



MERLIN ENTERTAINMENTS GROUP

ANNUAL REVIEW 2009

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

Contents

	Page
Introduction	1
Chairman's Statement	3
Directors Report – Business Review	
Chief Executive Officer's Review	4
Group Financial Review	6
Merlin's People	8
Corporate Social Responsibility	9
Directors Report – Governance	
Ownership and Management Structure	11
Principal Risks and Uncertainties	16
Corporate Governance Report	18

Welcome to Merlin Entertainments Group

Welcome to Merlin Entertainments, one of the most exciting companies in the world. We are a global leader in branded, location based family entertainment, currently operating in 62 attractions across 13 countries and 3 continents. Our premium, nationally and internationally recognised brands focus on ‘fun learning’ and on providing entertaining, interactive and educational experiences, primarily for families and young adults around the world. Within this market we believe that Merlin Entertainments is truly unique both in terms of our breadth of quality businesses and our unrivalled commercial success.

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 and York Dungeons
- 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
- 2000-2009 delivered nine straight years of underlying double digit EBITDA growth on our core businesses (excluding the impact of strategic acquisitions)
- Acquisitions of LEGOLAND Parks (2005), Gardaland (2006) and The Tussauds Group (2007), increased the scale of our business by over 10 x in the three year period to 2007
- 2010 acquisition of Cypress Gardens Theme Park and Botanical Gardens in Florida, a business destined to become LEGOLAND Florida, our fifth LEGOLAND Theme Park right at the heart of the biggest family tourist destination in the world
- With 38.5 million visitors in 2009, Merlin is now 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 Merlin Entertainments 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 three 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. © 2010 The LEGO Group

OUR STRATEGY

Our strategy is to build on our position as a high growth, international, family entertainment Group with strong brands and a portfolio that is balanced across brands, geographies and demographics. We deliver this through four core strands:

- **Organic growth** via planned and managed investment cycles driving continuous improvement in the product and guest experience, which in turn drive both visitor numbers and yields
- **Continued roll-out of Midway Attractions**, which are proven chainable brands internationally such as Madame Tussauds, SEA LIFE and Dungeons. Utilising our internal development skills and internal investment rates, we aim to identify, secure and roll-out three to five successful new Midway Attractions every year
- **Migration of Theme Parks to Short Break Destinations** through the development of additional hotels, holiday villages and second gate attractions, so as to optimise their market reach and asset utilisation
- **Opportunistic developments and acquisitions** that arise from consolidation in the highly fragmented visitor attractions market or from partnerships with third parties in new territories, in order to continue to drive growth of a balanced portfolio, including the development of one new LEGOLAND theme park every five years.

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

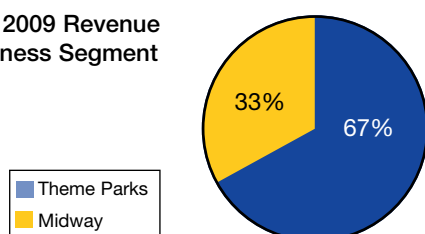
2009 KPIs	Resort Theme Parks	LEGOLAND Parks	Midway	Centre	Total
Total visitors ⁽¹⁾	11.5m	7.0m	20.0m	-	38.5m
Revenue	£312.0m	£203.1m	£246.9m	£7.0m	£769.0m
Ongoing EBITDA ⁽²⁾	£89.4m	£67.6m	£103.5m	£(21.9m)	£238.6m

2008 KPIs	Resort Theme Parks	LEGOLAND Parks	Midway	Centre	Total
Total visitors ⁽¹⁾	10.8m	6.3m	18.0m	-	35.1m
Revenue	£283.2m	£168.5m	£203.6m	£7.0m	£662.3m
Ongoing EBITDA ⁽²⁾	£82.4m	£56.4m	£89.5m	£(23.6m)	£204.7m

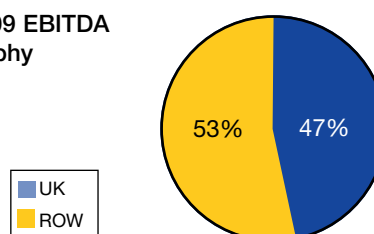
During 2009 we generated cash from operations of £233.6m, spent £101.2m on capital investment and reduced the leverage on our net external bank debt from 5.1 times to 4.2 times Ongoing EBITDA.

