



Merlin Entertainments plc – 2018 Preliminary Results

Organic revenue growth of 5.2%
2018 progress provides a platform for continued growth

28 February 2019

Merlin Entertainments, Europe's leading and the world's second-largest visitor attraction operator, reports results for the year ended 29 December 2018.

Key trading highlights

| | 52 weeks ended 29 December 2018 | 52 weeks ended 30 December 2017 | Organic growth (constant currency) ⁽¹⁾ | Reported growth (actual currency) |
|---|--|--|--|---|
| Visitors ⁽²⁾ (m) | 67.0 | 66.0 | | 1.4% |
| Revenue (without the adoption of IFRS 15) (£m) | 1,653 | 1,594 | 5.2% | 3.7% |
| Revenue (as reported) (£m) | 1,688 | 1,594 | | 5.9% |
| Underlying EBITDA ⁽³⁾ (£m) | 494 | 474 | 6.2% | 4.3% |
| Underlying operating profit ⁽³⁾ (£m) | 327 | 323 | 3.4% | 1.3% |
| Adjusted earnings per share ⁽⁴⁾ (p) | 22.9 | 20.5 | | 11.7% |
| Dividend per share (p) | 8.0 | 7.4 | | 8.1% |
| Operating free cash flow ⁽⁵⁾ (£m) | 345 | 315 | | 9.7% |
| Post tax ROCE ⁽⁶⁾ (%) | 8.9 | 9.1 | | (0.2) |
| EBITDA ⁽³⁾ (£m) | 490 | 474 | | 3.4% |
| Profit before tax | 285 | 271 | | 4.9% |
| Basic earnings per share (p) | 22.5 | 20.5 | | 9.5% |

See footnotes on page 4

Merlin's reported 2018 results include the adoption of IFRS 15, the new accounting standard for revenue accounting which became effective in 2018, with no adjustment to previously reported 2017 numbers and negligible impact on EBITDA. To aid comparability, growth rates within these results refer to movements excluding the impact of IFRS 15 unless otherwise stated.

Summary

- A record 67 million visitors welcomed in 2018, up 1.4% on 2017, with continued strong guest KPI scores;
- Group organic revenue, before the impact of IFRS 15, grew by 5.2%, with like for like revenue growth of 1.8%;
 - Resort Theme Parks organic revenue grew by 9.1% driven by successful product investment, favourable weather and another strong Halloween period;
 - LEGOLAND Parks organic revenue increased by 6.4% due to the opening of a record 644 accommodation rooms, offsetting a broadly flat like for like performance;
 - Midway Attractions organic revenue growth of 1.1%, with a continued recovery in London trading;
- Accommodation revenue grew by 28% on a constant currency basis to now represent 21% of combined LEGOLAND Parks and Resort Theme Parks revenue (2017: 17%);
- Growth in operating free cash flow, up 9.7% on 2017, to £345 million;
- Adjusted earnings per share growth of 11.7% to 22.9p reflecting the growth in underlying EBITDA and lower effective tax rate and net finance costs;

- Further good strategic progress, with ongoing investment providing a platform for continued growth:
 - Launch of two new Midway brands – Peppa Pig World of Play and The Bear Grylls Adventure;
 - Continued progress towards the construction of LEGOLAND New York, targeted to open in 2020;
 - Agreement to open LEGOLAND Korea by 2022;
 - Productivity Agenda underway which is expected to yield up to £35 million of annualised savings by 2022;
 - Disposal of non-core Ski Resorts following the year end, to Vail Resorts for A\$174 million.

Nick Varney, Chief Executive Officer, said:

“We have reported further growth in 2018, with underlying EBITDA increasing by 6.2%, as we welcomed a record 67 million visitors and continued to deliver strong levels of guest satisfaction.

2018 saw improved momentum across most of our businesses reflecting the strength of our diversified portfolio and geographic spread. Resort Theme Parks benefited from successful product investment such as ‘Wicker Man’ at Alton Towers; LEGOLAND Parks growth was driven by record levels of accommodation openings; and, in addition to the contribution of seven new attractions, Midway saw improving trends in London.

