

Other investing activities of £5 million reflected an increased investment in LEGOLAND Malaysia.

Refinancing and repayments of borrowings totalled £137 million. Surplus cash reserves were used to make a net repayment of £110 million of term debt as part of the refinancing (set out below). Payments of £27 million were made in respect of the refinancing and restructuring of the related interest rate swaps.

Net interest paid of £41 million *(2014: £56 million)* has reduced, reflecting lower finance costs following the refinancing in March 2015.

Dividends paid in the year of £64 million comprise the final dividend for 2014 of £43 million together with the interim dividend for 2015 of £21 million *(2014: £20 million)*.

Net debt

	2015 £m	**2014 £m**
Interest-bearing loans and borrowings	**1,007**	1,136
Less: cash and cash equivalents	**(152)**	(285)
	855	851
Finance leases	**82**	84
Net debt	**937**	935
Leverage on net debt to underlying EBITDA	**2.3x**	2.3x

Further detail is provided in note 4.1 to the financial statements.

Leverage on net debt at the year end equates to 2.3x underlying EBITDA *(2014: 2.3x)*, reflecting broadly similar levels of both EBITDA and net debt for each reporting period.

Loan facilities

In March 2015 Merlin completed a refinancing of all its core debt facilities.

The new committed facilities are:
- Bank facilities from twelve relationship banks in the form of £648 million of floating rate term debt in a combination of US Dollars, Euro and Sterling to mature in March 2020.
- A £300 million multi-currency revolving credit facility from the same twelve banks.
- The Group's inaugural bond in the form of €500 million (£367 million) seven year notes with a coupon rate of 2.75% to mature in March 2022.

In connection with the refinancing, fixed charges over shares in certain Group companies and certain intra-Group receivables were released. The new facilities are senior and unsecured. This transition to unsecured facilities reflects the re-positioning of the Merlin credit profile as one more expected of a listed business.

These landmark transactions confirmed investors' confidence in the Group's strategy, allowing Merlin to diversify sources of finance in line with its business plan, while benefiting from long term resources at an attractive cost.

In addition to the term debt a new multi-currency revolving facility of £300 million *(2014: £150 million)* was made available. This facility, in conjunction with the Group's cash balance of £152 million *(2014: £285 million)*, is available to finance working capital requirements and capital investment. At 26 December 2015 all of these facilities remained available and £nil had been drawn down from the revolving facility *(2014: £nil)*.

Merlin 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. We are also required to comply with certain non-financial covenants in the €500 million notes. All covenant requirements were satisfied throughout the year.

Further detail is provided in note 4.1 to the financial statements

Net assets

Net assets increased by £86 million from £1,063 million in 2014 to £1,149 million in 2015.

The consolidated statement of financial position on page 16 shows an increase in property, plant and equipment of £85 million from £1,410 million to £1,495 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 account for the majority of the reported reduction in intangible assets from £942 million to £923 million. Working capital movements of £11 million related to the payment of 2014 performance related remuneration and other timing differences. Net debt has remained broadly flat. The net pensions liability also remained flat at £5 million (2014: £5 million).

The £170 million profit for the year was reduced by amounts totalling £24 million within other comprehensive income. This primarily reflected exchange losses arising on the retranslation of net assets denominated in foreign currencies offset by the recycling of interest rate swaps referred to previously. In addition we paid dividends of £64 million.

Further detail is provided in the notes to the financial statements on pages 19 to 29.

Return on capital employed (ROCE)

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. For 2015 minor amendments were made to the ROCE calculation. The profit measure used in calculating ROCE is based on underlying operating profit after tax; the change to the tax rate applied reflects the more stabilised tax position following the IPO. The capital employed element of the calculation is based on net operating assets which include all net assets other than deferred tax, financial assets and liabilities, and net debt. From 2015 we use average net assets in this calculation to better match the deployment of capital to the period over which the related income is earned. ROCE in 2015 was 9.7% *(2014: 10.6%)* largely reflecting the decline in underlying operating profit. Had the changes not been made the reported ROCE for 2015 would have been 9.5%.

