



MERLIN ENTERTAINMENTS

ANNUAL REVIEW 2010

*This document does not form part of the audited financial statements of
Merlin Entertainments S.à r.l*

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Welcome to Merlin Entertainments

Merlin Entertainments is Europe's leading and the world's second-largest visitor attraction operator. We now operate 74 attractions in 17 countries across four continents and our aim is to deliver unique, memorable and rewarding experiences to millions of visitors across our growing estate. We believe that we achieve this objective largely thanks to the commitment and passion of our managers and employees. Merlin's brands, while being household names, will never fail to be distinctive, challenging and innovative. In short, they have attitude! They deliver some of the best financial returns in the sector and demonstrate a record of growth in market share that is unrivalled. In every respect and to every group of stakeholders Merlin will always be an exciting company to be involved with.

THE STORY SO FAR

- Merlin's origins date back to 1979 when the first SEA LIFE Centre (SLC) was opened in Oban, Scotland
- Over the following decade we expanded as part of Vardon plc when a further 7 SLCs were opened across the UK, with further sites added during the 1990s in both the UK and Continental Europe, including the London Dungeon and SLC Konstanz
- In 1999 the current Merlin Entertainments Group was formed via a buyout of Vardon Attractions from Vardon plc. Merlin has been under the share ownership of Blackstone and KIRKBI since 2005, with funds advised by CVC joining during 2010
- From 2000 to 2010 the Group delivered substantial underlying EBITDA growth each year from its core business, excluding the impact of acquisitions, and achieved budget every year
- Acquisitions of LEGOLAND Parks (2005), Gardaland (2006) and The Tussauds Group (2007), increased the scale of our business more than tenfold in the three year period to 2007
- 2010 saw the acquisition of Cypress Gardens Theme Park and Botanical Gardens in Florida. This will reopen during 2011 as LEGOLAND Florida, the fifth LEGOLAND Theme Park
- 2010 ended with the announcement of the acquisition of the Sydney Attractions Group, Australia, and Kelly Tarlton's Antarctic Encounter and Underwater World in Auckland, New Zealand, establishing our first presence in Australasia and resulting in a strong cluster of high quality visitor attractions in Sydney that we intend to add to in the coming years. The deal completed after the year end
- With 41 million visitors in 2010, Merlin continues to be the clear market leader in Europe and second only to Disney worldwide in terms of visitor admissions
- Merlin has a unique portfolio of iconic global brands including LEGOLAND, SEA LIFE, Dungeons and Madame Tussauds – supported by 'local' heroes such as The EDF ENERGY London Eye, Gardaland and Alton Towers.

OUR VISION

Our vision is to become the world-wide leader in branded, location based entertainment.

GROUP OVERVIEW

Merlin Entertainments delivers two different types of visitor experiences, through its portfolio of Theme Parks and Midway sites. The Group's Theme Parks portfolio consists of 'Resort Theme Parks' which are national and regional theme parks generally aimed at families with older children, as well as at young adults; and 'LEGOLAND Parks' which are aimed at families with younger children and which have the LEGO product as their central theme. Midway sites are predominantly indoor attractions providing visits of shorter duration than the outdoor theme parks. The management of the Merlin business is aligned directly to these two attraction types and organised into three Operating Groups as outlined below.

THEME PARKS		MIDWAY
Resort Theme Parks	LEGOLAND Parks	

LEGO, the LEGO logo and LEGOLAND are trademarks of the LEGO Group.

OUR STRATEGY

Our strategy is to create a high growth, international, family entertainment company, based on strong brands and a portfolio that is naturally hedged against external factors such as weather or localised market factors. Merlin has six strategic growth drivers as outlined below:

- ***Growing the existing estate through planned capex cycles.*** Regular capital investment in compelling propositions enables us to deliver a high quality product offering which, combined with high levels of guest satisfaction, enables us to maintain our premium price positioning. Planned capex cycles ensure we steadily grow EBITDA over time whilst maximising the use of internal resources and smoothing our cash-flows.
- ***Rolling out new Midway attractions annually.*** Merlin has five proven chainable brands in SEA LIFE, Madame Tussauds, Dungeons, LEGOLAND Discovery Centres and the Eye brand, now being rolled out to other observation experiences outside of London. The Midway roll-out programme delivers a high quality guest experience for relatively limited initial capital investment and requires limited ongoing investment and marketing.
- ***Transforming our Theme Parks into Destination Resorts.*** Adding accommodation and second gates to our Theme Parks enables us to use our assets more intensively, extend the market catchment area beyond a two hour drive time and increases both admissions and in-park secondary spends.
- ***Exploiting strategic synergies.*** Our scale and asset intensity in certain markets enables us, amongst other things, to offer attractive national promotional offers to visitors; to achieve procurement savings; and to invest in e-commerce platforms to improve our sales channel management capability. Where we can cluster our Midway assets together we benefit from cross promotional activity and the sharing of support functions. In our Theme Parks we are able to use our Midway brands to create second gates to extend the range of entertainment on offer.
- ***Developing new LEGOLAND Parks.*** The strength of the LEGO brand and consistency of park format means we can deliver new LEGOLAND Parks and meet our return on capital hurdles, particularly if we are converting an existing park to the brand. We are actively looking for sites for further new LEGOLAND Parks.
- ***Strategic acquisitions.*** Merlin's acquisition strategy is to strengthen the existing asset portfolio and to help replicate the characteristics of Merlin's more established European portfolio in the larger markets in the USA and in Asia.

OUR NUMBER ONE PRIORITY

Our number one priority is to deliver memorable and rewarding experiences to our millions of visitors each year. This is underpinned by constantly monitored visitor satisfaction, world class people development strategies and our relentless focus on achievement of the highest Health & Safety standards.

KEY PERFORMANCE INDICATORS

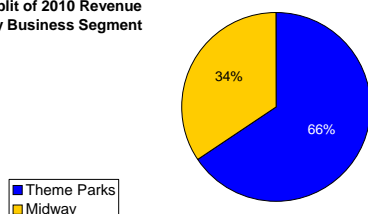
2010 KPIs	Resort Theme Parks	LEGOLAND Parks	Midway	Centre	Total
Total visitors ⁽¹⁾	11.8m	7.2m	22.0m	-	41.0m
Revenue	£310.5m	£215.0m	£273.5m	£1.8m	£800.8m
Underlying EBITDA ⁽²⁾	£89.0m	£73.7m	£115.8m	£(22.7m)	£255.8m

2009 KPIs	Resort Theme Parks	LEGOLAND Parks	Midway	Centre	Total
Total visitors ⁽¹⁾	11.5m	7.0m	20.0m	-	38.5m
Revenue	£312.0m	£203.1m	£246.9m	£7.0m	£769.0m
Underlying EBITDA ⁽²⁾	£88.9m	£67.6m	£103.1m	£(23.9m)	£235.7m

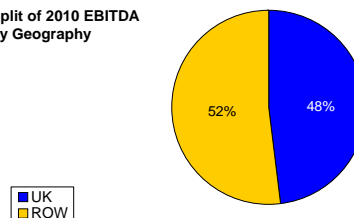
During 2010 we generated cash from operations of £183.3m, spent £103.8m on capital investment and reduced the leverage on our net external bank debt from 4.2 times to 3.9 times Underlying EBITDA.