We continue to seek to mitigate ongoing external cost pressures and expect to deliver up to £35 million of annualised savings by 2022 through a number of initiatives. Not only will this help underpin our financial outlook, it will better enable our people to deliver what matters most to our guests: fantastic memorable experiences.

Around the world, leisure spend continues to grow as disposable incomes rise and ever greater value is placed on good quality, shared experiences with friends and family. Our continued investment, new market opportunities and our evolving position as a unique, multi-format international operator of strongly branded and IP-led location based entertainment, give us the confidence that we are well placed to deliver long term growth and returns.”

Delivering on the strategy

The Group has made good progress against its six strategic growth drivers in 2018, and has further expanded and diversified its portfolio:

Planned investment cycles in the existing estate

- Compelling new propositions opened across the estate, including:
 - Midway Attractions – New ‘Justice League’ feature at Madame Tussauds Orlando and Sydney leveraging the enduring popularity of DC Comics superheroes. New innovation included immersive ‘build and play’ features in our LEGOLAND Discovery Centres and Madame Tussauds first ‘intelligent’ wax figure in Shanghai
 - LEGOLAND Parks – ‘LEGO City: Deep Sea Adventure’ opened at LEGOLAND California in July
 - Resort Theme Parks – ‘Wicker Man’ at Alton Towers and ‘Peppa Pig Land’ at both Heide Park and Gardaland
- Major 2019 investments to include: ‘LEGO Movie World’ at LEGOLAND Florida, the launch of the ‘Colossos’ roller coaster at Heide Park, and ‘Day and Night on the Reef’ at SEA LIFE Sydney Aquarium.

Exploiting strategic synergies

- Roll out of accesso ticketing platform substantially complete
- Launch of new Merlin Annual Pass membership programme in early 2019
- Productivity Agenda expected to deliver up to £35 million savings by 2022.

Developing our theme parks into destination resorts

- Total of 644 opened in 2018 comprising:
 - 252 room hotel at LEGOLAND Japan, developing the park into a resort
 - 250 room LEGOLAND California Castle Hotel, doubling the capacity of on-site accommodation
 - 142 room Pirate Island Hotel at LEGOLAND Deutschland, complementing the existing 319 rooms.
- 372 rooms expected to open in 2019, including the Magic Hotel at Gardaland and Stargazing Pods at Alton Towers.

Opening new Midway attractions

- Seven new openings in 2018 comprising: LEGOLAND Discovery Centres in Birmingham, UK and Columbus, Ohio, SEA LIFE in Nagoya, Little BIG City in Beijing, Dungeon in Shanghai, and the launch of two new brands - The Bear Grylls Adventure in Birmingham, UK, and Peppa Pig World of Play in Shanghai
- Ten attractions scheduled to open in 2019 including further LEGOLAND Discovery Centres and Peppa Pig World of Play.

Opening new LEGOLAND parks

- Full period benefit of LEGOLAND Japan following its opening in April 2017
- LEGOLAND New York construction underway with targeted opening in 2020
- Agreement to open LEGOLAND Korea, scheduled to open by 2022
- Discussions ongoing regarding development agreements in China.

Strategic acquisitions

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

Current trading and outlook

Trading at this seasonally quiet point in the year has been in line with expectations. Our 2019 outlook is positive and unchanged.

Results Webcast

An audio webcast for analysts and investors will be held this morning at 09.30 and can be accessed via Merlin's corporate website, www.merlinentertainments.biz.