SEGMENTAL ANALYSIS

Split of 2009 Revenue by Business Segment



Split of 2009 EBITDA by Geography



Notes:

(1) Total visitors include 100% of visitors to Merlin operated visitor attractions.

(2) Ongoing EBITDA is defined as EBITDA before exceptional and non-trading items of £nil (2008: £1.9 million) and shareholder monitoring fees of £2.9 million (2008: £2.1 million).

Chairman's Statement

Following my appointment in December 2009 I am delighted to be delivering my first Chairman's Statement for the Merlin Entertainments Group.

The Group's performance during 2009, with a ninth consecutive year of record profits, cash generation and capital investment, continued to demonstrate the resilience of the diversified business model in the face of a global economic downturn. Against this backdrop, each of the three Operating Groups showed growth in our three key performance indicators of Visitors, Revenues and EBITDA. Merlin also broadened its geographic spread, increasing the proportion of income generated from both North America and the Far East. We have exciting plans in place for new developments which will ensure that we continue this growth in the future.

The Board continued to focus on the company's strategic development, simultaneously ensuring a framework for the effective scrutiny and accountability of financial management and control. Customer satisfaction remains the core dynamic of our business. It is continuously monitored at every site, and action from this feedback is taken to enhance all aspects of the visitor experience.

Health and Safety is also a key priority for the Board. Vigilance is exercised through the Health, Safety and Security Committee, a committee of the Board which I also chair. It scrutinizes the work of the operational teams and makes recommendations for improvements to policies, procedures and structures.

We are particularly conscious of our Corporate Social Responsibilities. Animal welfare and conservation are at the heart of Merlin's business, as manifest by 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 and travel awards to disadvantaged children and their carers.

Finally I would like to pay tribute and thank all of the company's employees for delivering such a successful performance in 2009 and for continuing to drive the Group forward. In my short time here, I have witnessed first hand the dedication and commitment of the Merlin team. I am confident that we have the strategy, assets and management to deliver further profitable growth in 2010 and beyond.

Sir John Sunderland
Non-Executive Chairman
Merlin Entertainments Group
23rd June 2010

Chief Executive Officer's Review

OVERVIEW

I am delighted with Merlin's performance in 2009. In the midst of a deep global recession, we welcomed over 3 million more visitors to our attractions and recorded our ninth straight year of double digit growth on our core businesses (excluding the impact of strategic acquisitions).

Total visitor numbers increased to 38.5m, a rise of 9.7%, driven by the continued roll-out of Midway Attractions as well as the continued improvement in performance of the theme parks, with the opening of new rides and attractions and the development of destination positioning. On a like-for-like basis, which excludes new Midway openings, our visitor growth was 3.9%, demonstrating the strength of developments within our existing estate. At the same time as volume growth, we also saw revenue per cap grow by 6.6%, leading to revenue up 16.1% compared to 2008 (like-for-like up 12.9%). Together with good cost control across the Group this generated a 16.6% increase in Ongoing EBITDA, keeping intact our strong record of underlying double digit EBITDA growth. Our cash generation combined with our EBITDA growth enabled us to reduce leverage on our external bank debt whilst at the same time continuing to invest heavily in capital projects and new business development for the future. We are passionate about delivering memorable and rewarding experiences for our visitors, so I am personally encouraged by another year in which we improved our already industry-leading customer satisfaction scores.

OPERATING GROUPS TRADING REVIEW

As evidence of the success of strategic focus and balanced portfolio, it is particularly pleasing to report growth in all three of our Operating Groups in visitors, revenues and EBITDA.

The Resort Theme Parks Operating Group saw the benefits of some major capital investments this year, with Mayaland in Heide Park, Germany, and the exciting launch of 'SAW the Ride' at Thorpe Park in the UK, which proved hugely popular with the teenage/young adult market. Following the success of the relocation of a SEA LIFE Centre to Chessington in 2008, we installed 'Sharkbait Reef' into Alton Towers in 2009, converting a previously mobile SLC into a permanent attraction there. We also opened the Castle Dungeon at Warwick Castle, our sixth Dungeon and the first since Amsterdam in 2005, as well as the Princess Tower, which proved a great hit with families with girls. In Italy, our Gardaland business was impacted by economic conditions and poor weather, although strong promotional activity drove attendance. Good cost control disciplines across the Operating Group also contributed to a satisfying overall performance.

