MERLIN ENTERTAINMENTS GROUP

ANNUAL REVIEW 2008

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

Contents

Welcome to Merlin Entertainments Group

We believe that Merlin is one of the most exciting companies in the world. Our market - location based entertainment (or more specifically visitor attractions) - is dynamic, fast growing and fun. Within this market Merlin Entertainments Group is truly unique both in terms of its breadth of quality "branded" businesses, and its unrivalled commercial success.

THE STORY SO FAR

- Formed in 1999 via a buyout of Vardon Attractions from Vardon plc. Majority owned by Blackstone since 2005;
- 2000-2008 delivered underlying double digit EBITDA growth every year (excluding impact of strategic acquisitions);
- Acquisitions of LEGOLAND Parks (2005), Gardaland (2006) and The Tussauds Group (2007), increased scale of business by over 10 x in the three year period to 2007;
- Merlin is the clear market leader in Europe and second only to Disney worldwide in terms of admissions;
- Today Merlin comprises 57 attractions in 12 countries across three continents, employing 13,500 people (peak season) and welcoming over 35 million visitors a year;
- Merlin has a unique portfolio of iconic global brands including LEGOLAND, SEA LIFE, Madame Tussauds – supported by "local" heroes such as The London Eye, Gardaland and Alton Towers.

OUR VISION

To become the world wide leader in branded, location based entertainment.

GROUP OVERVIEW

Merlin delivers two different types of visitor experiences, through its portfolio of "Theme Parks" and "Midway" sites. Midway sites are predominantly indoor attractions providing visits of shorter duration than the outdoor theme parks. Within this framework, the management of the Merlin business is organised into three Operating Groups as outlined below.

THEME PARKS		MIDWAY
Resort Theme Parks	LEGOLAND Parks	
Alton Towers Resort, Gardaland Resort, Heide Park, Chessington, Warwick Castle, Thorpe Park	LEGOLAND Billund, LEGOLAND Windsor, LEGOLAND California, LEGOLAND Deutschland	London eye, Madame Tussauds, SEA LIFE Caring for our Oceans, the Dungeons, LEGOLAND Discovery Centre Berlin

OUR STRATEGY

To build on our position as a high growth, international, family entertainment Group with strong brands and a portfolio that is naturally hedged against external factors such as weather or localised market conditions.

Our strategy will be delivered through:

Organic growth. Planned and predictable capital expenditure cycles appropriate to each Operating Group will provide the main drivers to growth across our existing estate. This will be complemented by strong price and yield management strategies based on continually improving guest experience.

Rolling out proven chainable brands internationally. We have strong, internationally recognised brands in LEGOLAND, Madame Tussauds, SEA LIFE and Dungeons. We have the development skills internally to identify, secure and build up to five new Midway Attractions every year. In addition we aim to deliver new LEGOLAND theme parks, utilising our own or partners' money (the next being Malaysia in 2012).

Destination positioning. We intend to position all our theme parks as short break destinations in order to optimise their market reach and asset utilisation. Hotels and/or holiday villages are a clear market signal in achieving this and we plan to add new developments to our existing estate of six hotels and two holiday villages on an ongoing basis.

Acquisitions. The visitor attraction market is highly fragmented and we consider ourselves well placed to take advantage of consolidation opportunities that will enhance our strategic aims.

OUR NUMBER ONE PRIORITY

The delivery of memorable experiences to our millions of visitors underpinned by constantly monitored visitor satisfaction, world class people development strategies, and the very highest Health & Safety standards.

KEY PERFORMANCE INDICATORS

2008 KPIs **2008**	**Resort Theme Parks**	**LEGOLAND Parks**	**Midway**	**Centre**	**Total**
Visitors	10.8m	6.3m	18.0m	-	35.1m
Revenue	£281.1m	£168.5m	£210.4m	£0.5m	£660.5m
EBITDA	£81.0m	£56.3m	£86.5m	£(18.5m)	£205.3m

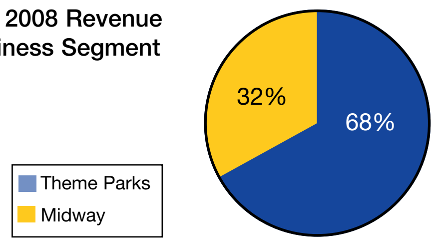
2007 KPIs **2007 Proforma**	**Resort Theme Parks**	**LEGOLAND Parks**	**Midway**	**Centre**	**Total**
Visitors	9.8m	6.1m	16.5m	-	32.4m
Revenue	£241.8m	£141.3m	£174.3m	£0.5m	£557.9m
EBITDA	£66.4m	£44.2m	£73.7m	£(12.9)m	£171.4m

At the end of December 2008, bank debt was £1,191.6 million (*2007: £950.1 million*), partially offset by cash at bank and in hand of £114.9 million (*2007: £46.2 million*) and immediately available money market funds of £23.8 million (*2007: £nil*). Net external bank debt of £1,052.9 million (*2007: £903.9 million*) equates to leverage of 5.1 times 2008 EBITDA (*2007: 5.3 times 2007 Proforma EBITDA*).