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Footnotes:

- (1) Growth from like for like businesses and new business development at constant currency and accounting standards and excluding growth from acquisitions
- (2) Visitors represents all individual visits to Merlin owned or operated attractions
- (3) EBITDA is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures. Underlying EBITDA and operating profit exclude exceptional items
- (4) Adjusted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders, adjusted for exceptional items, by the weighted average number of ordinary shares in issue during the year
- (5) Defined as underlying EBITDA less existing estate capex
- (6) As defined on page 17

Notes to Editors:

About Merlin Entertainments plc

Merlin Entertainments plc is a global leader in location based, family entertainment. As Europe's Number 1 and the world's second-largest visitor attraction operator, Merlin now operates over 120 attractions, 18 hotels and 6 holiday villages in 25 countries and across 4 continents. Merlin's purpose is to deliver memorable experiences to 67 million guests around the world, through its iconic global and local brands, and the commitment and passion of its c.28,000 employees (peak season). It is headquartered in Poole, Dorset, UK and is listed on the London Stock Exchange (MER.L). In 2018, Merlin had revenues of £1.7 billion and underlying EBITDA of £494 million. Reflecting its longstanding strategy of diversification and global expansion, Merlin generates over 70% of profits from outside of the UK.

Merlin's strategy since its inception in 1999 has been to create a high growth, high return, family entertainment company based upon strong brands and a global portfolio that is naturally balanced against the impact of external factors. It operates two distinct products – Midway attractions and theme parks.

'Midway' attractions are high quality, branded, indoor attractions, with a typical 1-2 hour dwell time, located in city centres, shopping malls or resorts. There are over 100 Midway attractions across 22 countries, with chainable brands including SEA LIFE, Madame Tussauds, The Eye (observation attractions), The Dungeons and LEGOLAND Discovery Centres. Midway also incorporates the Little BIG City brand which has attractions in Berlin and Beijing, and two new brand concepts: The Bear Grylls Adventure which opened its first attraction last year in Birmingham, UK, and Peppa Pig World of Play, a pre-school play experience with initial roll out in China and the US.

Merlin's theme parks are larger multi-day outdoor resort destinations, incorporating on-site themed accommodation. These are organised into two specific Operating Groups, based on the brands.

- LEGOLAND Parks – Eight LEGO themed interactive theme parks appealing to younger families with children aged 2-12. The LEGOLAND Parks estate spans seven countries across three continents, with plans already announced for further parks in New York, US and South Korea and discussions ongoing regarding parks in China.
- Resort Theme Parks – Six nationally recognised destination theme parks arranged around a central theme. Resort Theme Parks include Alton Towers, THORPE PARK, Chessington World of Adventures, Warwick Castle in the UK, and Gardaland (Italy) and Heide Park (Northern Germany).

The trend towards shorter, more frequent breaks has supported the growth of Merlin's themed on-site accommodation within its theme parks. Merlin has over 4,100 rooms across a variety of accommodation formats and price points, including four star hotels, lodges and glamping.

Merlin delivers safe, memorable experiences every day for its guests through its own brands or through exclusive IP partnerships. It is supported by its unique internal department – Merlin Magic Making – providing development, creative, production and project management expertise. Merlin also operates a function dedicated to opening new attractions which incorporates site finding, construction, resourcing and initial operation.

Merlin is committed to being a force for good, aiming to make a difference to the communities linked to its business. Merlin's Magic Wand (www.merlinsmagicwand.org) is a charity which supports children facing challenges of serious illness, disability or adversity to experience the magic of Merlin's attractions, and SEA LIFE Trust (www.sealifetrust.org), promotes and contributes to marine conservation around the world.

See Merlin Backstage (www.merlinentertainments.biz/backstage or www.facebook.com/merlinbackstage) for an insight into how Merlin delivers memorable experiences to its many millions of visitors to its attractions.

Visit www.merlinentertainments.biz for more information.