Allocation of Group costs

As announced via RNS on 15 January 2016, Merlin has revised the way in which certain costs incurred by the Group are allocated to its three Operating Groups. This change will apply for the 2015 full year results and all subsequent periods. Overall Group reported profitability is not affected. The effect included in reported 2015 EBITDA is as follows:

	2015 £m
Midway Attractions	**4**
LEGOLAND Parks	**1**
Resort Theme Parks	**2**
Central costs	**(7)**
Group total	**-**

Summary

I am pleased with the robust financial results the Group has reported for 2015, despite the extremely challenging trading conditions. 2015 has seen us further strengthen the Company's financial structure with the refinancing, and the platform for future growth remains sound.

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

		2015			2014		
	Note	**Underlying trading £m**	**Exceptional items [3] £m**	**Total £m**	**Underlying trading £m**	**Exceptional items [3] £m**	**Total £m**
Revenue	2.1	1,278	-	1,278	1,249	-	1,249
Cost of sales		(193)	-	(193)	(181)	-	(181)
Gross profit		1,085	-	1,085	1,068	-	1,068
Staff expenses	2.1	(327)	-	(327)	(312)	-	(312)
Marketing		(68)	-	(68)	(62)	-	(62)
Rent		(87)	-	(87)	(83)	-	(83)
Other operating expenses		(201)	-	(201)	(200)	-	(200)
EBITDA [1]	2.1	402	-	402	411	-	411
Depreciation and amortisation	3.1, 3.2	(111)	-	(111)	(100)	-	(100)
Operating profit		291	-	291	311	-	311
Finance income	2.3	5	1	6	2	-	2
Finance costs	2.3	(46)	(14)	(60)	(64)	(23)	(87)
Profit before tax		250	(13)	237	249	(23)	226
Taxation	2.4	(70)	3	(67)	(70)	6	(64)
Profit for the year [2]		**180**	**(10)**	**170**	**179**	**(17)**	**162**
Earnings per share							
Basic and diluted earnings per share (p)	2.5			16.8			16.0

(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 2015 and 2014 is wholly attributable to the owners of the Company.*

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	2015 £m	2014 £m
Profit for the year		170	162
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Defined benefit plan remeasurement gains and losses		(1)	(1)
Recognition of the assets and liabilities of the defined contribution section of the defined benefit scheme		-	(1)
		(1)	(2)
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		(36)	(23)
Exchange differences relating to the net investment in foreign operations		3	7
Cash flow hedges - effective portion of changes in fair value		(2)	(9)
Cash flow hedges - reclassified to profit and loss	2.2	14	-
Income tax on items relating to components of other comprehensive income		(2)	-
		(23)	(25)
Other comprehensive income for the year net of income tax		(24)	(27)
Total comprehensive income for the year (1)		**146**	**135**

(1) *Total comprehensive income for 2015 and 2014 is wholly attributable to the owners of the Company.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 26 December 2015 (2014: 27 December 2014)

	Note	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment	3.1	1,495	1,410
Goodwill and intangible assets	3.2	923	942
Investments		11	6
Other receivables		11	7
Deferred tax assets		35	49
		2,475	2,414
Current assets			
Inventories		30	26
Trade and other receivables		76	60
Other financial assets		2	1
Cash and cash equivalents	4.1	152	285
		260	372
Total assets		2,735	2,786
Current liabilities			
Interest-bearing loans and borrowings	4.1	4	5
Other financial liabilities		1	12
Trade and other payables		235	226
Tax payable		22	27
Provisions		4	4
		266	274
Non-current liabilities			
Interest-bearing loans and borrowings	4.1	1,003	1,131
Finance leases	4.1	82	84
Other payables		24	23
Provisions		51	50
Employee benefits		5	5
Deferred tax liabilities		155	156
		1,320	1,449
Total liabilities		1,586	1,723
Net assets		**1,149**	**1,063**
Issued capital and reserves attributable to owners of the Company		1,145	1,059
Non-controlling interest		4	4
Total equity		**1,149**	**1,063**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	Share capital £m	Share premium £m	Capital reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 29 December 2013		10	3,183	(2,250)	(85)	(2)	84	**940**	4	**944**
Profit for the year		-	-	-	-	-	162	**162**	-	**162**
Other comprehensive income for the year net of income tax		-	-	-	(16)	(9)	(2)	**(27)**	-	**(27)**
Total comprehensive income for the year		-	-	-	(16)	(9)	160	**135**	-	**135**
Equity dividends	4.2	-	-	-	-	-	(20)	**(20)**	-	**(20)**
Capital restructure		-	(3,183)	2,250	-	-	933	**-**	-	**-**
Equity-settled share-based transactions		-	-	-	-	-	4	**4**	-	**4**
At 27 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 transactions		-	-	-	-	-	4	**4**	-	**4**
At 26 December 2015		**10**	**-**	**-**	**(135)**	**-**	**1,270**	**1,145**	**4**	**1,149**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 26 December 2015 (2014: 52 weeks ended 27 December 2014)