SEGMENTAL ANALYSIS

Split of 2010 Revenue by Business Segment



Split of 2010 EBITDA by Geography



Notes:

- ⁽¹⁾ Total visitors include 100% of visitors to Merlin operated visitor attractions
⁽²⁾ Underlying EBITDA is defined as EBITDA before exceptional and non-trading items of £35.9 million (2009: £nil).

Chairman's Statement

Following my first full year as Chairman of Merlin Entertainments, I am particularly pleased to report another year of strong profit growth, capital investment and overseas expansion. The Group's performance in the 12 months to December 2010 has again demonstrated Merlin's resilience to a challenging economic environment and other external factors through the diversified portfolio of businesses which we operate. As I have toured our attractions over the past year, I have been impressed by Management's deep understanding of the business, of the market and of our customers, and have seen first-hand the enthusiasm for service excellence which is truly embedded in all our locations.

The Board continues to focus on the Group's strategic development and we have long-term plans to expand into additional markets through both new openings and acquisitions; the latter where appropriate returns can be generated and where there is a good fit with the existing Merlin portfolio. The shareholder transaction and the refinancing which took place during 2010 have strengthened the balance sheet and secured debt financing which will underpin this future growth.

The Board is also responsible for risk management through the Health and Safety and Audit Committees, both of which I also chair. The Health and Safety Committee scrutinizes the work of the operational teams and makes recommendations for improvements to policies, procedures and structures. The Audit Committee oversees the relationship with the external auditors and monitors the environment for internal financial controls through oversight of the Internal Audit function.

We are particularly conscious of our Corporate Social Responsibilities. Animal welfare and conservation are a critical part of Merlin's business, as manifest in our work with and support for the Whale and Dolphin Conservation Society. We also donated through our own Merlin's Magic Wand charity a record number of entrance tickets to disadvantaged children and their carers, more than double last year's total, as well as meeting their travel costs in cases of need.

Finally I would like to thank the Merlin team for delivering such a successful performance in 2010 and for their drive and commitment to producing memorable experiences for our customers. I feel privileged to be part of such a tremendous business, where our daily objective is to put smiles on people's faces. It is no surprise that visitors continue to come to Merlin's attractions through both good times and bad, and I feel confident that we have the strategy, capability and talents to maintain our successful record of profitable growth.

Sir John Sunderland
Non-Executive Chairman
Merlin Entertainments Group
June 2011

Chief Executive Officer's Review

OVERVIEW

I am delighted to report another strong performance in 2010, in what has been a tough external environment in many respects. The economic climate continued to be difficult throughout the year in our major markets, with concerns remaining about sovereign debt on a macro level, at the same time as consumers have continued to be cautious with every Pound, Dollar, Euro, and other currencies that they spend. This year also saw some challenges that we could never have expected, in particular the volcanic ash cloud which closed airspace over London and much of northern Europe for an extended period early in the year. Against this backdrop, Merlin again delivered on all its targets and welcomed over 2.5 million more visitors to our attractions than in 2009, increased our profitability and delivered EBITDA growth across all three of our Operating Groups.

Total visitor numbers increased to 41.0 million, a rise of 6.5%, with contributions from both our new businesses as part of our Midway roll-out programme, as well as from the existing estate of attractions. On a like-for-like basis, which excludes new Midway openings in the previous and current year, our visitor growth was 4.5%, up on our 2009 like-for-like growth of 3.9% and again demonstrating the strength of developments within our existing estate. At the same time as volume growth, we also grew our Group revenue by 4.1% compared to 2009, and excluding the impact of foreign exchange movements our revenue growth was 6.1%. Through continued vigilant focus on our cost base, we converted this top line growth into Underlying EBITDA growth of 8.5%.

In addition to delivering a strong trading performance, 2010 was also a key year in the strategic development of Merlin. The shareholder transaction which took place in the middle of the year brought CVC into our shareholder group. This, along with the refinancing which followed it, effected a group re-organisation which has provided us with a solid platform for the next stage of our growth, with a strong balance sheet and secured debt financing. Merlin is blessed with a variety of interconnected growth drivers and through the year we delivered new initiatives which will allow us to continue to generate further exciting growth. Alongside our trading performance in the existing estate and Midway roll-outs, we also announced acquisitions in 2010 that took us to a total of 70 attractions in 16 countries across four continents. This included the acquisition of Sydney Attractions Group which completed post year end; taking control of the operations of the iconic Blackpool Tower attractions in the UK; and the build programme to enable us to open a fifth LEGOLAND Park, following our acquisition at the start of last year of Cypress Gardens in Florida, USA.

OPERATING GROUPS TRADING REVIEW

Throughout 2010 our passion for delivering memorable and rewarding experiences for our visitors, coupled with a total focus on our six strategic growth drivers, has resulted in both growth and profitable performances in all three Operating Groups, whilst at the same time delivering value to our customers and maintaining industry-leading customer satisfaction scores.

The Resort Theme Parks Operating Group saw a major capital investment in Alton Towers this year, with the launch of the thrill coaster 'Th13teen', aimed at the teenage/young adult market; and a new 'Wild Asia' area at Chessington World of Adventures, along with the Wanyama Village and Animal Reserve, both of which have proved very popular with families as well as with guests at the Chessington Hotel. All of our Resort Theme Park businesses strategically invested in capex this year, enhancing the visitor experience through a combination of new rides and attractions, as well as a programme of concerts and events. Heide Park and Gardaland were confronted with both tough economic conditions and poor weather across Continental Europe and faced some challenging times during this past year as a result. However, management responded well in both cases and drove attendances through promotional activity; focused on giving customers good value for money; controlled costs; and delivered creditable performances overall.

The LEGOLAND Parks Operating Group had a fantastic year in 2010, demonstrating the strength of the LEGOLAND brand and its appeal to families with young children. The major investment in the existing estate was the world's first exciting LEGO themed Waterpark at LEGOLAND California. It received industry-wide acclaim for its innovation and delivered a fabulous, interactive guest experience which the visitors love. It has over-achieved the internal targets set for it; has driven a significant uptake in Annual Pass sales; and has led to far greater repeat visitation and the associated in-park secondary spends that come with it. LEGOLAND Billund launched the Temple dark ride and had a very successful year both in the park and the hotel. In terms of new site rollout, our redevelopment of the Cypress Gardens site into LEGOLAND Florida has progressed well, and we are on track to open in October 2011, on time and on budget. Initial customer feedback and advance ticket bookings have confirmed our confidence in taking LEGOLAND to the heart of the US theme park capital. Progress on LEGOLAND Malaysia has also continued very well this year and this site remains on track for opening in 2012.

2010 was another successful year for the Midway Operating Group also, with strong growth in the existing estate; the continued momentum of the roll-out strategy; and the acquisition of businesses. The strong like-for-like growth was delivered in the existing estate by our controlled capex investment cycles, which saw among many other things the introduction of an indoor Penguin Antarctic Adventure at SLC Konstanz, and the world-class '4D Marvel Super Heroes' experience at Madame Tussauds, London. The SEA LIFE brand also saw growth in 2010 through creature-led publicity, such as Crabzilla, a giant Japanese Spider Crab which toured around a number of the European sites, and Paul the Octopus in Oberhausen, Germany, who gained international fame through his ability to predict the winners of football matches during the World Cup competition last summer. The Midway roll-out programme saw the opening of three new attractions across three different brands and three different continents: LEGOLAND Discovery Centre Manchester, UK, the fourth rollout of our innovative indoor LEGO-based attraction; SEA LIFE CENTRE Phoenix, Arizona, as part of our US expansion plans; and Madame Tussauds Bangkok, the first Merlin attraction in Thailand and evidence of our commitment to development in Asia. With regard to acquisitions, the agreements we entered into with Blackpool Council in the UK have given us not only the iconic Blackpool Tower observation attraction, but also the opportunity to launch a Madame Tussauds, Dungeon and Eye attraction there to add to our existing SLC and deliver a Blackpool cluster. And at the end of 2010 we announced the acquisition of the six Midway businesses located in Australia and New Zealand that are part of the Sydney Attractions Group. This further expands our geographical footprint and shows just how serious we are about delivering on our high growth strategy.