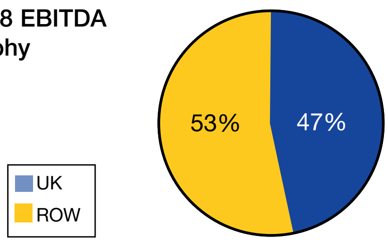
SEGMENTAL ANALYSIS

The Group maintains a good balance between sites which provide largely indoor attractions and the theme parks which are predominantly outdoors. Over time the Group is broadening the international base of the business.

Split of 2008 Revenue by Business Segment



Split of 2008 EBITDA by Geography



Please note: as the Group comprises both wholly-owned subsidiaries and subsidiaries involving other shareholders, the Key Performance Indicators summarized above and the Overview in the Chief Executive's Review, both look at the performance of the Group in terms of 'Group percentage owned' figures. These figures include 100% of wholly-owned businesses together with our share of revenue or EBITDA in respect of non-wholly owned businesses. EBITDA figures are shown before shareholder monitoring fees, share options expenses and non-recurring restructuring and deal related costs. The 2007 proforma figures within this report include the results of the acquisition of the Tussauds Group as if it had been part of the Group for the full year and are further adjusted for a full year's sale and leaseback rent. These figures are unaudited.

Chairman's Statement

In 2008 Merlin has delivered an eighth consecutive year of double digit EBITDA growth. The natural hedge against weather and political and economic uncertainty offered by the breadth of our 57 attractions provides the Group with demonstrable resilience in uncertain times.

Merlin has shown its confidence in its business model by continuing to open several new businesses each year. In 2008 Merlin successfully added two new SEA LIFE centres and two new LEGOLAND Discovery Centres as well as a new Madame Tussauds. Merlin supplemented this growth with two small infill acquisitions in London and Minneapolis. During the year the integration of the Gardaland and Tussauds Group acquisitions was successfully completed.

These achievements are a tribute to our excellent management team and the clarity of vision they have for driving the business forward, creating compelling propositions for our guests and meeting the challenges of the current environment.

Our internal feedback tells us that our people are highly motivated to deliver quality experiences for our guests. The views of our visitors are very important to us and we continually seek guest feedback through direct questionnaires, in attraction touch screen terminals and a Group wide mystery visit programme. This feedback, and reacting to it, gives us confidence we are building a robust and sustainable business.

The Health and Safety of our guests and our staff remains the top priority for the Board. We actively seek changes to our operating practices to reduce risk. In 2008 the Health and Safety Sub-Committee has overseen further progress in the continuous refinement of our health and safety policies and procedures.

Finally, I thank all of our employees for their dedication and tireless hard work in making Merlin such a dynamic and successful organisation. Our people continue to deliver memorable experiences to our visitors and industry leading financial performance for our shareholders, their contribution in 2009 has been outstanding.

Whilst the economic outlook is uncertain, I am confident we have the strategy, assets, management team and the people to deliver exciting growth in 2009 and beyond.

Peter Phillipson
Non-Executive Chairman
Merlin Entertainments Group

Chief Executive Officer's Review

OVERVIEW

Despite poor weather and a worsening global economy, 2008 was another year of strong growth and strategic progress for Merlin Entertainments Group.

Visitor volume grew by 2.7m visits to over 35 million, revenue per cap by 9%, and revenue by 18% versus 2007. Together with good cost control across the Group this generated a 20% increase in EBITDA; the eighth year in succession that Merlin has delivered underlying double digit EBITDA growth (i.e. excluding strategic acquisitions). It is also particularly pleasing to report further improvements in our market leading customer satisfaction as a result of continuing focus in this area and of the creation of a further 500 jobs at peak season resulting from the growth of the business.

TRADING REVIEW

Given external conditions it is significant to note that a large proportion of our growth in 2008 was driven by like for like trading in our existing parks and attractions.

In our Resort Theme Parks Operating Group the relaunch of Alton Towers in the UK, with the introduction of a new family orientated themed area called Mutiny Bay, was a great success. Similarly the relocation of our mobile SEA LIFE Centre from Nurnburg to Chessington World of Adventures led to a large rise in attendance and revenue at the latter. Elsewhere the wettest weather on record in northern Italy impacted Gardaland's season though the resort still recorded revenue and profit growth through the addition of a new ride and the introduction of a SEA LIFE Centre (our first in Italy) as a second gate.