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year		170	162
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	111	100
Finance income	2.3	(6)	(2)
Finance costs	2.3	60	87
Taxation	2.4	67	64
		402	411
Working capital changes		(19)	(4)
Changes in provisions and other non-current liabilities		1	4
		384	411
Tax paid		(59)	(54)
Net cash inflow from operating activities		325	357
Cash flows from investing activities			
Interest received		1	2
Acquisition of investments		(5)	(3)
Acquisition of property, plant and equipment		(215)	(192)
Net cash outflow from investing activities		(219)	(193)
Cash flows from financing activities			
Equity dividends paid	4.2	(64)	(20)
Proceeds from borrowings		1,002	-
Financing costs		(14)	-
Interest paid		(42)	(58)
Settlement of interest rate swaps	2.2	(13)	-
Repayment of borrowings		(1,112)	(70)
Net cash outflow from financing activities		(243)	(148)
Net (decrease)/increase in cash and cash equivalents		(137)	16
Cash and cash equivalents at beginning of year		285	264
Effect of movements in foreign exchange		4	5
Cash and cash equivalents at end of year	4.1	**152**	**285**

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 52 weeks ended 26 December 2015 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 24 February 2016 along with this preliminary announcement.

The accounting policies set out in the sections below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries and joint ventures.

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 26 December 2015 *(2014: 52 weeks ended 27 December 2014)*. The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments 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 52 weeks ended 26 December 2015 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the 52 weeks ended 26 December 2015 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 £170 million *(2014: £162 million)* and generated operating cash inflows of £325 million *(2014: £357 million)*. Following a refinancing in March 2015, extending maturities and diversifying the Group's sources of funding, the Group is now funded by bank facilities due for repayment in 2020 and fixed rate notes due for repayment in 2022. The Group has access to a £300 million revolving credit facility to support its liquidity needs of which £nil was drawn down at the year end. 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 robust 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 condensed 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 impairment testing (note 3.3) involves a higher degree of judgement or complexity.

2.1 Profit before tax

Segmental information

An operating segment 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. 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, 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
2015				
Segment revenue	561	429	285	1,275
Segment profit, being segment EBITDA [(1)]	221	169	47	437
Segment depreciation and amortisation	(54)	(23)	(29)	(106)
Segment operating profit [(1)]	167	146	18	331
2014				
Segment revenue	529	386	331	1,246
Segment profit, being segment EBITDA [(1)]	214	142	87	443
Segment depreciation and amortisation	(47)	(22)	(27)	(96)
Segment operating profit [(1)]	167	120	60	347

Reconciliation to statutory items included in the consolidated income statement

	Revenue £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m
2015				
Segment results	1,275	437	(106)	331
Other items [(1), (2)]	3	(35)	(5)	(40)
Total per consolidated income statement	1,278	402	(111)	291
2014				
Segment results	1,246	443	(96)	347
Other items [(1), (2)]	3	(32)	(4)	(36)
Total per consolidated income statement	1,249	411	(100)	311

(1) During 2015 the Group has revised how certain costs are internally allocated to its three Operating Groups. There has been no change to the operating segments or their composition. This change does not affect the 2014 figures. The effect has been to increase the 2015 reported segment EBITDA and operating profit in Midway Attractions, LEGOLAND Parks and Resort Theme Parks by £4 million, £1 million and £2 million respectively, with an equivalent increase in costs of £7 million reported within 'Other items' in the tables above.