The LEGOLAND Parks Operating Group went from strength to strength delivering the largest growth of all our Operating Groups and all on a like-for-like basis. LEGOLAND Deutschland enjoyed a strong performance in 2009, benefitting both from the LEGOLAND Holiday Village opened during 2008 as well as the introduction this year of LEGOLAND Atlantis by SEA LIFE within the park. LEGOLAND California continued to drive growth from the full year effect of both the SLC and the Land of Adventures investments during 2008, whilst LEGOLAND Windsor successfully opened the 'Pharaohs' Laser Ride and all four parks introduced the new '4D' film of 'Bob the Builder'.

The Midway Operating Group continued the roll-out programme of existing brands, with the opening of our newest SLC in Porto, Portugal, our 13th country of operation. It also opened its flagship Madame Tussauds Hollywood attraction in the prestigious location of Hollywood Boulevard, representing our ninth Madame Tussauds business. In the UK, the London Aquarium was completely refurbished and restyled, re-opening as the SEA LIFE London Aquarium, amid great publicity and universal acclaim. This addition to our London portfolio has been extremely successful both in its own right and in contributing to the improved profitability of our London cluster of businesses overall, through marketing synergies and cost efficiencies. All of our Midway brands had a successful year in 2009 overall and new sites continue to be developed for future roll-outs.

PEOPLE

In addition to strengthening our Board at the highest level including the appointment of our new Non-Executive Chairman, Merlin continues to invest in our people right across the organisation, since it is their talent, passion and commitment which directly impact our visitors' experiences. Our ongoing training courses and Graduate development programmes expanded again during 2009, as did our succession management programmes and internal communications

initiatives. Our annual staff climate survey tells me that 91% of our employees enjoy working for us, which is great news for them, for the company and for our visitors. And furthermore, I am delighted to report the creation of a further 1,500 jobs at peak season, something which is great news for all of us in these difficult economic times.

FUTURE DEVELOPMENTS

Our commitment to delivering memorable and rewarding experiences to our visitors drives our continued investment in compelling propositions, which in turn delivers growth to our business and value to our shareholders.

We have already announced the acquisition in early 2010 of Cypress Gardens Theme Park and Botanical Gardens in Florida and work is now underway to convert it to a flagship LEGOLAND Park in the world's largest tourist market. As far as our Midway rollout programme is concerned, we have already opened two new sites in 2010 in two separate continents, with our fourth LEGOLAND Discovery Centre situated in Manchester, UK, and our first stand-alone SLC in North America in Phoenix, Arizona. Both have been delivered on budget, ahead of time and are performing ahead of expectations.

Within our existing estate, the 2010 season has already seen a number of significant new product launches, most notably with 'TH13TEEN', the new ultimate rollercoaster at Alton Towers; the world's first exciting LEGO themed Waterpark at LEGOLAND California; the Temple dark ride at LEGOLAND Billund; a new 'Wild Asia' area at Chessington World of Adventures, along with the Wanyama Village and Animal Reserve; an indoor Penguin Antarctic Adventure at SLC Konstanz; and the new '4D Marvel Super Heroes' experience at Madame Tussauds, London. Across the Merlin Group all our sites will once again be offering our customers new and compelling reasons to visit, many developed by our world leading in-house creative resource, the Merlin Studios.

Looking ahead to 2011, our Midway rollout programme is already well advanced, with sites secured and build works already ongoing in some locations, including Madame Tussauds attractions in Bangkok (which may open sooner than 2011) and in Vienna. A new SLC and LEGOLAND Discovery Centre will open in Grapevine, Dallas, not only marking further development for these brands but also our first simultaneous cluster development. In addition, Blackpool Council in the UK announced recently that Merlin has been selected to manage the redevelopment and operations of the iconic Blackpool Tower complex and Louis Tussauds waxworks, once the 2010 season is completed. This will ultimately see us introduce a Dungeon and Eye Observation experience in the Tower, and a relaunch of Louis Tussauds as a new concept Madame Tussauds. Together with our existing SLC in Blackpool, this will form an attractive new cluster location. Finally, the new LEGOLAND park project previously announced in Malaysia is progressing well through the design and build phase and is on track to open in 2012 as planned.