PEOPLE

The new HR Director appointed in February last year has focused on aligning our 'People plan' to the business plan, so that we ensure that we continue to fill our talent pipeline to have the right people in the places where we need them to deliver on our ambitious growth plans. This has meant amongst other initiatives, a broadening of the opportunities we offer our existing staff for internal personal development programmes, as well as extending the Graduate programme yet again, in order to deliver the business managers of the future. Part of the focus this year has also been on our company values and on reviewing and refining how we articulate them and make them come to life for all of the Merlin team. As a result of this, we have launched what we call 'The Merlin Way' so that everyone across the organisation knows what we stand for and how we behave. And most pleasingly, I can again report the creation of more than 1,000 new jobs at peak season, something of which we are very proud in these challenging economic times.

2011 OUTLOOK

As we look ahead through 2011, we are again faced with external challenges. At the same time as natural hazards across the globe, the economic environment remains uncertain. Consumers continue to be cautious, in the face of VAT and other tax rises and spending cuts, as Governments put in place austerity measures to put their finances on a sounder footing. At Merlin though, we remain cautiously optimistic. The strong performance we delivered in 2010 demonstrated once again the resilience of our portfolio, the appeal of our offerings and the great value for money they offer for family days out, whatever the external environment throws at us. We have supportive shareholders, a sound balance sheet and our debt finance now in place through to 2017. And most importantly, we are really excited about the compelling propositions we have put together for 2011 in terms of new rides and attractions for our existing estate. The new thrill coasters at both Gardaland and Heide Park combine innovative ride technology and imaginative theming to provide truly awesome ride experiences for our thrill-seeking visitors. Our groundbreaking underwater submarine experience at LEGOLAND Windsor combines ride content with SEA LIFE creatures to provide a wonderful marine adventure for families with young children. These investments, among many others on our existing estate, will go hand in hand with our plans for our six newly acquired businesses and the opening of a further six Midway attractions, as well as the culmination of the work we have been doing in the US with the opening of LEGOLAND Florida in October. We have a strongly cash-generative business and an experienced team who are committed to delivering memorable and rewarding experiences to each and every one of our 41 million annual visitors. With all these elements in place, and with trading so far this year in line with expectations, I look forward to the rest of 2011 with confidence.

Nick Varney
Chief Executive Officer
Merlin Entertainments Group
June 2011

Group Financial Review

During the year to 25 December 2010 Merlin delivered strong growth in the face of continued global economic uncertainty, with increased profits in all three of our Operating Groups; from both new site openings as well as our existing estate attractions.

The financial highlights for 2010 are:

- Increase in Revenue compared to 2009 of £31.8 million (4.1%) to £800.8 million. Increase in revenue on a constant currency basis was 6.1% (£46.0 million)
- Underlying EBITDA of £255.8 million, up £20.1 million (8.5%) on 2009
- Total EBITDA of £219.9 million, down £15.8 million (6.7%) on the prior year, impacted by exceptional and non-trading items mainly relating to the shareholder transaction in the year
- Underlying Operating Profit of £198.0 million, up £21.3 million (12.1%) on 2009
- Total Operating Profit was £158.4 million, down £18.3 million (10.4%) on 2009, impacted by exceptional and non-trading items
- Net finance costs of £132.4 million, down £58.0 million on 2009
- Underlying Profit before tax before shareholder interest of £86.3m, up £39.4m on 2009, an increase of 84.0%
- Total Profit before tax of £26.0 million, up from a loss of £13.7 million in 2009
- Capital investment of £103.8 million during the year (2009: £101.2 million), of which £74.6 million on the Existing Estate and £29.2 million on new business openings
- Balance sheet strengthened to net assets of £504.5 million (2009: net liabilities of £114.3 million) in support of future growth plans
- Refinancing during the year, with facilities now secured through to 2017
- Cash, net of bank overdrafts, at year end of £67.1 million
- Leverage on net external bank debt at year end equates to 3.9 times underlying EBITDA (2009: 4.2 times).

	2010 £m	2009 £m	Growth +/- £m
Visitors (million) ⁽¹⁾	40.7	38.3	2.4
Revenue	800.8	769.0	31.8
Underlying EBITDA ⁽²⁾	255.8	235.7	20.1
Total EBITDA ⁽³⁾	219.9	235.7	(15.8)
Underlying Operating Profit	198.0	176.7	21.3
Total Operating Profit	158.4	176.7	(18.3)
Net finance costs	(132.4)	(190.4)	58.0
Underlying Profit before tax before shareholder interest	86.3	46.9	39.4
Total Profit/(Loss) before tax	26.0	(13.7)	39.7

⁽¹⁾ Visitors are stated on a basis consistent with statutory revenue and include 100% of visitors for subsidiaries and nil in respect of joint ventures and non-owned Merlin operated parks. (Note: this measure differs from 'Total Visitors' used elsewhere in this report which includes 100% of visitors to all Merlin operated visitor attractions, regardless of their ownership structure).

⁽²⁾ Underlying EBITDA is defined as EBITDA before exceptional and non-trading items.

⁽³⁾ EBITDA is defined as earnings before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of profit after tax of joint ventures.

INCOME STATEMENT

Group Revenue growth of £31.8 million and 4.1% includes £29.2 million (3.9% growth) from the Existing Estate with the balance of £2.6 million coming from sites opened since January 2009. Like-for-like revenue at constant currency grew by 6.0% in the year.

Group Underlying EBITDA growth of £20.1 million and 8.5%. The Existing Estate delivered £19.4 million (8.3% growth) whilst new sites delivered £0.7 million. Like-for-like Underlying EBITDA grew by 9.4% in the year.

Group Operational Gearing, which measures the growth rate in Underlying EBITDA compared to Revenue, was 1.58x on a constant currency basis.

Exceptional and non-trading items in 2011 impacted EBITDA by £35.9 million, mainly relating to the shareholder transaction in the year. This Group re-organisation, along with the subsequent refinancing, strengthened the financial position of the Group through the conversion of shareholder loans to equity. Furthermore, new debt facilities were put in place and subsequently extended through to 2017, ongoing finance costs and leverage have been reduced and the net assets of the Group at the end of 2010 equated to £504.5 million (2009: net liabilities of £114.3 million).

Depreciation, amortisation and impairment charges increased by £2.5 million to £61.5 million, and included a one-off impairment charge of £3.7 million in respect of one of the Group's Midway attractions, arising from a review of the market conditions unique to that location. There were no impairments in 2009.

Net financing costs of £132.4 million were £58.0 million lower, principally as a result of a net (unrealised) gain on financial derivatives of £19.1 million, arising from the mark-to-market of un-hedged interest rate swaps, discussed further below, and interest on shareholder loans of £32.4 million (2009: £48.5 million).