The LEGOLAND Parks Operating Group also continued its recent strong performance with record years at Windsor and California. In addition to the successful launch of Land of Adventure, LEGOLAND California also benefited from the opening of a SEA LIFE Centre (the first in the USA) next door to the park. Continuing the strategy to develop all Merlin's theme parks as short break destinations, 2008 also saw the addition of the world's first LEGOLAND Holiday Village at LEGOLAND Deutschland. This was very well received with occupancy, revenue and profit for the year all ahead of plan.

It was a very eventful year for our Midway Operating Group. Within the existing estate strong performances were recorded by the London Eye, Madame Tussauds, UK SEA LIFE Centres and the Dungeons. June also saw the highly successful opening, attended by world wide publicity, of Madame Tussauds Berlin, the eighth in the chain. Two new LEGOLAND Discovery Centres (LDCs) were also opened in Duisburg, Germany and Chicago, USA and also met with immediate success. In addition to the three LDC attractions now open, we currently have two more under development and remain confident about the prospects for this new concept. Our new build strategy for Midway was also complemented in the year by two acquisitions. In May we acquired The London Aquarium, adjacent to the London Eye, and in December the Minnesota Aquarium located in the famous Mall of America. Both attractions will receive investment as part of our strategy to rebrand them as SEA LIFE and enhance their profitability.

PEOPLE

The Group continues to develop world class Human Resources initiatives. During the year a new graduate intake joined us from Universities in the UK, Germany and the USA. Positive succession management strategies also meant that a recent series of senior appointments and promotions were all filled internally. Across the Group, all sites and departments remain focussed on developing people and minimising staff turnover.

FUTURE DEVELOPMENTS

During 2008 a number of exciting new projects were announced which will open in 2009 and beyond. The next 12 months will see the introduction of 4 more exciting new Midway attractions. In June we will open SEA LIFE Porto, in Portugal, our 29th SEA LIFE Centre and the thirteenth country of operation for Merlin. This will be followed in August by the launch of Madame Tussauds Hollywood, a flagship attraction located next door to Graumans Theatre (famous for the handprints of Hollywood legends). Beyond this in 2010 we will open our fourth LEGOLAND Discovery Centre and the Pepsi Globe observation wheel, both located at the new Xanadu complex in New Jersey just outside of New York.

Within our existing estate, the 2009 season has already kicked off with the launch of the terrifying "SAW", the ride at Thorpe Park; Land of the Pharaohs at LEGOLAND Windsor; a Dungeon at Warwick Castle; and Sharkbait Reef by SEA LIFE at Alton Towers. Across the Merlin Group all attractions will once again be offering customers compelling reasons to visit; many developed by our world leading in-house creative resource, the Merlin Studios.

The year ended with an announcement of a new LEGOLAND park project in Malaysia. This new attraction will open in 2012 as part of a major development of the Johor region and will be predominantly funded by our partners.

2009 OUTLOOK

Given the turbulent conditions in the world economy, we are approaching 2009 with caution. However, while we expect some markets to be impacted, we believe that the growth momentum and broad strength of Merlin's portfolio will prove resilient to the worst effects of the recession. We are assisted in this by two things; the "staycation" effect whereby people cut foreign holidays and stay in their own countries; and the significant marketing leverage that Merlin can exercise across its world class attractions. This includes the development of new products/revenue streams such as the Merlin Annual Pass in the UK and Germany which offers unlimited entry to all our attractions for 12 months. Above all we are confident in our brands and especially our people. They have proved consistently, even in the most difficult of conditions, that Merlin Entertainments can out-perform the market and achieve great things. As ever I am extremely grateful for their unflagging dedication, passion and energy.

Nick Varney
Chief Executive Officer
Merlin Entertainments Group

Group Financial Review

The year to 27 December 2008 provided Merlin with new challenges in the form of turmoil in the global financial markets with the knock-on impact on the wider economy and consumer confidence. Despite this and the poor weather experienced by many of our European locations, Merlin once again posted a strong set of financial results.

Following the acquisition of the Tussauds Group in 2007, Merlin's predominant currency of earnings switched from the Euro to Sterling. As a result, the Group changed its presentational currency to Sterling. The following figures are derived directly from the 2008 Financial Statements.