2010 OUTLOOK

The economic environment in 2010 is looking challenging for many sectors and consumers. The global recession and banking crisis are likely to continue to dampen confidence in many of our markets and volcanic ash was an unwelcome visitor to our airspace. With this backdrop, our approach to 2010 is a somewhat cautious one. On the other hand we remain confident in the compelling propositions we have introduced into all of our attractions this year; we have a balanced portfolio of businesses spanning 13 countries and 3 continents; and we are rigorous in our commitment to operational excellence, cost control and customer satisfaction. Our employees are passionate about our business and about the world class attractions which we operate. We have a strongly cash-generative business with a robust balance sheet and an experienced management team with the ability and dedication to deliver on our growth plans. I continue to be impressed by our company's performance, even in the most difficult of circumstances, so remain convinced that we have much to be confident about for the season that lies ahead.

Nick Varney
Chief Executive Officer
Merlin Entertainments Group
23rd June 2010

Group Financial Review

During the year to 26 December 2009 Merlin delivered strong growth in the face of a global economic downturn, driven by the ongoing roll-out of Midway Attractions, and the continued improvement in performance of Theme Parks with the opening of new rides and attractions and the development of destination positioning.

The financial highlights for 2009 are:

- Increase in Revenue compared to 2008 of £106.7 million (16%) to £769.0 million. Increase in revenue excluding the impact of exchange movements was 9% (£66.3 million).
- Ongoing EBITDA of £238.6 million, up £33.9 million (17%) on 2008. This is stated after charging £1.4 million (2008: £0.6 million) in respect of share based payments, which are non-cash items.
- EBITDA of £235.7 million, up £35.0 million (17%) on the prior year. Increase in EBITDA excluding the impact of exchange movements was 10% (£21.3 million).
- Ongoing operating profit of £179.6 million, up £27.2m (18%) on 2008.
- Operating profit was £176.7 million, up £56.3m (47%) on 2008. This includes £6.2 million in respect of brand amortisation charged in 2008, compared to £nil in 2009, following a reassessment of brands to be indefinite life assets.
- Cash generated from operations of £233.6 million, up £14.5 million on the prior year.
- Capital investment of £101.2 million during the year (property, plant and equipment of £100.9 million; intangibles of £0.3 million).
- Repayment of bank debt of £82.5 million during the year.
- Cash, net of bank overdrafts, at year end of £86.6 million.
- Leverage on net external bank debt at year end equates to 4.2 times ongoing EBITDA (2008: 5.1 times).

	2009 £m	2008 £m	Growth +/- £m
Visitors (million) ⁽¹⁾	38.3	34.7	3.6
Revenue	769.0	662.3	106.7
Ongoing EBITDA ⁽²⁾	238.6	204.7	33.9
EBITDA	235.7	200.7	35.0
Ongoing operating profit	179.6	152.4	27.2
Operating profit	176.7	120.4	56.3
Net cash paid financing costs	(99.7)	(89.3)	
Net non-cash paid financing costs	(90.7)	(105.6)	
Loss before tax	(13.7)	(74.5)	

(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).

(2) Ongoing EBITDA is defined as EBITDA before exceptional and non-trading items and shareholder monitoring fees.

Group Revenue increased by £106.7 million to £769.0 million. This was driven by acquisitions and new sites opening in 2008 and 2009, which account for £24.5 million of the growth, as well as like for like revenue growth of 13%.

Depreciation, amortisation and impairment charges decreased by £21.3 million to £59.0 million. 2008 included one-off impairments of £11.0 million in respect of a small number of attractions, arising from a review of the market conditions unique to each specific location. There were no impairments in 2009. There was a further one-off charge in 2008 of £10.8 million in respect of goodwill arising from the utilisation of tax losses not recognised at the time of The Tussauds Group acquisition. Brand amortisation of £6.2 million was charged in 2008, compared to £nil in 2009, following a reassessment of brands to be indefinite life assets.