CASHFLOW

Merlin remains highly cash-generative. During the year the Group generated a net cash inflow from operations of £183.3 million after taking account of the cash outflows arising from the exceptional and non-trading items.

Of this cash inflow from operations, £103.8 million was re-invested to fund capital expenditure in both the existing estate and new site openings, along with £15.6 million invested in the acquisition of Cypress Gardens as part of the development of LEGOLAND Florida.

Merlin's capital expenditure programme is targeted at both maintaining the quality of the existing estate whilst also driving organic growth from strategic investments in the existing business, as well as developing an average of four or five new businesses per annum. All proposed capital projects are appraised both operationally and financially and Merlin sets clear project return targets to assist in assessing the viability and prioritisation of capex projects.

BANK BORROWINGS

As at 25 December 2010, gross bank debt was £1,066.3 million compared with £1,088.1 million at 26 December 2009, as a result of the refinancing during the year. Gross bank debt is partially offset by cash, net of bank overdrafts of £67.1 million, thus net bank debt of £999.2 million equates to leverage of 3.9 times 2010 underlying EBITDA (2009: 4.2 times).

Merlin's bank borrowings are available under a Facilities Agreement which was put in place in July 2010 and subsequently extended to secure funding into 2017. The Facilities Agreement requires Merlin to comply with certain financial and non-financial covenants. The financial covenants include annual limitations on capital expenditure and require the maintenance of certain minimum ratios of EBITDA to both net interest payable and net debt. In addition, there is a requirement that the net operating cash flows generated are not less than Merlin's cash cost of funding the bank debt. The Facilities Agreement is secured by a fixed and floating charge over certain of the Group's assets. The Facilities Agreement also requires the Group to enter into interest rate swaps in respect of certain bank borrowings.

In addition to the term debt, Merlin also has a revolving facility of £125 million, which is available to finance working capital requirements and for general corporate purposes. As at 25 December 2010, £nil had been drawn down from the revolving facility (2009: £nil).

Andrew Carr
Chief Financial Officer
Merlin Entertainments Group
June 2011

Merlin's People

With the appointment of a new Group HR Director, Tea Colaianni, there has been a revised focus on aligning the HR people plan to the business strategy. A key achievement has been seen in the launch of 'The Merlin Way', which incorporates our new company values and competencies. The Merlin Way has received excellent reviews from the business and will underpin all aspects of the people agenda in future.

Through our continued growth, Merlin has increased the number of talented people employed to in excess of 16,000 people during peak trading. Reflecting the Merlin Way, we will develop our employees to allow them the opportunities to grow and progress across the globe to deliver our goal of being the best company to work for in our industry. Our focus is to ensure all activities of recruiting, retaining and developing at all levels, are fully aligned to the business strategy, as well as being driven from a people perspective.

TALENT AND DEVELOPMENT

To align to the business growth plans, Merlin successfully introduced a new development programme in 2010 to develop the General Managers of the future. This has proved a great success, both for the business and for the individuals concerned and demonstrates our commitment to continuous development and career enhancement.

The graduate programme has gone from strength to strength this year, with good presence on social media and the recruitment of high calibre, passionate individuals. This was recognised externally when we won the UK Springboard Award for Attracting Young Talent into Management, which complements the international IAAPA award we received in 2009. The commitment to develop our graduates is certainly high on the agenda, with final presentations at the end of the programme to the CEO, CFO and Operating Group Managing Directors.

COMMUNICATION

Our communication strategy ensures that we deploy a wide variety of methods to enable our employees to be fully informed and up-to-date with current business performance and long term goals. Our preferred primary communication method remains face to face, however, with the expansion of the business into new time zones the transition to more online communications has increased.

Our intranet, Merlin Online, ensures that all in the business are up to date with the latest news and developments from across the globe, whilst at the same time promoting our internal vacancy bulletin. Online meetings have also increased this past year, with the use of WebEx and video conferencing, allowing 2-way communication in a professional manner to all areas of our business at the same time.

This year we transferred our employee opinion survey, 'The Wizard Wants to Know', from a paper based survey to being 100% online. This valuable employee feedback survey was completed by an amazing 95% of our team, an increase of 5% on 2009. Overall the scores improved again, with 91% stating "they enjoyed working for us" and 97% "knowing what is expected of them". To ensure feedback is reflected upon, local action plans are devised and implemented by all line managers, in support of our drive to be the best company to work for in our industry.

REWARD

Our reward programmes are designed to motivate and incentivise our employees, as well as recognise the achievement of personal objectives. With this in mind, we offer a wide range of benefits, from annual bonus schemes and the opportunity for equity participation to retirement and health benefits, dependent on global location. Our vision remains to create a global total reward framework to drive employee progression. Progress in this area continues to evolve, built upon our worldwide job grading platform.

Corporate Social Responsibility

As one of the leading entertainment companies in the world, Merlin defines its values not just by the passionate way we do business; but also by the way we treat our visitors; our people; our suppliers; and the communities in which we operate. We believe that one of the keys to our business success is the fact that our environmental and social performance is managed alongside our financial performance.

MERLIN IN THE COMMUNITY

Our corporate responsibility programme (*'Merlin in the Community'*) works on two levels. At a Group-wide level, we focus on our own Charity, *Merlin's Magic Wand* as well as on the important and valuable work that we do in the areas of *Animal and Marine Conservation and Welfare*. This is supplemented at the local attraction level with initiatives which are focused on the communities around our sites. In 2010 we have also made good progress on our programme to proactively manage our Carbon Footprint and to set meaningful targets for future developments in this area.

MERLIN'S MAGIC WAND CHILDREN'S CHARITY

Merlin's Magic Wand (MMW) was launched in May 2008 and enables children who are disadvantaged through ill health, disability, abuse or poverty to have a great experience at one of our many attractions around the world. The Group donates funds to the charity directly and continues to support the day to day running of the charity by subsidising the employment costs of the charity's manager and support staff, providing office accommodation and facilities at no cost and providing free tickets to attractions.

During 2010 we have made significant progress with Merlin's Magic Wand:

- Refreshing the branding and communications, which has enabled us to better engage with all our employees
- Nominated an MMW Champion at each attraction, whose primary role is to ensure that employees and guests are aware of what the charity is doing and how they may be able to help support it. They are also charged with identifying a local good cause that the team can adopt and put forward for an out-reach installation project
- Provided more than 35,000 visits to our attractions for disadvantaged children including associated travel grants when necessary. This is twice the number of visits provided in 2009
- Raised some £130,000 from fundraising events across the estate which supported, amongst other things, our first outreach project, a bespoke Merlin Play Area, at The Chase Hospice near Guildford. We call these outreach projects 'Taking the Magic to the Children' and roll them out for the benefit of these special children who would be unable to visit one of our attractions in person
- We recently recruited a fundraiser in order to target external donations, develop a number of annual events, and to support the acceleration of the outreach roll-out.

OTHER CHARITY AND COMMUNITY ACTIVITIES

In addition to supporting Merlin's Magic Wand, our attractions are encouraged to be active in their local communities, supporting local schools and charitable and social initiatives. Examples of some of the charities our attractions have worked with in 2010 include: Cancer Research, RNLI, Great Ormond Street Children's Hospital and many local children's hospices.