The financial highlights for 2008 are:

- Increase in Revenue compared to 2007 of £178.1 million (37%) to £662.3 million. Increase in revenue excluding the impact of exchange movements was £140.9 million.
- EBITDA excluding exceptional items of £203.0 million, up £32.1 million (19%) on the prior year. Increase in EBITDA excluding the impact of exchange movements was £18.7 million.
- Operating profit before one-off write downs of £142.2million, up £15.3m (12%) on 2007.
- Operating profit was £120.4 million, down £2.0m as a result of one-off impairment charges and a one-off goodwill reduction in relation to tax losses utilised through 2008 that were not recognised at the time of the Tussauds Group acquisition.
- Cash generated from operations of £219.1 million, up £65.4 million on the prior year.
- Capital investment of £96.2 million during the year.
- Cash at bank and in hand at year end of £114.9 million and immediately available money market funds of £23.8m.
- Leverage on net external bank debt at year end equates to 5.1 times adjusted EBITDA.

	2008 £m	2007 £m	Growth +/- £m
Revenue	**662.3**	484.2	178.1
EBITDA excluding exceptional items	**203.0**	170.9	32.1
Non-recurring items	**(2.5)**	(4.1)	
Profit on sale of fixed assets	**0.2**	0.5	
Depreciation and amortisation	**(58.5)**	(40.4)	
Operating profit before one-off write-downs	**142.2**	126.9	15.3
Impairment charges	**(11.0)**	(4.5)	
Goodwill reduction	**(10.8)**	-	
Operating profit	**120.4**	122.4	(2.0)
Net cash paid financing costs	**(89.3)**	(57.1)	
Net non-cash paid financing costs	**(105.6)**	(89.6)	
Share of profits of jointly controlled entities	**-**	0.1	
Loss before tax	**(74.5)**	(24.2)	
Total visitors (million)	**35.1**	27.5	7.6

Group Revenue increased by £178.1 million to £662.3 million. Whilst this was driven primarily by The Tussauds Group acquisition, which accounts for £113.4 million of the growth, underlying revenue growth of 23% was delivered from existing businesses and the new Midway sites.

Depreciation, amortisation and impairment charges in the year include the amortisation costs of the intangible assets arising from the acquisition of the Gardaland, LEGOLAND and The Tussauds Group businesses. In addition, there were 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 was a further one-off charge 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.

Net financing costs of £194.9 million include a net (unrealised) loss on financial derivatives of £57.5 million, arising from the mark-to-market of interest rate swaps, discussed further below, interest on shareholder loans of £39.5 million and a net credit of £20.4m in respect of the 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 £65.4 million to £219.1 million, compared with £153.7 million in the previous year.

Of this cash inflow from operations, £96.2 million was re-invested to fund capital expenditure in Merlin's existing estate, as well as the new Midway attractions. A further £89.3 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 27 December 2008, gross bank debt was £1,191.6 million compared with £950.1 million at 28 December 2007. £160.9 million of the increase in gross bank debt was caused by exchange movements. Gross bank debt is partially offset by cash at bank and in hand of £114.9 million and money market funds of £23.8m. Net external debt, excluding shareholder debt, of £1,052.9 million equates to leverage of 5.1 times 2008 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. Further detail on the Group's borrowings is set out in the Managers' Report and Financial Statements.

In addition to the Facilities Agreement, Merlin also has a revolving facility of €150 million (£143.3 million), which is available to finance working capital requirements and for general corporate purposes, and a capital investment facility of €125 million (£119.4 million). As at 27 December 2008, £83.0 million had been drawn down from the revolving facility and £39.8 million had been drawn down on the capital investment facility. These amounts are included within bank debt.

NET ASSETS

Within Merlin's overall net liabilities at 27 December 2008 of £104.1 million, long term shareholder loans amounted to £580.7 million. The net asset position prior to the deduction of these shareholder loans is £476.6 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

Merlin's People

Our people continue to be the key to the growth of Merlin. The overall mission of the global Human Resource team remains succession management – having the right people with the right qualifications in the right places at the right time! This manifested itself in 2008 with 81% of senior vacancies being filled internally.

To achieve this we have worked on continuing to pursue our four key focus areas: people planning; developing talent; rewarding employees; and communicating effectively.

Our people planning and talent management are centred on ensuring that high quality employees are recruited and trained. Training is undertaken through a structured programme which focuses on both individual and business needs. Employees can attend both locally and centrally driven courses which cover a variety of skills. Many of these are delivered through partnerships with external providers such as universities and specialist training consultants. In addition a new graduate intake joined us from universities in the UK, Germany and the USA.

Merlin's Performance Development Programme (PDP) is our competency based performance review system, which identifies employees' career aspirations and development needs. This information then supports our succession management programme, which encourages individuals to pursue their career and development aspirations whilst meeting the needs of the business. Our group wide grading structure allows employees to plan their careers and at the same time provides a clear reward structure that recognises performance and achievement.