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

2.1 Profit before tax *(continued)*

Geographical areas

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

Geographical information

	Revenues 2015 £m	Non-current assets 2015 £m	Revenues 2014 £m	Non-current assets 2014 £m
United Kingdom	467	851	490	811
Continental Europe	300	764	318	794
North America	336	481	274	429
Asia Pacific	175	333	167	325
	1,278	2,429	1,249	2,359
Deferred tax		35		49
Investments		11		6
		2,475		2,414

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:

	2015 £m	2014 £m
Operations	16,980	15,567
Attractions management and central administration	1,841	1,760
	18,821	17,327

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	279	266
Share-based payments	4	4
Social security costs	34	32
Other pension costs	10	10
	327	312

2.2 Exceptional items

Accounting policy

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

Exceptional items

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

	2015 £m	2014 £m
Within finance income and costs:		
Foreign exchange gain [1]	(1)	-
Cash flow hedges – reclassified to profit and loss [1]	14	-
Loss on re-measurement of financial liabilities measured at amortised cost [2]	-	23
Exceptional items before income tax	13	23
Income tax credit on exceptional items above	(3)	(6)
Exceptional items for the year	10	17

(1) As part of the refinancing undertaken during the year (see note 4.1), 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. These have been separately presented in order to better present the underlying finance cost for the Group. Further details of the Group's borrowings are presented in note 4.1.

(2) The Group determined at 27 December 2014 that a more reliable estimate could be formed of the likelihood and timeframe for an earlier refinancing of its existing bank facilities than the contractual repayment date of July 2019. This was determined following reviews undertaken by management and external advisors of refinancing options. As a result the Group accelerated the amortisation of financing costs and the resulting adjustment was recognised as a loss on re-measurement and separately presented in the income statement as an exceptional charge as it was not part of the Group's underlying finance cost.

2.3 Finance income and costs

Finance income

	2015 £m	2014 £m
Underlying trading		
In respect of assets not held at fair value		
Interest income	2	2
Other		
Net foreign exchange gain	3	-
	5	2
Exceptional items		
Other		
Net foreign exchange gain (note 2.2)	1	-
	6	2

Finance costs

	2015 £m	2014 £m
Underlying trading		
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	44	62
Other interest expense	2	2
	46	64
Exceptional items		
In respect of liabilities not held at fair value		
Loss on re-measurement of financial liabilities measured at amortised cost (note 2.2)	-	23
In respect of liabilities held at fair value		
Cash flow hedges - reclassified to profit and loss (note 2.2)	14	-
	14	23
	60	87

2.4 Taxation

Recognised in the income statement

	2015 £m	2014 £m
Current tax expense		
Current year	60	56
Adjustment for prior periods	(4)	3
Total current income tax	56	59
Deferred tax expense		
Origination and reversal of temporary differences	7	4
Changes in tax rate	-	(1)
Adjustment for prior periods	4	2
Total deferred tax	11	5
Total tax expense in income statement	67	64

Reconciliation of effective tax rate

	2015 %	2015 £m	2014 %	2014 £m
Profit before tax		237		226
Income tax using the domestic corporation tax rate	20.3%	48	21.5%	48
Non-deductible expenses	3.8%	9	2.5%	6
Income not subject to tax	(1.9%)	(4)	(1.9%)	(4)
Effect of tax rates in foreign jurisdictions	7.6%	18	7.1%	16
Effect of changes in tax rate	-	-	(0.4%)	(1)
Unrecognised temporary differences	(0.1%)	-	(0.5%)	(1)
Effect of recognising deferred tax assets previously unrecognised	(1.6%)	(4)	(2.0%)	(5)
Adjustment for prior periods	-	-	2.1%	5
Total tax expense in income statement	28.1%	67	28.4%	64

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 28.1% and the UK standard weighted tax rate of 20.3% is mainly due to the different tax rates that apply in the various jurisdictions the Group operates in around the world.

The ETR based on underlying trading, excluding exceptional items, was 27.9% in 2015 *(2014: 28.0%)*.

2.5 Earnings per share

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

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

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

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

	2015 £m	2014 £m
Profit attributable to ordinary shareholders	170	162
Exceptional items net of tax (see note 2.2)	10	17
Adjusted profit attributable to ordinary shareholders	180	179

	2015	2014
Weighted average number of shares	1,013,746,032	1,013,746,032
Dilutive potential ordinary shares	1,720,789	434,077
Diluted weighted average number of shares	1,015,466,821	1,014,180,109

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 2015, the PSP has a dilutive effect as the performance measures have been partially achieved, whereas the DBP, CSOP and AESP are dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

In 2014 the PSP had a dilutive effect as the performance measures had been partially achieved, whereas the DBP was not dilutive as the awards had not yet been issued, and the CSOP was not dilutive as the options were 'out of the money' after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2015 Pence	2014 Pence
Basic and diluted earnings per share on profit for the year	16.8	16.0
Exceptional items net of tax	1.0	1.7
Adjusted and diluted earnings per share on adjusted profit for the year	17.8	17.7