ENVIRONMENTAL IMPACT OF THE BUSINESS

Earlier in the year we completed the review of our UK Carbon Footprint with the Carbon Trust. This has provided both a baseline against which targets can be set for future carbon management plans, as well as a variety of initiatives for proactive reduction in carbon usage. The Group recently allocated a sum of capital for the implementation of a range of carbon reduction initiatives based upon 'bids' from each of our sites and attractions. These projects will be implemented in 2011 and the impact on carbon usage measured and evaluated, with a view to extending the successful ideas to more sites across the portfolio in the future. The process has also encouraged sites to take a highly proactive approach to their carbon management.

We are continuing the rollout of automatic meter reading to provide more information to assist our energy management work and are continuing to replace traditional lighting fixtures with LED and low energy bulbs. We are maintaining our focus on waste reduction and recycling initiatives. Our bottle recycling scheme in the UK in association with Coca-Cola and WRAP was particularly effective and has been extended to all of our parks.

Our four London attractions achieved the Platinum Award in 2010 in the 'Green 500' scheme for London; a recognition of the significant progress on environmental initiatives which the team there has been working on.

OTHER CORPORATE RESPONSIBILITY INITIATIVES

On the broader responsibility front, all of our retail suppliers are required to sign our ethical terms & conditions before we place any orders with them. We have an independent Far East audit company in place that audits our suppliers' factories in the areas of child labour, working conditions and environmental impact.

ANIMAL AND MARINE CONSERVATION AND WELFARE

Merlin has an excellent record and reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment; a reputation acknowledged by expert organisations around the world. The company is justifiably proud of the campaigns and breeding programmes of which it is a part. We are also very aware of our responsibilities towards the welfare of the animals in our care and employ the highest possible standards of animal husbandry on every site.

Breeding Success

SEA LIFE continued to enjoy considerable breeding success in 2010 with a variety of species including: seahorses, sharks, rays, jellyfish, Humboldt penguins and Asian short clawed otters. More breeding successes were also recorded at the freshwater turtle facility in the National SEA LIFE Centre Birmingham.

Chessington World of Adventures is involved with many national and international breeding programmes to secure the long term future of rare and endangered species. We currently have a Scimitar Oryx and Sitatunga calf, along with Gentle Lemur and Pygmy Marmoset babies. New additions to the Collection include Fennec Foxes, Dorcas Gazelle, Dik Dik, Dwarf Mongoose, Red Squirrels and a new male Fossa.

Rescue, rehabilitation and release

Seal rescue rehabilitation and release continues to be a significant element of the SEA LIFE and Sanctuary group's work. Again, well over 100 Grey and Common seal pups were rescued and ultimately rehabilitated in 2010. There were no rescued turtles returned to the wild this year, however Weymouth SEA LIFE provided overflow accommodation for five injured green turtles from the Florida Turtle Hospital. All five are collision victims who have permanent shell damage that has left them unable to dive by natural means. The Florida facility experimented with weights adhered to their carapaces and the Weymouth team is continuing this rehabilitative work.

Conservation

The highlight this year was the presentation by a delegation of children of some 200,000 postcards collected across the SEA LIFE estate. These were completed in opposition to a proposal before the International Whaling Commission to relax the moratorium on whaling. This high profile event appeared to have the desired effect, with the controversial proposal being vetoed by the Commission the very next day. Sponsored walks at several SLCs in the UK again raised a substantial sum for the Whale & Dolphin Conservation Society, our conservation partner.

Our SEA LIFE businesses have also been involved in other areas of conservation during 2010, including remaining an active participant in shark tagging missions in Scotland. Across the UK, we are now partnering the Seahorse Trust to tag and monitor seahorses along the South West coast, so as to gather evidence in support of establishing more marine protected areas to enable these delicate creatures to breed in safety. And in Germany, SEA LIFE has joined a captive breeding programme to breed and rear endangered European Pond Turtles for re-introduction at sites along the Rhine. Also this year, the worldwide global network of SLCs renewed its commitment to the establishment of a vital turtle rescue and education facility on the Greek island of Zakynthos.

Chessington World of Adventures has launched the Chessington Conservation Fund. This will support three main Conservation Charities: the WLT; EAZA Ape Campaign; and Surrey Wildlife Trust (Native Wildlife). The Park has set itself high targets, which it is confident of achieving now that this forum is in place to drive this forward. One of their Charter Standards is 'practice what we preach', so there will be emphasis on Environmental issues as well as Conservation.

Ownership and Management Structure

OWNERSHIP

The parent company of Merlin is Merlin Entertainments S.à r.l (the “Company”), which is a company incorporated in Luxembourg.

The Company’s equity as at the date of this report is owned as follows:

	Ordinary Shares %
KIRKBI A/S	31.63
Funds managed by Blackstone Group International (Blackstone)	29.80
Funds managed by CVC Capital Partners (CVC)	24.54
Management	14.03
	100.00

MANAGEMENT

The Company is managed in Luxembourg by its Board of Managers (the “Board”), which comprises representatives of the principal shareholders. The Board is the Company’s decision-making body.

Co-ordination of Merlin’s operating subsidiaries is conducted by a UK company, Merlin Entertainments Group Limited, which provides central services to Merlin, covering development activities, brand management, and operational and administrative support.

Day to day operational oversight of Merlin’s business is the responsibility of the Executive Board which provides recommendations on operational matters to the operating companies in the Group. The Board is advised on key strategic decisions by a Management Committee made up of key members of the Executive Board and representatives of shareholders. The Management Committee’s role is to make recommendations to companies in the Merlin Group on strategic and key non-operational matters. The recommendations of the Executive Board (on operational matters) and the Management Committee (on strategic and key non-operational matters) are not binding on any member of the Merlin Group and individual Group company decisions are taken by the boards of directors of each Group company.

The members of the Board, the Management Committee and the Executive Board are set out below.

Members of the Board

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

Robert L. Friedman served throughout 2010 and remains a member of the Board as at the date of this report. Mr Friedman is a Senior Managing Director of Blackstone based in New York. On joining Blackstone in 1999, Mr Friedman worked primarily in Blackstone’s Private Equity group. He was Chief Legal Officer from January 2003 to August 2010 and was Chief Administrative Officer during most of that time.

Before joining Blackstone, Mr. Friedman had been a partner with Simpson Thacher & Bartlett for 25 years, where he was a senior member of that law firm’s Mergers and Acquisitions practice. At Simpson Thacher, Mr Friedman advised The Blackstone Group since its foundation in 1985.

Mr Friedman graduated from Columbia College and received a JD from the University of Pennsylvania Law School. He currently serves as a Director of Axis Capital Holdings Limited, FGIC Corporation, The India Fund, Inc., Orbitz Worldwide, Inc and TRW Automotive Holdings Corp. Mr Friedman is a member of the Board of Advisors of the Institute for Law and Economics of the University of Pennsylvania, a member of the Board of Visitors of Columbia College, a member of the Board of Directors of United Way of New York City, a Trustee of the Nantucket Land Council, and a Trustee of Chess-in-the-Schools and New Alternatives for Children, two charitable organisations with programs for disadvantaged youth in New York City.

John Sutherland served throughout 2010 and remains a member of the Board as at the date of this report. Mr Sutherland is an independent Director who also sits on the Board of numerous other external Luxembourg companies. He was previously Managing Director of a company operating in the Luxembourg financial services sector for 10 years and has 20 years experience working in the financial services industry.

Claus Andersen served throughout 2010 and remains a member of the Board as at the date of this report. Mr Andersen joined the LEGO Group in 2007 and is legal counsel and a member of the Board of a number of the LEGO Group and KIRKBI A/S subsidiaries. Prior to joining LEGO/KIRKBI, Mr Andersen worked in Copenhagen at the law firm DLA Piper.