Finally we recognise that Merlin has a diverse and global workforce who clearly benefit from regular and open channels of communication. We are constantly reviewing the effectiveness of our communication strategy and rely on such initiatives as:

- Team briefs which are held at a local level on a daily, weekly, and monthly basis.
- "The Wizard" newsletter which is published throughout the year and keeps all employees informed of news from around the Group.
- The Group Opinion Survey "The Wizard Wants to Know". This was initially conducted in 2008 and concluded that 89% of employees who completed the survey indicated that they enjoy working for us. As part of this vital feedback every business has been challenged to take appropriate action to improve the results where possible.
- Group policy harmonisation which ensures that fair and consistent practice operates in all our attractions (depending on local legislative influences), and to promote diversity and maintain opportunities for all.

Corporate Social Responsibility

Merlin's approach to Corporate Social Responsibility (CSR), or "Merlin in the Community" as we prefer to call it, is to focus on doing those things which we believe are the right things to do. In this way, we ensure that our CSR agenda is based firmly on our core values and principles. During 2008, we have given particular focus to the launch of our own Charity, Merlin's Magic Wand, as well as to the very important work we do in the areas of Animal and Marine Conservation and Welfare. In addition, we have continued our initiatives with local communities and in relation to ethical purchasing

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 or our many attractions. The charity was established following consultation with our people right across the Group as to where they believed we should focus our charitable activities. The opportunity to set up our own charity really excited the team and our people have run many fundraising activities in support of Merlin's Magic Wand since its launch. Merlin has provided £100,000 of start up funding plus another £300,000 worth of free tickets to its attractions, in order to get the charity off the ground. To date over 4,500 children and their carers have benefitted from the charity and our teams have raised an additional £60,000, having great fun in the process!

ANIMAL AND MARINE CONSERVATION AND WELFARE

Last year saw no let up in the very practical programmes which we run in such areas as seal and turtle rescue and seahorse breeding programmes, as well as with other animal welfare initiatives such as gorilla and tiger conservation. Merlin and our SEA LIFE brand have an excellent record and reputation for the ethical and responsible care, preservation and conservation of the marine environment. This is demonstrated by the way in which our aquaria operate, our rescue, rehabilitation and release of marine animals in distress and our SOS (Save Our Seas) programmes. These initiatives have achieved significant global recognition and have delivered real conservation successes. We also have very clear policies relating to the captivity, care and treatment of marine mammals such as dolphins and sea lions. We provide a wealth of resource materials to schools to assist teachers and pupils to get the very best educational content out of a visit to one of our SEA LIFE centres or to the Zoo at Chessington World of Adventures. Last year we also signed up to a partnership with the internationally renowned Whale and Dolphin Conservation Society who are now working with us on our policies and on programme development.

OTHER CHARITY AND COMMUNITY ACTIVITIES

The existence of Merlin's Magic Wand does not preclude the company from working with other charities, or with local community groups. We have supported many other good causes during 2008, including major charities such as Breast Cancer Care, the Sichuan Earthquake appeal, the Ellen MacArthur Trust and Children in Need, to name but a few. Our attractions around the business also provide support for local charities and for school and church fetes and other local fund raising and community events. We also hold regular meetings with local representative groups, to keep them abreast of developments.

ENVIRONMENTAL IMPACT OF THE BUSINESS

Merlin recognises that its operations impact upon the environment and that effective management of these impacts is essential for business success. We have a new Environmental Policy Statement and are now in the process of putting this into effect in very practical ways. We are focusing on how we can manage resources more effectively including our energy and water consumption and improving our waste recycling, whilst still maintaining the quality of services, comfort and safety which our customers and employees expect. We have also introduced an *Annual Environmental Award* for the location which showed the greatest overall initiative in their approach to the environment. The first winner for 2008 was SEA LIFE Birmingham for their ideas on recycling.

Ownership and Management Structure

OWNERSHIP

The parent company of Merlin is Merlin Entertainments Group Luxembourg Sarl (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	48.21	54.54
KIRKBI A/S	21.80	24.67
Dubai International Capital	16.65	0.96
Caddis Assets	1.19	19.07
Management	12.15	0.76
	100.00	**100.00**

MANAGEMENT

The Company is managed in Luxembourg by its Board of Managers (the "Board"), which comprises representatives of the principle shareholders and one representative of the 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 of Managers, the Management Committee and the Executive Board are set out below.

Members of the Board of Managers

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

Robert L 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 organizations with programs for disadvantaged youth in New York City.

John 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 of Managers throughout 2008 and resigned on 31st March 2009. He will be replaced by Christian Rojkjaer, subject to approval at the forthcoming shareholders' meeting.

Christian Rojkjaer, is Group Chief Financial Officer of KIRKBI A/S. In addition to his responsibilities as Group CFO, Christian is also responsible for Business Development.