Number of attractions

Movement in the number of attractions between 30 December 2017 and 29 December 2018:

| | UK | | | Cont. Europe | | | Americas | | | Asia Pacific | | | Total | | |
|-----------------------|-------------|----------|-------------|--------------|----------|-------------|-------------|----------|-------------|--------------|----------|-------------|-------------|----------|-------------|
| | 30 Dec 2017 | Mov't | 29 Dec 2018 | 30 Dec 2017 | Mov't | 29 Dec 2018 | 30 Dec 2017 | Mov't | 29 Dec 2018 | 30 Dec 2017 | Mov't | 29 Dec 2018 | 30 Dec 2017 | Mov't | 29 Dec 2018 |
| SEA LIFE | 13 | (2) | 11 | 18 | - | 18 | 8 | - | 8 | 9 | - | 9 | 48 | (2) | 46 |
| MT ⁽¹⁾ | 2 | - | 2 | 4 | - | 4 | 7 | - | 7 | 10 | - | 10 | 23 | - | 23 |
| Dungeons | 5 | - | 5 | 3 | - | 3 | 1 | - | 1 | - | 1 | 1 | 9 | 1 | 10 |
| LDC ⁽²⁾ | 1 | 1 | 2 | 3 | - | 3 | 10 | 1 | 11 | 4 | - | 4 | 18 | 2 | 20 |
| Eye | 2 | - | 2 | - | - | - | 1 | (1) | - | 1 | - | 1 | 4 | (1) | 3 |
| Other | 1 | 1 | 2 | 1 | - | 1 | - | - | - | 6 | 2 | 8 | 8 | 3 | 11 |
| Midway ⁽³⁾ | 24 | - | 24 | 29 | - | 29 | 27 | - | 27 | 30 | 3 | 33 | 110 | 3 | 113 |
| LLP ⁽⁴⁾ | 1 | - | 1 | 2 | - | 2 | 2 | - | 2 | 3 | - | 3 | 8 | - | 8 |
| RTP ⁽⁵⁾ | 4 | - | 4 | 2 | - | 2 | - | - | - | - | - | - | 6 | - | 6 |
| Group | 29 | - | 29 | 33 | - | 33 | 29 | - | 29 | 33 | 3 | 36 | 124 | 3 | 127 |

Note:

⁽¹⁾ Madame Tussauds

⁽²⁾ LEGOLAND Discovery Centre

⁽³⁾ Midway Attractions Operating Group

⁽⁴⁾ LEGOLAND Parks Operating Group

⁽⁵⁾ Resort Theme Parks Operating Group

Attractions opened in 2018 comprise SLC Nagoya, LDC Birmingham, LBC Beijing, LDC Columbus, PPWoP Shanghai, The Bear Grylls Adventure Birmingham and Shanghai Dungeon.

Merlin ceased to operate four Midway attractions in the period (Manly SEA LIFE Sanctuary, the Orlando Eye, the Cornish Seal Sanctuary and SEA LIFE Oban Sanctuary), with negligible financial impact.

Number of rooms

Movement in the number of accommodation rooms between 30 December 2017 and 29 December 2018:

| | 30-Dec-17 | Rooms opened | Other movements | 29-Dec-18 |
|--------------------------------------|--------------|--------------|-----------------|--------------|
| Billund (Denmark) | 436 | - | - | 436 |
| Windsor (UK) | 209 | - | - | 209 |
| California | 250 | 250 | - | 500 |
| Deutschland | 319 | 142 | - | 461 |
| Florida | 318 | - | - | 318 |
| Malaysia | 258 | - | 5 | 263 |
| Dubai | - | - | - | - |
| Japan | - | 252 | - | 252 |
| LEGOLAND Parks | 1,790 | 644 | 5 | 2,439 |
| Alton Towers (UK) | 592 | - | - | 592 |
| Chessington World of Adventures (UK) | 254 | - | - | 254 |
| Gardaland (Italy) | 347 | - | - | 347 |
| Heide Park (Germany) | 329 | - | - | 329 |
| THORPE PARK (UK) | 90 | - | - | 90 |
| Warwick Castle (UK) | 67 | - | - | 67 |
| Resort Theme Parks | 1,679 | - | - | 1,679 |
| Group | 3,469 | 644 | 5 | 4,118 |

Note:

Excludes campsite pitches at LEGOLAND Deutschland and LEGOLAND Billund

Increase at LEGOLAND Malaysia relates to a reconfiguration of existing rooms

Information regarding the proposed final dividend

The timetable for the final dividend of payment of 5.5 pence per share is as follows:

| | |
|------------------|---------------|
| Ex-dividend Date | 11 April 2019 |
| Record Date | 12 April 2019 |
| Payment Date | 16 May 2019 |

The Company will also provide a Dividend Re-Investment Plan (DRIP). The last day for electing for the DRIP will be 24 April 2019.