Lars Boné was appointed on 23rd July 2010 and remains a member of the Board as at the date of this report. He is Vice President, Portfolio Management, and Group Treasurer at KIRKBI A/S. Prior to joining KIRKBI A/S, he was with Danfoss A/S, Sydbank A/S and has also worked as a Treasurer in LEGO System A/S.

Emanuela Brero was appointed on 23rd July 2010 and remains a member of the Board as at the date of this report. Ms Brero joined CVC Capital Partners in 2005 and is a Director of Corporate Administration in Luxembourg. Prior to joining CVC Ms Brero worked in the Corporate Department of Société Européenne de Banque (Luxembourg), where she was involved in the structuring and implementation of a wide range of Private Equity transactions. Emanuela holds a Degree in Business Administration from Università Bocconi, Italy.

Bénédicte Moens-Colleaux was appointed on 23rd July 2010 and remains a member of the Board as at the date of this report. Ms Moens-Colleaux joined CVC Capital Partners in 2006 and is a Director of Corporate Taxation based in Luxembourg. Prior to joining CVC Ms Moens-Colleaux worked for Arthur Andersen Luxembourg and Deloitte Luxembourg in the M&A tax department. She is a Luxembourg qualified accountant and holds a degree in Business Administration and a Master's in Finance from the University of Liège (Belgium).

The Management Committee

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

Sir John Sunderland, Chairman

Sir John Sunderland was appointed Chairman of the Management Committee and Non-Executive Chairman of the Merlin Entertainments Group on 11th December 2009 and continues in this role as at the date of this report. Sir John is currently a Non-Executive Director of Barclays Bank plc, a Director of the Financial Reporting Council and an advisor to CVC Capital Partners. Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007, President of the Food and Drink Federation from 2002 to 2004, President of the Incorporated Society of British Advertisers from 2002 to 2005 and a Non-Executive Director of the Rank Group from 1998 to 2006. Sir John is also Chancellor of Aston University and a member of the Council of Reading University.

Nick Varney, Chief Executive Officer

Mr Varney served throughout 2010 and remains a member of the Management Committee as at the date of this report. He has over 20 years' experience in the visitor attractions industry and was appointed Chief Executive Officer in 1999. Prior to that, Mr Varney was Managing Director of Vardon Attractions and a main board director of Vardon plc. In 1999, Mr Varney led the management buyout of Vardon Attractions to form Merlin Entertainments and, in 2005, initiated the process which led to its acquisition by Blackstone. Before joining Vardon Attractions, Mr Varney had senior positions within The Tussauds Group, including Marketing Director of Alton Towers and Head of Group Marketing.

Andrew Carr, Chief Financial Officer

Mr Carr served throughout 2010 and remains a member of the Management Committee as at the date of this report. He is a qualified chartered accountant and was appointed Chief Financial Officer in 1999. Prior to that, Mr Carr was Financial Director of Vardon Attractions and played a key role in the management buyout of Vardon Attractions to form Merlin Entertainments in 1999 and in the subsequent business, including the two follow-on buyouts and the acquisitions of LEGOLAND, Gardaland and The Tussauds Group. Before joining Vardon Attractions, Mr Carr trained, and was subsequently head of a regional Corporate Finance Department, at KPMG.

Joseph Baratta

Mr Baratta served throughout 2010 and remains a member of the Management Committee as at the date of this report. He is a Senior Managing Director in Blackstone's Private Equity business and is based in London. Since joining Blackstone in 1998, Mr Baratta has been involved in the execution of Blackstone's investments in LiveWire, Republic Technologies International, Universal Orlando, Nycomed Pharmaceuticals, Houghton Mifflin, Spirit Group and the original investment in the Merlin Group. In addition to Merlin, Mr Baratta is responsible for Blackstone's investments in Seaworld Parks and Entertainment, Center Parcs and Tragus Group. Mr Baratta serves as a Director of Seaworld Parks and Entertainment, Center Parcs plc and Tragus Group plc. Prior to joining Blackstone, Mr Baratta worked at Tincum Incorporated, McCown De Leeuw & Company and at Morgan Stanley in its M&A Department.

Jan Nielsen

Mr Nielsen served throughout 2010 and resigned on 29th April 2011.

Jørgen Vig Knudstorp

Mr Vig Knudstorp served throughout 2010 and remains a member of the Management Committee as at the date of this report. He has been the President and CEO of the LEGO Group since 2004 and is based in Denmark. Since joining the LEGO Group in 2001 he has held a number of positions including that of CFO and was involved in the sale of the LEGOLAND Parks to Merlin Entertainments Group in 2005. Mr Vig Knudstorp holds a PhD in Business Economics and is currently a board member of Quartz+Co, IMD's Foundation Board and the Committee for Economic Development under the Brookings Institution. Mr Vig Knudstorp is an adjunct professor in Strategy and International Management at the Copenhagen Business School. Mr Vig Knudstorp was selected for 'Young Global Leaders' in 2006 at the Davos World Economic Forum and nominated as 'Leader of the Year' in Denmark in 2006. Prior to joining the LEGO Group, Mr Vig Knudstorp worked for McKinsey & Company and studied in Denmark, the UK and USA.

Poul Hartvig Nielsen

Mr Nielsen was appointed to the Management Committee on 16th October 2009 and resigned on 29th April 2010.

Soren Sorensen

Mr Sorensen was appointed to the Management Committee on 29th April 2010. He is the CEO of KIRKBI A/S, following his appointment in March 2010 and is the Chairman and member of the Boards of a number of KIRKBI A/S subsidiaries. Prior to joining the Group, he was Managing Partner of KPMG Denmark and CFO of A.P. Moller-Maersk. He is a qualified chartered accountant and holds an MSc from the Copenhagen Business School.

Pev Hooper

Mr Hooper was appointed to the Management Committee on 23rd July 2010. He is a Senior Managing Director of CVC UK, whom he joined in 2004 from Citigroup's M&A department. Prior to working at Citigroup, Mr Hooper worked in the M&A department at Schroders. Mr Hooper holds an MA degree from Oxford University.

Rob Lucas

Mr Lucas was appointed to the Management Committee on 23rd July 2010. Mr Lucas is a Managing Partner of CVC Capital Partners. He joined CVC in 1996, having previously been a Local Director at 3i Group plc. Mr Lucas was with 3i for nine years, both in London and Cambridge. Prior to entering private equity, Mr Lucas worked as an engineer for GEC Marconi. Mr Lucas holds a Degree in Electrical Engineering from Imperial College, London.

Gerry Murphy

Dr Murphy was appointed to the Management Committee on 29th April 2011 and is a Senior Managing Director in Blackstone's Corporate Private Equity group based in London. He serves as Chairman of the firm's European holding company and is a director of United Biscuits, Kloeckner Pentaplast and Michaels Stores. Before joining Blackstone in 2008, Dr Murphy spent five years as CEO of Kingfisher plc, a FTSE 100 company and the leading home improvement retailer in Europe and Asia. He has previously been the CEO of Carlton Communications plc, Exel plc and Greencore Group plc and has also served on the boards of Reckitt Benckiser Group plc, Abbey National plc and Novar plc. He is a non-executive director of British American Tobacco plc and is a member of the Council of the British Venture Capital and Private Equity Association and the Advisory Board of the UK India Business Council.