3.1 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Balance at 28 December 2014	732	587	91	1,410
Additions	25	42	151	218
Movements in asset retirement provisions	3	-	-	3
Transfers	53	88	(141)	-
Depreciation for the year - owned assets	(28)	(78)	-	(106)
Depreciation for the year - leased assets	(1)	(3)	-	(4)
Effect of movements in foreign exchange	(17)	(8)	(1)	(26)
Balance at 26 December 2015	**767**	**628**	**100**	**1,495**

Capital commitments

At the year end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions 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 £32 million *(2014: £50 million)* for which no provision has been made. In addition, at year end foreign exchange rates, the Group is expecting to invest a further £98 million in LEGOLAND Japan and LEGOLAND Korea over the period from 2016 to 2018.

3.2 Goodwill and intangible assets

		Intangible assets		
	Goodwill £m	Brands £m	Other £m	Total £m
Balance at 28 December 2014	754	174	14	942
Additions	-	-	3	3
Amortisation for the year	-	-	(1)	(1)
Effect of movements in foreign exchange	(17)	(4)	-	(21)
Balance at 26 December 2015	**737**	**170**	**16**	**923**

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 2015 or 2014.

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 £55 million. The Midway Attractions and LEGOLAND Park 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 Resorts Theme Parks Operating Group, consideration has been given to increases in discount rates and movements in EBITDA. 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 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.

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.

	28 December 2014 £m	Net cash flows £m	Non-cash movement £m	Effect of movements in foreign exchange £m	26 December 2015 £m
Cash and cash equivalents	285	(137)	-	4	152
Interest-bearing loans and borrowings	(1,136)	124	(3)	8	(1,007)
	(851)	(13)	(3)	12	(855)
Finance leases	(84)	-	-	2	(82)
Net debt	(935)	(13)	(3)	14	(937)

In 2015 the Group refinanced its long term debt.

The new committed 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 0.59%, 0.57% and (0.13)% respectively at 26 December 2015. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and is currently 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 would currently be at a margin when drawn of 1.75% over the same floating interest rates.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

These new facilities enabled the repayment of the existing secured facilities due to mature in 2019. The fees related to the new facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term.

All 2014 facilities were secured by fixed charges over the shares in certain Group companies and certain intra-group receivables. This security was released in 2015. The borrowings under the new bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

4.2 Equity

Dividends

	2015 £m	2014 £m
Interim dividend for the 52 weeks ended 27 December 2014 of 2.0 pence per share	-	20
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	-
Total dividends paid	64	20

The Directors of the Company propose a final dividend of 4.4 pence per share for the year ended 26 December 2015 *(2014: 4.2 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 6.5 pence per share (*2014: 6.2 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. During the year Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.) ceased to hold any shares.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 26 December 2015, were as follows:

	Goods and services			
	Sales £m	**Amounts owed by related party £m**	**Purchases £m**	**Amounts owed to related party £m**
2015				
KIRKBI Invest A/S	-	-	9	2
LEGO Group	1	1	47	2
	1	1	56	4
2014				
KIRKBI Invest A/S	1	-	7	2
LEGO Group	1	-	37	2
	2	-	44	4

Prior to the refinancing (see note 4.1) KIRKBI Invest A/S, as a member of a banking syndicate, owned an element of the Group's bank loan portfolio. The balance outstanding at 26 December 2015 is £nil *(2014: £49 million).*

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. At 26 December 2015 the Group had subscribed for 42,500,000 shares in IDR *(27 December 2014: 16,350,300 shares)*.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 26 December 2015, are as follows:

	2015 £m	**2014 £m**
Sales to related party	5	5
Amounts owed by related party	3	3

5.2 Contingent liabilities

On 2 June 2015 an accident occurred at Alton Towers Resort on 'The Smiler' ride. The Group responded immediately to support those who were injured, and maintains appropriate insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive (HSE) as they undertake their investigation. It is possible that additional uninsured costs and, depending on the outcome of the HSE investigation, financial penalties may be incurred. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

5.3 Subsequent events

On 24 February 2016 the Group invested $34.4 million (£24.6 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The consideration will be settled in cash and will provide Merlin with a minority equity holding and an investment in loan notes.