References to dividend per share are quoted gross of tax.

Chief Executive Officer's review

2018 overview

Merlin made further good strategic progress during 2018, delivering organic growth in underlying EBITDA of 6.2% and underlying operating profit of 3.4%. We welcomed a record 67 million visitors whilst continuing to report strong guest KPIs, including a three percentage point increase in our 'Net Promoter' score, to 57%. We have further strengthened our pipeline of attractive opportunities alongside investing in our existing brands, underpinning our platform for continued growth.

Growth in the year was driven primarily by our New Business Development programme, which saw us open a record 644 accommodation rooms and seven new Midway attractions – the majority of which were either new brands or attractions in new markets. The pilot openings of our two new brands – 'Peppa Pig World of Play' and 'The Bear Grylls Adventure', in Shanghai and the UK respectively, have already received encouraging guest feedback. These openings represent an entry into exciting new market categories for Merlin and underscore our focus in strengthening our position as an operator of location based entertainment partnering with leading owners of Intellectual Property.

2018 trading saw an improvement in trends across a number of our businesses. Midway London, which had been adversely impacted by the 2017 terrorist attacks, returned to growth in the second half of the year; and Resort Theme Parks saw exceptionally strong like for like growth, benefiting from successful product investment and very favourable weather. This performance was partially offset by the cost headwinds we have been highlighting for several reporting periods, as well as a quieter year for 'new news' in our LEGOLAND parks.

Since the year end we have announced our intention to open a LEGOLAND park in South Korea, having reached an agreement with the local province regarding funding. This is important for the continued development of the LEGOLAND estate, and the planned opening by 2022 will maintain our LEGOLAND Parks momentum, following the targeted opening of LEGOLAND New York in 2020.

Market overview

Merlin operates in an attractive marketplace, benefiting from underlying growth characteristics and favourable dynamics. At its heart is increasing disposable income in both developed and emerging economies, and the ever greater value being placed upon time together with friends and family.

Firstly, we continue to see the long term growth opportunity through international tourism, benefiting our Gateway city attractions such as those in London, New York and Hong Kong. Globally, there were 1.3 billion tourist arrivals in 2017 – over half of which were travelling for leisure or recreation – representing a 3.8% CAGR over the past decade. This has been driven in part by the continued growth in emerging markets, with increasing levels of wealth in countries such as China and India set to continue over the coming years. We therefore remain confident that the market opportunity for our Gateway city attractions remains significant.

Secondly, the increase in short breaks, in addition to fuelling international travel, sees more and more people take 'staycations'. Short breaks in the UK have grown at twice the rate of longer holidays over the past 20 years. We are increasingly well positioned to meet this demand through our growing offering of themed, on-site accommodation and 'second gate' attractions to extend dwell time. Furthermore, the relatively lower cost to the guest of 'staycations' has historically provided balance to Merlin's portfolio during more challenging economic conditions.

Finally, Merlin is uniquely placed, given its global reach and multi-format expertise, to exploit the growing opportunities to partner with leading owners of Intellectual Property content. These partnerships provide Merlin with additional ways in which to deliver memorable experiences, whilst offering those partners opportunities to increase engagement with their customers. Merlin has long enjoyed success through flagship partnerships such as that with LEGO, and was pleased to launch two new IP-based brands in 2018. We see opportunities to develop further relationships with more IP or content owners over the coming years, building on the success of existing relationships.

In addition to these existing market drivers, we continue to carefully monitor broader consumer tastes and trends, particularly with regards to new concepts. The exponential growth in formats such as 'pop-ups' and Escape Rooms is of increasing interest, and we have already begun trialling some of these as part of offerings within our existing attractions, with Escape Rooms now in Madame Tussauds San Francisco and The Bear Grylls Adventure in Birmingham, UK.