Net financing costs of £190.4 million include a net (unrealised) loss on financial derivatives of £8.5 million, arising from the mark-to-market of interest rate swaps, discussed further below, non-cash interest on shareholder loans of £48.5 million and a net expense of £3.6m in respect of a change in assumption of the repayment date of bank borrowings.

CASHFLOW

Merlin remains highly cash-generative. During the year, net cash inflow from operations increased by £14.5 million to £233.6 million, compared with £219.1 million in the previous year.

Of this cash inflow from operations, £101.2 million was re-invested to fund capital expenditure in Merlin's existing estate, as well as the new Midway attractions. A further net £99.7 million was utilised to meet the cash interest and other financing costs of Merlin's bank borrowings.

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 four or five new businesses per annum. All proposed capital projects are separately 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 26 December 2009, gross bank debt was £1,088.1 million compared with £1,191.6 million at 27 December 2008. £82.5 million of the decrease in gross bank debt was caused by repayments and £42.2 million by exchange movements, net of an increase of £21.2 million of finance costs. Gross bank debt is partially offset by cash, net of bank overdrafts of £86.6 million. Net external debt, excluding shareholder debt, of £1,001.5 million equates to leverage of 4.2 times 2009 ongoing EBITDA.

Merlin's bank borrowings are available under a Facilities Agreement which was put in place in May 2007. The facilities are repayable in 2012. 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 Facilities Agreement, Merlin also has a revolving facility of €150 million (£135.2 million), which is available to finance working capital requirements and for general corporate purposes, and a capital investment facility of €125 million (£112.7 million). As at 26 December 2009, £nil had been drawn down from the revolving facility (2008: £83.0 million) and £38.7 million had been drawn down on the capital investment facility (2008: £39.8 million). These amounts are included within bank debt.

NET ASSETS

Within Merlin's overall net liabilities at 26 December 2009 of £114.3 million, long term shareholder loans amounted to £595.9 million. The net asset position prior to the deduction of these shareholder loans is £481.6 million. The shareholder loans are repayable between 2035 and 2037 but may be redeemed by the Company at any time upon giving 30 days notice. Interest is payable only on redemption.

Andrew Carr
Chief Financial Officer
Merlin Entertainments Group
23rd June 2010

Merlin's People

The Group employs more than 15,000 people during our peak trading period and our people lie at the heart of our continued business success. Underpinned by our four organisational values, we strive to develop our employees to allow them the opportunities to grow and progress across the globe, to deliver our mission of having 'the right people with the right qualifications in the right place at the right time'. Our programmes are focused on recruiting, retaining, developing and rewarding high calibre employees who can deliver our organisational growth.

TALENT AND DEVELOPMENT

Our people vision is to ensure opportunities are available to all. The development of our employees is key to Merlin's future success and with that in mind, we run a comprehensive global development path programme which is designed to support business improvement and develop the leaders of tomorrow.

All employees across the Group complete performance development plans, which consist of competency-based assessments, designed to drive performance and identify career aspirations. Succession management programmes ensure that we have the people to maintain a consistently high internal promotions rate and retain our low labour turnover levels.

Our Global Merlin Graduate Programme goes from strength to strength, with our latest graduate intake offering more international placements. Each graduate has a mentor within the business to provide day-to-day coaching and advice, alongside the structured development programme.

COMMUNICATION

Our communications strategy ensures that we deploy a number of methods which enable our employees to be fully informed and up to date on current business performance and longer term goals.

Our primary communication method remains face-to-face team briefing sessions, which are held locally on a daily, weekly and monthly basis. Regular one-to-one meetings between managers and their direct reports are also critical to ensuring our employees have the opportunity to discuss ideas and understand key business drivers.

The launch of our global intranet - Merlin Online - in 2009 places a firm emphasis on our commitment to keep all our employees informed of the latest news and developments across the wider Group. The intranet also acts as a two-way portal to encourage employees to pose questions to our senior management team as well as to facilitate all employee webcasts by the Executive Board. 'The Wizard' newsletter, produced throughout the year in English, Italian and German, serves to bring the same, up to date business information to our non-desk based employees.