The Executive Board

The Executive Board comprises senior executives of the business. As at the date of this report the members of the Executive Board are:

Nick Varney, Chief Executive Officer. See details above.

Andrew Carr, Chief Financial Officer. See details above.

Colin Armstrong, Group Legal Director and Company Secretary.

Mr Armstrong served throughout 2010 and remains a member of the Executive Board as at the date of this report. Mr Armstrong is a qualified solicitor with over 20 years' corporate law experience and was appointed Group Legal Director and Company Secretary in 2007. Prior to joining Merlin, Mr Armstrong held the position of Group Legal Director and Company Secretary at National Express Group plc, Northern Leisure plc and AutoLogic Holdings plc.

Glenn Earlam, Managing Director, Midway Operating Group

Mr Earlam served throughout 2010 and remains a member of the Executive Board as at the date of this report. He has over 15 years' experience in the visitor attractions industry and was appointed Managing Director, Midway Attractions in 2007 following the Group's acquisition of The Tussauds Group. Prior to that, Mr Earlam held a variety of senior positions at The Tussauds Group, including Director of Marketing at Alton Towers, Director of Marketing for the UK Theme Parks and Managing Director, City Centre Attractions.

Mark Fisher, Managing Director, Resort Theme Parks

Mr Fisher served throughout 2010 and remains a member of the Executive Board as at the date of this report. He has over 20 years' experience in the visitor attractions industry and was appointed Managing Director, Resort Theme Parks in 2007 following the acquisition of The Tussauds Group. Prior to that, Mr Fisher held a variety of senior positions within the Group, including Managing Director, Operating Division and Group Marketing and Sales Director. Mr Fisher was a member of the senior management team involved in the management buyout of Vardon Attractions in 1999.

John Jakobsen, Managing Director, LEGOLAND Parks

Mr Jakobsen served throughout 2010 and remains a member of the Executive Board as at the date of this report. He was appointed Managing Director, LEGOLAND Parks in 2007 following the acquisition of The Tussauds Group. Mr Jakobsen joined the LEGO Group in 1988 and became involved in the LEGOLAND Parks business in 1990. He was involved in the strategic planning of LEGOLAND California, LEGOLAND Windsor and LEGOLAND Deutschland and has previously served as President and General Manager of LEGOLAND California and General Manager of LEGOLAND Deutschland.

Nick MacKenzie, Managing Director, Property Development Group

Mr MacKenzie served throughout 2010 and remains a member of the Executive Board as at the date of this report. He is a qualified surveyor and was appointed Managing Director, Property and Development Group in 2007 following the acquisition of The Tussauds Group. Mr MacKenzie joined The Tussauds Group in 2002 and was Property & Business Services Director and a Board Member of the London Eye Company.

David Bridgford, Strategy Director

Mr Bridgford served throughout 2010 and remains a member of the Executive Board as at the date of this report. He is a qualified chartered accountant and was appointed Director of Corporate Finance in 2007 following the acquisition of The Tussauds Group, for whom he acted as Director of Corporate Finance. He was appointed Strategy Director in 2010. Mr Bridgford has previously been a Director of the London Eye Company and prior to joining The Tussauds Group he worked for Deloitte and became a Partner in its Corporate Finance Department in 2000.

Andy Davies, Commercial Services Director

Mr Davies served throughout 2010 and remains a member of the Executive Board as at the date of this report. He was appointed Commercial Services Director in 2007 following the acquisition of The Tussauds Group, for whom he acted as Commercial Services Director. Prior to joining the Tussauds Group in 2003, Mr Davies worked as Marketing Director for BAA, Marketing and Buying Director for WH Smith Travel Retail and for M&M/Mars where he worked on launches for new products and markets for their global consumer brands.

Tea Colaianni, Group HR Director

Mrs Colaianni was appointed on 22nd February 2010 and remains a member of the Executive Board as at the date of this report. Prior to joining the Group, Mrs Colaianni was Vice President Human Resources, Europe, UK and Ireland for Hilton Hotels Corporation and was responsible for the human resources function for 20,000 employees and 180 hotels across 26 countries. Prior to this, she held a number of senior human resources roles in companies operating across Europe in a wide range of industries, including telecommunications and data hosting/broadband.

Grant Stenhouse, Project Development Director

Mr Stenhouse served throughout 2010 and remains a member of the Executive Board as at the date of this report. He is a marine biologist and was appointed Project Development Director in 2006. He joined the Group as the Manager of the Group's first SLC in Oban, United Kingdom, in 1982 and subsequently held the position of Head of Biological Services from 1991 to 2006.

Principal Risks and Uncertainties

Merlin adopts a proactive approach to the management of potential risks and uncertainties which could have a material impact on Merlin's performance and execution of its growth strategy. The Group's Executive Board members manage such risks and are actively involved in the Group's Corporate Risk Management Committee. The Corporate Risk Management Committee meets four times a year to oversee the Group risk management process. Corporate Risk Reports are circulated monthly to the Executive Board and quarterly to the Management Committee.

The Board, the Management Committee and the Executive Board believe appropriate processes are in place to monitor and mitigate these risks and their potential adverse consequences to Merlin. These risks include:

OPERATIONAL RISK FACTORS

- **Key Personnel**

Merlin is a 'people business' and the Group's performance depends largely on recruiting and retaining its employees and senior managers. Merlin mitigates this risk through training and personal development programmes, proactively managed succession planning and through incentive schemes, including share ownership, to motivate staff and retain key employees.

- **Brands and Offerings**

Merlin has a wide range of brands and offerings which have been built upon a reputation for quality and excellence in delivery. Revenues may be adversely affected by serious incident, accident or similar occurrence. The high profile nature of a number of the Group's sites means there is a risk of being targeted by activists. Merlin mitigates these risks by maintaining industry-leading standards of training, safety and security systems, intelligence and procedures.

- **New Site and Attraction Developments**

The Group's ability to grow its business is dependent on securing new sites in the right locations at the right price and on obtaining the necessary planning permissions. Merlin has a proactive new business development and site search team who are continuously evaluating options for new site locations and working closely with developers and planners in key cities and other locations.

- **Property and the Environment**

The Group operates from some leasehold sites and is subject to local environmental laws and regulations at the various locations from which it operates. Its ability to continue in business is dependent on securing lease renewals from time to time and in its ability to ensure that it meets all local environmental laws and regulations. The Group's spread of businesses across different locations and jurisdictions reduces its exposure to any one site or jurisdiction and its Property and Development Group works closely in proactively managing property and environmental matters.

MARKET RISK FACTORS

- **General Economic Environment**

The disposable income of customers and their leisure activity preferences are and will be affected by changes in the general economic environment. The Group regularly reviews its product offering and engages with its customers to ensure it provides value for money and meets its customers' needs. The Group's spread of businesses across different locations and economies reduces its exposure to any one market.

- **Competition**

Merlin's brands are well known and valued in their markets but compete for consumer time and expenditure with other offers in the attractions sector and also with other leisure and recreational activities. The strength of the brands and significant marketing leverage help to mitigate this risk. In addition, the Group undertakes regular and thorough market research across each of its businesses, to provide insight and understanding of its customers' expectations and whether their needs are being met.

- **Seasonality and Weather**

Many of Merlin's businesses are seasonal and extreme weather conditions at peak trading times could have an impact on business performance. Merlin seeks to maintain a balance in its portfolio between activities which are broadly 'indoor' and 'outdoor' and also has a good and increasing geographical spread of businesses particularly across North America and Europe, thus reducing the potential impact of this risk. Furthermore, Merlin continues to grow its pre-booked business which provides a hedge against impulse visits.