Strategy update

With this attractive market backdrop, Merlin's purpose is about creating truly memorable experiences for our guests; creating memories to be shared at the school gates, on social media or simply on the journey home.

Since the creation of Merlin in 1999, our strategic vision has been to create a high growth, high return, family entertainment business naturally balanced against external factors. Specifically, we aim to continue to diversify our portfolio, by geography, brand and customer, ensuring a balance of indoor and outdoor attractions and international and domestic visitation.

In pursuit of this, Merlin has consistently focused on its six strategic growth drivers. Progress against these in 2018 has been as follows:

1. *Existing estate capex* – investment in the existing estate helps to maintain and grow visitation and guest satisfaction. In addition to the major capex investments in 2018, such as the ‘Wicker Man’ roller coaster at Alton Towers and ‘LEGO City: Deep Sea Adventure’ at LEGOLAND California, new innovations included immersive ‘build and play’ features in our LEGOLAND Discovery centres, and Madame Tussauds’ first ‘intelligent’ wax figure in Shanghai. Following our decision in Q3 2017 to re-balance our capital allocation more towards new business opportunities, Midway Attractions and Resort Theme Parks existing estate capex spend was carefully reduced in 2018. At the same time the team retained a clear focus on maintaining our levels of guest satisfaction. This capital discipline has resulted in Group existing estate capex reducing to 9% of revenue, remaining within our target range of 8% to 10%.
2. *Strategic synergies* – we continue to leverage the growing scale of the Group through areas such as procurement, promotional activity and technology. The roll out of the accesso® e-commerce platform is substantially complete, whilst our 2019 focus will be upon further developing the digital guest journey and the launch of the first Merlin Annual Pass membership programme.
3. *Short break positioning* – the success of our accelerated investment in on-site themed accommodation and developing our theme parks into short break resorts remains compelling. Accommodation revenue grew by 28% in 2018 on a constant currency basis and has doubled over the past five years, now representing 21% of revenue across our theme park Operating Groups compared to 13% in 2013. Accommodation continues to drive improved levels of guest satisfaction and increases in advanced bookings. In 2018 we opened 644 rooms across three LEGOLAND parks, and anticipate opening 372 rooms across a range of formats in 2019.
4. *Midway roll out* – we continue to see the opportunity to open new Midway attractions globally, based on both our existing and new brands. We opened seven new attractions in 2018, including pilots of our three new brands – ‘Little BIG City’ (the first pilot attraction of which was launched in Berlin in 2017), ‘Peppa Pig World of Play’ and ‘The Bear Grylls Adventure’. Our pipeline continues to comprise a mixture of new brands or attractions in new markets, as well as the core brands in established markets. Over time, these will broadly balance out, though 2017-18 reflected proportionally more emerging market and new brand openings. In 2019, we target opening ten attractions.
5. *Opening new LEGOLAND parks* – 2018 represented the first full year of trading of LEGOLAND Japan, and the resort was enhanced further through the addition of a SEA LIFE centre and 252 bedroom hotel. We made encouraging progress during the year towards the opening of LEGOLAND New York, scheduled to open in 2020, and we have subsequently announced our intention to open a park in South Korea by 2022. We remain in active discussions, some of which are advanced, with a number of potential partners to develop several LEGOLAND parks in China. The current investment phase for LEGOLAND parks will continue to have the effect of reducing near term, reported Group ROCE given the projects’ gestation period and funding structures, but we are confident in the long term opportunity and returns outlook.
6. *Strategic acquisitions* – whilst we remain active in assessing inorganic opportunities against our clear investment criteria, we made no acquisitions during 2018.

Health, Safety and Security

The health, safety and security of our guests and employees remains our number one priority and we will continue to invest time and resource in improving our already high standards. In 2018, we developed further global partnerships with third party organisations related to matters of health, safety and security with the aim of mutually sharing any learnings, and launched a number of internal initiatives including the Company’s HSS magazine called *The Shield* and a new series of line manager-led briefings.