Each summer we conduct an employee opinion survey - 'The Wizard Wants to Know' - which gathers vital feedback from both seasonal and permanent employees. In 2009, we saw an improvement in the agreement scores for all questions posed, including 91% of respondents stating that they enjoy working for us. Action plans are formed both at global and local levels on the basis of the responses in order to drive this continuous improvement.

REWARD

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

Corporate Social Responsibility

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* and also 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 focussed on the communities around our sites. In 2009 we have also started a programme to identify our Carbon Footprint, to enable us to establish meaningful targets for the further reduction of our carbon impact.

MERLIN'S MAGIC WAND CHILDREN'S CHARITY

Merlin's Magic Wand 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 donated £100,000 to establish Merlin's Magic Wand 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. In 2009, our people raised nearly £150,000 for the charity, through local fundraising activities, including over £50,000 from a Gala Charity Auction held at Madame Tussauds in London, which was organised by some of our Graduate Scheme members. The charity made 860 awards in the year, donating nearly 17,000 tickets to Merlin Group attractions and over £40,000 in travel awards granted to deserving children and their carers.

OTHER CHARITY AND COMMUNITY ACTIVITIES

As well as supporting Merlin's Magic Wand, our operational sites are actively engaged in charity and community activities within their local and regional areas. One such initiative saw our Business Support unit at Silverglade in Chessington creating a 'Christmas Winter Wonderland' at the local Chase Hospice for Children, in association with Coca Cola. Examples of other local initiatives in 2009 include: a new £18,000 ambulance for the local First Responders team (Alton Towers); donations to Donna's Dream House Children's Hospice (SEA LIFE Blackpool); support and new kit for a local under 12 football team (Warwick Castle); free visits for the residents of local homes for the elderly (LEGOLAND Denmark and Gardaland); support for the Tribeca Film Festival (Madame Tussauds New York); a charity abseil for Guys and St Thomas' Hospital (London Eye); a sponsored Yellow Bus scheme for local schools, reducing local traffic and providing a safe journey to school (Thorpe Park).

Our attractions also support other charities in their work at a local level, including free visits by charities such as the Children of Chernobyl, The Make a Wish Foundation, Barnardo's, the Big Brother Big Sister Organisation and the Starlight Foundation. There was also support for fundraising activities and promotional activities with our conservation partner the Whale and Dolphin Conservation Society (WDCS) as well as other national and local charities and community groups including: local schools and clubs, local Rotary Clubs, Cancer Research, Comic Relief, Children in Need, Great Ormond Street Children's Hospital, The Red Cross and many more.

ENVIRONMENTAL IMPACT OF THE BUSINESS

Merlin takes its responsibilities to the environment very seriously. Across the business, there have been a variety of initiatives to reduce our energy and water consumption and increase our recycling efforts.

The introduction of LED lighting in SEA LIFE site displays has reduced energy consumption significantly and recycling initiatives, such as LEGOLAND Windsor's support for the local council's Recyclebank programme, LEGOLAND California's can recycling programme and the extension of the Recycle Zone initiative at our major UK attractions, in partnership with Coca Cola, has reduced the amount of waste going to landfill. We are now using 100% recycled plastic carrier bags in all UK sites apart from SEA LIFE & Dungeons, where they are either paper or partly recycled plastic and overseas sites are progressively following suit. The use of paper hand towels has reduced with the extension of more efficient, and hygienic, hand dryers and a number of sites have reduced their water consumption by improving water heating and introducing low flush cisterns and infra-red detection on taps.

In 2009 we commenced a review of our Carbon Footprint, with the help of the Carbon Trust. As well as preparing us for the forthcoming UK Carbon Reduction Commitment, the report identifies further opportunities to reduce our energy consumption and improve waste management. The study will help us to establish a 'base-line' against which we will set realistic targets for our Carbon Footprint reduction initiatives over a five year period. We will also build on the work already done to date, to progress and achieve the Carbon Trust Standard.