Prior to joining KIRKBI A/S in April 2009, Christian was CFO and interim CEO of the Habitat Group in the United Kingdom. From 2000 until 2009, Christian was with the IKANO Group, having held a number of positions within the financial area. Prior to that Christian was CFO for a Dutch retailer, Manager at Ernst & Young Global Client Financial Services and Treasurer & Finance Manager at AT&T Europe.

Christian is a member of the board of directors in a number of companies under the KIRKBI / LEGO Group umbrella and has held numerous board memberships with the IKANO Group including IKEA in South East Asia. Christian holds a Masters Degree in Accounting & Finance from Copenhagen Business School, an MBA from Henley Management College and the "CFA" asset management certification.

Jamie Nelson, is General Counsel for Dubai International Capital where he is responsible for overseeing the in-house legal department. The breadth of Jamie's legal experience encompasses advising on complex, high value, international corporate and commercial transactions.

Prior to joining Dubai International Capital in July 2007, Jamie worked in Toronto and New York with the law firm of Fasken Martineau from 2001 to 2005, and then with DLA Piper, based in London and Dubai, from 2005 to 2007. During his tenure with those law firms, Jamie gained a wealth of experience in private equity and M&A transactions.

Jamie holds a Juris Doctor law degree from the University of Toronto, Cananda, as well as an undergraduate degree from Carleton University (major in law, minor in English). Jamie was called to the bar of the Law Society of Upper Canada as a barrister and solicitor in 2002.

Colin Armstrong, is Group Legal Director and Company Secretary of the Merlin Group where he has responsibility for the in-house legal and company secretarial function providing strategic and operational advice and support in his capacity as a member of the Executive Board.

Prior to joining Merlin, Colin was Group Legal Director and Company Secretary for a number of UK listed companies, including, National Express Group plc, Northern Leisure plc and AutoLogic Holdings plc. Before that, he spent 10 years in private practice specialising in corporate law with Dundas & Wilson CS in Edinburgh and subsequently in London with Slaughter & May and Ashurst. Colin is qualified as a solicitor both in Scotland and in England and Wales and has over 20 years' corporate law experience.

The Management Committee

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

Peter Phillipson, Non-Executive Chairman

Peter Phillipson was appointed Non-Executive chairman in May 2007. Prior to this he was CEO of The Tussauds Group for six years. Peter has a sales, marketing and general management background working for 13 years with the Gillette Company latterly as Marketing Director, Europe, and 8 years with Guinness plc/Diageo plc including the role of Managing Director, United Distillers UK. From 2000 he spent 7 years on the Board of Saga Group Limited.

Peter is Chairman of GHD Group Holdings Limited, Deputy Chairman of the Advisory Board of Kings Park Capital, Chairman of the British Hospitality Association's Best Practice Forum and Patron of the Children With Special Needs Foundation.

Nick Varney, Chief Executive Officer

Nick began his career in consumer goods marketing; moving to become Marketing Director of the UK's leading theme park - Alton Towers in 1991, then owned by Tussauds. It was there he discovered his passion for visitor attractions – a passion and enthusiasm which has remained with him throughout his career to the present day in his role as CEO of the world's second largest visitor attraction group – Merlin Entertainments.

He joined Vardon Attractions in 1995 as Managing Director, and the main Vardon plc board in 1997. In 1999 he led the senior management team in the successful buyout of Vardon Attractions to form Merlin Entertainments Group Limited.

During the following years the company rapidly expanded its business across Europe, doubling its EBITDA by 2004. In 2005 Nick initiated the process which led to Merlin Entertainments being acquired by Blackstone.

Andrew Carr, Chief Financial Officer

Andrew is a chartered accountant who trained with KPMG in both London and Sydney, Australia. Head of a regional Corporate Finance Department for KPMG from 1994 to 1996, he joined Vardon Attractions in 1996, playing a key role in the management buyout that created Merlin Entertainments Group.

Since this time, Andrew has been instrumental in all M&A activity within the Group including the divestment of a number of non core assets, refinancing of the Group including two follow on buy outs and acquisitions worth in excess of £2bn.

Joe Baratta

Joe is a Senior Managing Director in private equity group, Blackstone in London. He is the Blackstone executive responsible for its investment in the Merlin Group.

Since joining Blackstone in 1998, Joe has been involved in the execution of Blackstone's investments in LiveWire, Republic Technologies International, Universal Orlando, Houghton Mifflin, Merlin Entertainments Group, Nycomed Pharmaceuticals, Spirit Group, Southern Cross, NHP, and Center Parcs.

Before joining Blackstone, Joe was with Tinicum Incorporated, and McCown De Leeuw & Company. He has also worked at Morgan Stanley in its Mergers & Acquisitions Department. Joe graduated magna cum laude from Georgetown University.