FINANCIAL RISK

Merlin's financial risks are managed by the Group's finance department in accordance with documented internal control procedures. All significant financing transactions are authorised by the Management Committee. The four key financial risks are:

- **Interest Rate Risk**

Merlin primarily finances its operations through bank borrowings. Merlin's bank borrowings are borrowed at floating interest rates, and Merlin utilises interest rate swaps wherever appropriate to mitigate the interest rate risk to the cost of its borrowing.

- **Credit Risk**

Counterparty credit ratings are regularly monitored, and there is no significant concentration of credit risk with any single counterparty.

- **Liquidity Risk**

Cash forecasts identifying the liquidity requirements of Merlin are produced frequently and are regularly reviewed to ensure that sufficient financial headroom exists for at least a 12-month period.

- **Foreign Currency Risk**

Merlin's borrowings are denominated in euros, sterling and US dollars to broadly match the currencies of the underlying business. Merlin has reviewed the net exposure to foreign currency risk and has concluded that no further hedging is required.

Corporate Governance Report

Merlin believes that effective corporate governance is a fundamental aspect of a well run company and is committed to maintaining high standards of corporate governance across its Group. The following paragraphs set out the key governance structures and internal controls. Although none of the shares of any company in the Merlin Entertainments Group are listed on a stock exchange, Merlin seeks, so far as appropriate, to comply with the UK Corporate Governance Code. Through the processes that are in place the Board, Management Committee and Executive Board believe that Merlin complies with the spirit of the Code in a manner that is appropriate to its ownership structure.

BOARD CONSTITUTION AND PROCEDURES

The Board is responsible for overseeing Merlin, focusing, as its ultimate holding company, primarily on the Group's funding and capital structure. Other than these areas and where required for the Company to exercise its rights as the ultimate holding company of Merlin, the Board does not involve itself in operational matters or the decisions of other companies in the Group.

The Management Committee is the body responsible for considering and providing recommendations to Group companies in relation to:

- the development of strategy and major policies;
- the review of management performance;
- the approval of the annual operating plan, Managers' Reports and Financial Statements and major acquisitions and disposals;
- the system of internal control; and
- Corporate Governance.

The Chairman is responsible for the effective running of the Management Committee and for communications with all board and committee members and shareholders. He ensures that the Management Committee receives sufficient information on financial trading and corporate issues prior to Management Committee meetings. The Chief Executive Officer, assisted by the other members of the Executive Board, is responsible for day-to-day operations and the development of strategic plans for consideration by the Management Committee as a whole.

Meetings of the Board are held periodically as required during the year. Meetings of the Management Committee are held formally four times a year. Where urgent decisions are required on matters specifically reserved for the Board or Management Committee between meetings, there is a process in place to facilitate discussion and decision making. The directors of all Group companies, as well as the Board, Management Committee and Executive Board also have access to the advice and services of the Group Legal Director and Company Secretary.

The Executive Board meets monthly and is responsible for overseeing the operational performance of the operating companies in the Group as well as monitoring the progress of capital projects and strategic transactions. The Executive Board makes recommendations to the operating companies and the Management Committee in relation to matters within its remit. The Executive Board is chaired by the Chief Executive Officer and comprises members of the senior executive management of the Group.

Appropriate induction and subsequent training is available for new members of the Board, Management Committee, Executive Board and other committees.

BOARD COMMITTEES

The Board has three principal committees: a Health, Safety and Security Committee, an Audit Committee and a Remuneration Committee. All have clearly defined duties with written terms of reference that are approved by the Board. As in the case of the Management Committee and Executive Board, the Health, Safety and Security Committee, Audit Committee and Remuneration Committee provide recommendations to Merlin Entertainments Group companies but any decisions to accept or implement these recommendations are taken by the individual Group company boards.

HEALTH, SAFETY & SECURITY COMMITTEE

The Health, Safety & Security Committee is chaired by the Chairman. The members of the Health, Safety & Security Committee are the Chairman and the Group's Chief Executive Officer, Chief Financial Officer, Managing Director Resort Theme Parks and Director of Health, Safety and Risk Management. Other individuals can be invited to attend all or any part of any meeting of the Committee as and when appropriate.

The Health, Safety & Security Committee meets at least four times during the year and at such other times as the Board, Management Committee or Chairman requires.

The Committee's remit includes recommending to the Board and other Group companies the appropriate policies and procedures for ensuring the Health, Safety and Security of visitors, employees, suppliers and assets. The Committee is also responsible for monitoring the adherence to such policies and procedures as well as for making recommendations for improvements.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's Health & Safety function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

AUDIT COMMITTEE

The Audit Committee is chaired by the Chairman.

The members of the Audit Committee are the Chairman and a representative of each of the major shareholders (Blackstone, CVC and KIRKBI). All members of the Audit Committee have recent and relevant experience for their roles.

The Audit Committee meets at least twice during the financial year at appropriate times in the audit cycle. In addition, it will meet at such other times as the Board, Management Committee or the Audit Committee chairman requires, or if requested by the external auditors. Only Audit Committee members have the right to attend its meetings but other individuals can be invited to attend all or any part of any meeting of the Committee as and when appropriate. The external auditors attend the Committee meetings on a regular basis and at least twice each year.

The Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's Internal Audit function. Independent external legal and professional advice can also be taken by the Committee if it believes it is necessary to do so.

The Audit Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Group, reviewing significant financial reporting judgments;
- reviewing the Group's internal financial control system and financial risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- making recommendations to the Board in relation to the external auditors' appointment and the remuneration and terms of engagement of the external auditors;
- monitoring and reviewing the external auditors' independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and
- developing and implementing policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee oversees the relationship with the Group's external auditors. The remit of the Committee includes the review of the annual audit plan and the audit findings as well as oversight of the Group's Internal Audit function and processes.

Merlin's external auditors have confirmed for the year under review that they consider themselves to be independent in their professional judgement.

If the Committee's activities reveal any issues of concern or scope for improvement, it will make recommendations to the Board on actions needed to address the issue raised or make the necessary improvement.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by the Chairman and its other members comprise the other members of the Management Committee.

The Committee meets at least once a year and will also meet at such other times as the Board or Committee chairman may require. Only members of the Committee have the right to attend meetings but other individuals may be invited to attend from time to time, when appropriate.

The Committee's remit includes recommending to the Board and other Group companies the policy for the remuneration of the Executive members of the Management Committee. The objective of such policy is to ensure that the senior executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the Group's success. In doing this the Committee considers whether contractual terms and payments on termination are fair to individual executive management and the employing company and, importantly, that failure is not rewarded. The Committee also reviews the design of share incentive and bonus plans for approval by the Board and reviews the Group's remuneration policies as a whole and remuneration trends across the Group.

Individuals do not participate in any discussions or vote in relation to their own remuneration.

The Committee is authorised to obtain independent external legal and professional advice on any matters within its terms of reference and has access to the services of the Group Legal Director and Company Secretary.

INTERNAL CONTROLS

The Board has overall responsibility for the systems of internal controls, which are designed to manage the risk of failure to achieve the objectives of the business, where such risk cannot be eliminated. The Board has considered the systems of internal control for the accounting year under review and considers these to be appropriate and adequate for the purposes of the Group.