In addition to energy related initiatives, many sites also take an active part in maintaining the local environment, with 'clean-up' campaigns on local roadside verges and on beaches. The annual Merlin in the Community Award for the site with the best overall approach to the environment in 2009 went to SEA LIFE Brighton. They took a very comprehensive approach to energy saving and waste reduction and were particularly effective at engaging their employees.

OTHER CORPORATE RESPONSIBILITY INITIATIVES

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

ANIMAL AND MARINE CONSERVATION AND WELFARE

Our animal and marine conservation work is important to us and we feel justly proud of our excellent record and reputation in the areas of breeding, rescue and rehabilitation and in our conservation initiatives.

Breeding Success

SEA LIFE centres continued to enjoy considerable breeding success in 2009 with a variety of species including: seahorses, squid, sharks, rays, jellyfish, Humboldt penguins and Asian short clawed otters. The first breeding successes were also recorded this year at a newly created freshwater turtle facility in the National SEA LIFE Centre Birmingham. In addition, Chessington World of Adventures was awarded the prestigious 'Significant Contribution to Conservation Breeding Award' by the British and Irish Association of Zoos and Aquaria, for its committed success with the Sumatran Tiger.

Rescue, rehabilitation and release

Seal rescue, rehabilitation and release continues to be a significant element of the SEA LIFE and Sanctuary teams' work. Well over 100 Grey and Common seal pups were rescued and ultimately rehabilitated in 2009. This year also saw the triumphant return to the US, and subsequent release back into the ocean, of a rare Kemps Ridley turtle that had washed up on the west coast of the UK some 18-months earlier. Three customs-seized crocodiles have now been homed in a purpose built facility in one of the SEA LIFE sites and we housed over 200 illegally imported Mississippi map turtles.

Conservation

In Spring 2009, SEA LIFE signed a memorandum of understanding with Chris Buttler-Stroud, CEO of the WDCCS at the ground breaking ceremony of SEA LIFE's 30th site in this SEA LIFE's 30th year. This partnership has already seen some great successes, with SEA LIFE supporting WDCCS to take forward an assertive campaign to protect the world's great whales against commercial whaling. SEA LIFE further supported WDCCS to provide essential legal and scientific expertise through their work at the International Whaling Commission. Many of the countries where SEA LIFE has a presence are leaders in fighting for whale conservation, and it has been critically important that they see a public outcry against whaling. Working with WDCCS, SEA LIFE has launched an outreach campaign to engage our visitors to add their voice to that of SEA LIFE and WDCCS in calling on our host countries to end commercial and so-called 'scientific whaling' once and for all.

Also during 2009, Merlin has been an active participant in shark tagging missions in Scotland, which helped bring about new legislation prohibiting commercial shark fishing in Scottish waters. We are also supporting fresh research this winter aimed at securing fishing restrictions on a Scottish loch which is believed to be an important breeding territory for sharks and skate. Other initiatives have taken place during 2009 across the SEA LIFE businesses, including staff helping WDCCS whale and dolphin monitoring in Spey Bay Scotland; participating in special Shark Weeks to add weight to the anti shark-finning lobby; and fund raising towards the establishment of a sea turtle rescue facility on Zakynthos, Greece, procuring and delivering a major consignment of life support equipment to help bring this facility closer to completion.

Ownership and Management Structure

OWNERSHIP

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

The Company’s equity is owned as follows:

	Ordinary Shares %	PECS %
Funds managed by Blackstone Group International	47.47	52.13
KIRKBI A/S	34.72	40.10
Dubai International Capital	5.46	6.61
Caddis Assets	0.39	0.47
Management	11.96	0.69
	100.00	100.00

MANAGEMENT

The Company is managed in Luxembourg by its Board of Managers (the “Board”), which comprises representatives of the principal shareholders and one representative of Merlin senior management. 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 2009 and remains a member of the Board as at the date of this report. Mr Friedman is Blackstone Group International’s Chief Legal Officer. On joining Blackstone in 1999, Mr. Friedman worked primarily in Blackstone’s Private Equity group and also participated in the work of the Corporate and Mergers and Acquisitions Advisory group. He became Chief Administrative Officer and Chief Legal Officer in early 2003 and continues to participate in the work of the Private Equity group and the Corporate and Mergers and Acquisitions Advisory group.