Jan Nielsen

Jan is a Principal in the Corporate Private Equity Group, Blackstone and is based in London.

Since joining Blackstone in 2005 he has been involved in Blackstone's investments in TDC and Merlin and Merlin's acquisitions of LEGOLAND, Gardaland and The Tussauds Group. Prior to joining Blackstone, Jan worked at Morgan Stanley as an Associate in the Technology Investment Banking Group.

Jan received a BSc and an MSc in Business Administration and Economics from the University of Aarhus in Denmark. Mr Nielsen is a CFA Charter holder.

Sylvian Denis

Sylvain Denis resigned on 4th February 2009 and was replaced by Eric Kump.

Eric Kump

Eric heads the DIC European Private Equity team based in London. He brings 16 years of experience in international private equity and investment banking to the table.

Prior to joining DIC in September 2008, Eric was a Managing Director with Merrill Lynch Global Private Equity based in London. The first part of his 13 years in private equity was focused on making growth capital investments in companies located in emerging markets where he completed five investments in companies located in China, Brazil, Poland and Turkey. Starting in 2003, his focus shifted to European LBOs where he was involved in deals in the financial services, leisure, retail, distribution, industrial and healthcare sectors aggregating circa $14 billion of enterprise value. He was a member of MLGPE's investment committee and a non-executive board member of numerous portfolio companies.

Eric was born in New York and has been based in London for the last ten years. He holds a BA in Finance and Accounting from Pace University and a MBA from Harvard Business School.

Jørgen Vig Knudstorp

Jørgen is the President and CEO of the LEGO Group and based in Billund, Denmark. In 2001 he took on a role as director working on issues within business development. Through various roles and interim positions including that of CFO, Jørgen in 2004 succeeded LEGO owner Kjeld Kirk Kristiansen as CEO, while Mr. Kristiansen continued as a leader of the Group in the board of directors.

At the time, The LEGO Group was under Mr. Kristiansen's leadership staging its now successful turnaround. A process which involved the selling of the LEGOLAND Parks to Merlin Entertainments Group in 2005, and lead to the owners' long term involvement in the Merlin Entertainments Group. Jørgen is therefore a member of the Merlin management committee on behalf of the owners of LEGO Group.

Prior to joining strategy consultants McKinsey & Company in 1998, where Jørgen worked globally on issues in strategy and business development, Jørgen completed a Ph.D. in business economics focused on superior value creation from particular asset configurations. A program which involved research and education at home at the University of Aarhus in Denmark, while also joining the executive MBA program at Cranfield University in the UK and the PhD program at MIT in Boston, USA.

Jørgen is 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.

Jens Nordahl

Jens was appointed Chief Executive Officer of KIRKBI A/S in September 2008.

From 1990 to 2008, Jens worked with the IKANO Group where he held several positions within the financial sector and business administration. In 2003, he was appointed CEO of the Habitat Group headquartered in Great Britain. He has a broad international background and is well experienced in working in family-owned companies. Jens is deputy vice chairman of the Board of Directors of LEGO A/S and holds a number of other board memberships under the KIRKBI / LEGO umbrella.

Jens holds a Masters Degree in management, strategy and finance from the Copenhagen Business School.

The Executive Board

The Executive Board comprises eleven executives of the business:

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

Glenn joined Unilever in 1988 on the UCMDS (Unilever Company Management Development Scheme) as a marketing graduate, starting in Brooke Bonds Foods working in marketing, sales, distribution departments for a few months and also in the factory making Oxo Cubes!

Glenn joined Tussauds in 1995 as Director of Marketing for Alton Towers, where he launched the UK's first themed hotel and also the world's first vertical drop rollercoaster – Oblivion. He became Director of Marketing for The Tussauds Group UK Theme Parks in 1998. In January 2000, he moved to become Divisional Director for Chessington World of Adventures and Thorpe Park, where he re-positioned both parks, before taking up the role of Managing Director, City Centre Attractions in 2004.

With the merger of The Tussauds Group and Merlin Entertainments Group business, Glenn is now Managing Director, Midway Attractions.

Mark Fisher, Managing Director, Resort Theme Parks

Mark attended Sheffield Polytechnic. After completing his Recreation Management degree, he joined The Tussauds Group in 1991, working in various sales and marketing positions, both at Group and Alton Towers.

He joined Vardon in 1995 as sales controller, tasked with setting up a new trade sales function for the group. In 1998 he was appointed Marketing and Sales Director with the responsibility for the marketing of all the group's existing attractions and new business roll out. In 1999 he was part of the senior team involved in the MBO to create Merlin Entertainments.

With the acquisition of the LEGOLAND Parks in 2005 he was appointed as Managing Director for the new Merlin Operating Group, and has recently taken on the position of MD, Resort Theme Parks.