Productivity Agenda

Merlin has successfully mitigated significant cost pressures in recent years, resulting from legislative changes such as the UK National Living Wage, and significant increases in utilities and business rates. We are also increasingly seeing the impact of tighter labour markets in many parts of the world such as Southern California, Bavaria and the South East of England. To date this cost mitigation has been achieved largely through attraction-level savings and tactical efficiency improvements.

Mindful of these continuing cost pressures, we have been focused on our Productivity Agenda which seeks to consolidate a number of initiatives to provide long term, sustainable savings across the Group. As a result, we have identified annualised savings of up to £35 million which we expect to deliver by 2022, incurring overall one-off operating costs related to the implementation of this programme of approximately £35 million.

These cost savings will be delivered through back office savings, such as our 'Finance 21' project, operational efficiencies by evolving our business model, the application of continuous improvement principles in our attractions, and in many cases through better use of technology and automation. In addition to delivering financial savings, our programme seeks to improve productivity, better enabling our attraction staff and general managers to focus upon what truly delivers memorable experiences for our guests.

Guest satisfaction

Our ongoing product investment and innovation, and relentless focus on creating memorable experiences for our guests throughout 2018 have resulted in continued strong levels of guest satisfaction. Guest feedback is monitored daily through the touchscreens at our attractions, generating over one million reviews each year. In 2018 we delivered an overall guest satisfaction score across the Group of 95%, and 'Net Promoter' score of 57%, which increased by three percentage points.

Employee engagement

We know that the better engaged our employees are, the better our guests' experiences will be. We are therefore pleased to report that our annual employee survey – 'The Wizard Wants to Know' – which was completed by 95% of our employees, shows that 94% enjoy working at Merlin. Employee engagement at Merlin remains significantly above global benchmarks. We're not stopping there though. In 2018 we developed a new employer brand and value proposition; '*Love your Work. Work your Magic*', as we seek to attract, recruit and retain the very best people, and work is underway to encourage even greater diversity and inclusivity within the workplace through a number of new people initiatives.

Our team of 28,000 employees should be proud of what we have achieved this year, and I would like to thank them for their continued dedication and for delivering another year of fun, safe, and memorable experiences for our millions of guests around the world.

Midway Attractions

| £million | 52 weeks ended 29 December 2018 | 52 weeks ended 30 December 2017 | Organic growth (constant currency) | Reported growth (actual currency) | Like for like growth |
|---|---------------------------------------|---------------------------------------|---|--|-------------------------|
| Revenue (without the adoption of IFRS 15) | 650 | 656 | 1.1% | (1.0)% | 0.1% |
| Revenue (as reported) | 677 | 656 | | 3.1% | |
| Underlying EBITDA | 210 | 220 | (3.0)% | (4.7)% | |
| Underlying operating profit | 139 | 152 | (6.9)% | (8.3)% | |

Midway reported organic revenue growth of 1.1% driven by the continued roll out of new attractions and a broadly flat like for like performance.

New Business Development

Our Midway roll out programme can be segmented into two different types of investment: our existing brands opening in developed markets, and those attractions representing either pilots of new brands, or attractions opening in developing markets or in markets in which Merlin is less established. The two categories have significantly different profiles, with the latter typically generating lower short term returns and seeing greater fluctuations in visitor numbers as we build the brand or establish our presence in the new market. They are, however, a key part of our pipeline as they provide the platform for longer term growth and improving returns.

In 2018, we opened seven attractions which, combined with those opened in 2017, contributed an additional £11 million to revenue growth in 2018. Attractions opened in 2018 comprised LDC Birmingham, the Shanghai Dungeon, LDC Columbus, Peppa Pig World of Play Shanghai, The Bear Grylls Adventure Birmingham and Little BIG City Beijing. SEA LIFE Nagoya is accounted for in the LEGOLAND Parks Operating Group.