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 ever since the firm was founded 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, Northwest Airlines, 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 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 2009 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.

Knud Hjorth served on the Board until he resigned on 31st March 2009.

Christian Rojkjaer was appointed to the Board on 27th May 2009 and resigned on 14th October 2009.

Claus Andersen was appointed on 14th October 2009 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.

Jamie Nelson served on the Board until he resigned on 27th November 2009.

Colin Armstrong served throughout 2009 and remains a member of the 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.

The Management Committee

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

Peter Phillipson, Chairman (resigned 11th December 2009)

Mr Phillipson served as Chairman of the Management Committee and of the Merlin Entertainments Group until he resigned on 11th December 2009. Prior to this he was CEO of The Tussauds Group for six years.

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 and a Non-Executive Director of the Rank Group from 1998 to 2006.

Nick Varney, Chief Executive Officer

Mr Varney served throughout 2009 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 the Group 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 2009 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 2009 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 a number of large companies, including Blackstone's original investment in the Group, as well as Spirit Group, Southern Cross, NHP, Center Parcs plc and Tragus Group plc. Mr Baratta serves as a Director of Centre Parcs plc and Tragus Group plc. Prior to joining Blackstone, Mr Baratta worked at Tinicum Incorporated, McCown De Leeuw & Company and at Morgan Stanley in its Mergers & Acquisitions Department.

Jan Nielsen

Mr Nielsen served throughout 2009 and remains a member of the Management Committee as at the date of this report. He is a Principal in the Corporate Private Equity Group, Blackstone and is based in London. Since joining Blackstone in 2005, Mr Nielsen has been involved in Blackstone's investments in TDC and Merlin along with Merlin's acquisitions of LEGOLAND, Gardaland and The Tussauds Group. Prior to joining Blackstone, he worked at Morgan Stanley as an Associate in the Technology Investment Banking Group.

Sylvain Denis

Mr Denis served on the Management Committee until he resigned on 4th February 2009.

Eric Kump

Mr Kump was appointed to the Management Committee on 24th March 2009 and resigned on 27th November 2009.

Jørgen Vig Knudstorp

Mr Vig Knudstorp served throughout 2009 and remains a member of the Management Committee as at the date of this report. He is 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 is currently a member of the business school IMD's Foundation Board, one of the World Economic Forum's Young Global Leaders, an adjunct professor in Strategy at the Copenhagen business school CBS, and a member of the boards of CoCoCo, a Nordic management consulting company, and the LEGO Foundation. Prior to joining the LEGO Group, Mr Vig Knudstorp worked for McKinsey & Company and studied in Denmark, the UK and USA.

Jens Nordahl

Mr Nordahl served on the Management Committee until he resigned on 16th October 2009.

Poul Hartvig Nielsen

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

Søren Sørensen

Mr Sørensen 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. He is a qualified chartered accountant and holds an MSc from the Copenhagen Business School.

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. See details above.

Glenn Earlam, Managing Director, Midway Operating Group

Mr Earlam served throughout 2009 and remains a member of the Executive Board as at the date of this report. He has over 14 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 2009 and remains a member of the Executive Board as at the date of this report. He has over 19 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 2009 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 2009 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, Director of Corporate Finance

Mr Bridgford served throughout 2009 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. 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 2009 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.

Lesley Lloyd-Steer, Group HR Director (resigned September 2009)

Mrs Lloyd-Steer served on the Executive Board until she resigned on 7th September 2009.

Tea Colaianne, Group HR Director

Mrs Colaianne was appointed Group HR Director and joined the Executive Board on 22nd February 2010. Prior to joining the Group, Mrs Colaianne 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 2009 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.

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 the 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 geographical spread of businesses particularly across North America and Europe, thus reducing the potential impact of this risk.

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, focussing, 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 AND SECURITY COMMITTEE

The Health, Safety and Security Committee is chaired by the Chairman. The members of the Health, Safety and 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 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.

AUDIT COMMITTEE

The Audit Committee is chaired by Brian Wallace.

The members of the Audit Committee are Mr Wallace, the Chairman and a representative of both of the major shareholders (Blackstone Group International and KIRKBI A/S). 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 Audit Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary. 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.