John Jakobsen, Managing Director LEGOLAND Parks

John joined LEGO Company in 1988 holding various positions which supported global market research, including a time at the LEGO Company headquarters in Denmark. He joined the LEGOLAND park business in 1990 and was instrumental in the early planning and strategic direction of LEGOLAND Windsor. From 1994-97 he lived in Carlsbad and was involved in the site selection and planning of LEGOLAND California. From 1997 to Summer 2003, John assumed responsibility for development and later also the operation of LEGOLAND in Germany, which opened in 2002. Since June 2003 he has been President and General Manager of LEGOLAND California and was appointed MD of the LEGOLAND Parks in May 2007.

Nick MacKenzie, Managing Director, Property Development Group

Nick is responsible for the roll out and development of new attractions, managing the Group's development projects in existing attractions and managing our extensive property assets.

Before that, Nick was Property Director for the Tussauds Group and managed the business services team which included procurement, legal services, project delivery and business projects. Nick was also on the board of the London Eye Company.

Nick is a chartered surveyor and has always worked in property in the leisure and hospitality industry. He started his career at Bass PLC, and has also been development director for Burger King and acquisitions director for Allied Domecq restaurants and bars.

David Bridgford, Director of Corporate Finance

In 1989, David qualified as a Chartered Accountant with Deloitte before moving to their then fledgling corporate finance department. Specialising in MBO's capital raising and company sales, David became a Deloitte corporate finance partner in 2000.

Two years later, he joined The Tussauds Group, on whose MBO he had advised back in 1998. David has been involved in a number of key corporate projects for the Group - two sales processes, three refinancings and played a key part in the acquisition of the London Eye and the more recent acquisition of The London Aquarium and Underwater Adventures in Minneapolis. David is responsible for running the financial strategy and support function including corporate finance, business planning and business information.

Andy Davies, Group Commercial Director

Andy is responsible for the commercial development of the Merlin Entertainments Group. He oversees the call centre, trade sales, retail, F&B, photography and games to make sure the central and attraction teams work together to improve operating profit. He also looks after the procurement and IT teams.

Andy previously worked as Marketing Director for BAA and Marketing & Buying Director for WH Smith Travel Retail.

Lesley Lloyd-Steer, Group HR Director

Lesley left McDonalds in June 2000, after working there for 11 years, to join Merlin as Head of Human Resources. Following the acquisition of the LEGOLAND Parks in 2005, she became Group HR Director.

She has over 25 years personnel and training experience in retail and catering, at Marks & Spencer and Asda, amongst others.

Lesley was a graduate in business studies at the University of South Glamorgan, specializing in personnel management.

Grant Stenhouse, Project Development Director

Grant is a marine biologist who joined the SEA LIFE network in 1982 as manager designate of the first SEA LIFE Centre in Oban.

He became Head of Biological Services in 1991, where he was responsible for all display related matters including conservation, design, development, stocking and ongoing maintenance of the wide-ranging living displays and associated life support systems.

In 2003, Grant was appointed Project Development Director for new developments and in 2006, he took responsibility for all Group project development and was appointed to the Executive Board.

Principal Risks and Uncertainties

Merlin adopts a proactive approach to the management of potential risk 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 Risk Management Committee. This Risk Management Committee meets four times a year to oversee the Group Risk Management process.

The directors 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

- **Loss of Key Employees and Employee Retention**

Merlin is a "people business" and the Group's performance depends largely on recruiting and retaining its employees. 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.

- **New Site and Attraction Developments**

The Group's ability to grow its business is dependent on securing new sites and 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.

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 across the US 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 denominated in sterling, euros and dollars and are borrowed at floating interest rates. Merlin utilises interest rate swaps to fix its cost of 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 Group are listed on a stock exchange, Merlin seeks, so far as appropriate, to comply with the Combined Code on Corporate Governance (the "Combined Code"). Through the processes that are in place the directors believe that Merlin complies with the spirit of the Combined 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 directors 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, assisted by the other executive directors, is responsible for day-to-day operations and the development of strategic plans for consideration by the Management Committee as 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 directors.

BOARD COMMITTEES

The Board has three principal committees: a Health and Safety 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 and Safety Committee, Audit Committee and Remuneration Committee provide recommendations to Merlin Group companies but any decisions to accept or implement these recommendations are taken by the individual Group company boards.

HEALTH & SAFETY COMMITTEE

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

The Health & Safety 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 and Safety of visitors, employees and suppliers. 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. 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 Group International, KIRKBI A/S and Dubai International Capital). 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 auditor's appointment and the remuneration and terms of engagement of the external auditor;
- monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and
- developing and implementing policy on the engagement of the external auditor 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.

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.

Individual directors 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.