Existing estate performance

Overall, revenue grew by 0.1% on a like for like basis. The improvement in trends was driven primarily by London which returned to growth in the second half of the year, following the 2017 terrorist attacks. Our portfolio of attractions outside of Gateway cities, which comprises predominantly LEGOLAND Discovery Centres and SEA LIFE Centres saw continued growth, albeit impacted by the hot summer weather in Northern Europe which resulted in challenging trading conditions for a number of our attractions. We expect the non-Gateway city Midway attractions to deliver inflationary growth over time.

Underlying EBITDA declined by 3.0% on a constant currency basis and resulted in a margin of 32.3% (31.0% including the effect of IFRS 15). The decline in margin was driven predominantly by the greater proportion of investment in openings of new brands or attractions in new markets, together with a number of non-recurring factors. These included the temporary closure of the LEGOLAND Discovery Centre in Shanghai due to the refurbishment of the shopping centre within which it is located and the non-recurrence of a sales tax rebate received in 2017. Otherwise, the margin was largely unchanged.

Existing estate capex of £50 million was down slightly from 2017 despite the increased size of the estate, reflecting the capital allocation decision communicated in October 2017. This resulted in strong operating free cash flow conversion of 76% (2017: 77%).

LEGOLAND Parks

| £million | 52 weeks ended 29 December 2018 | 52 weeks ended 30 December 2017 | Organic growth (constant currency) | Reported growth (actual currency) | Like for like growth |
|---|---------------------------------------|---------------------------------------|---|--|-------------------------|
| Revenue (without the adoption of IFRS 15) | 636 | 609 | 6.4% | 4.4% | (0.3)% |
| Revenue (as reported) | 637 | 609 | | 4.6% | |
| Underlying EBITDA | 242 | 230 | 7.7% | 5.5% | |
| Underlying operating profit | 194 | 191 | 3.9% | 1.7% | |

LEGOLAND Parks reported organic revenue growth of 6.4% in 2018 as the roll out of new accommodation offset a broadly flat like for like performance.

A total of 644 new accommodation rooms were opened in 2018, comprising the 142 room Pirate Island Hotel at LEGOLAND Deutschland, the 252 room hotel at LEGOLAND Japan and the 250 room LEGOLAND California Castle Hotel. Combined with the rooms opened in 2017, this resulted in accommodation revenue growth of 39.7% on a constant currency basis.

On a like for like basis, revenue declined by 0.3%, following several years of very strong growth which were driven by both well-targeted product investments and support from LEGO movie releases. Conversely, 2018 saw limited 'new news' reflecting a low point in our capital investment cycle and no LEGO movies.

LEGOLAND Japan, which opened in April 2017, saw improved profitability in 2018. This was due to the non-recurrence of pre-opening costs, the effect of which more than offset a slight decline in attendance which is typical for new theme parks, following their opening year. Including the benefit of the new hotel and SEA LIFE, the resort saw growth in revenue compared to 2017.

Underlying EBITDA grew by 7.7% on a constant currency basis and resulted in a margin of 38.2% (38.1% including the effect of IFRS 15). The slight improvement in margin, despite the like for like revenue decline and underlying cost inflation, is due largely to the uplift related to LEGOLAND Japan following its opening in April 2017.

Depreciation increased by £9 million primarily relating to LEGOLAND Japan.

Operating free cash flow conversion improved to 81% (2017: 80%) with existing estate capex of £45 million (2017: £45 million).

Resort Theme Parks

| £million | 52 weeks ended 29 December 2018 | 52 weeks ended 30 December 2017 | Organic growth (constant currency) | Reported growth (actual currency) | Like for like growth |
|---|---------------------------------------|---------------------------------------|---|--|-------------------------|
| Revenue (without the adoption of IFRS 15) | 360 | 329 | 9.1% | 9.4% | 8.6% |
| Revenue (as reported) | 367 | 329 | | 11.5% | |
| Underlying EBITDA | 88 | 72 | 23.1% | 22.7% | |
| Underlying operating profit | 51 | 36 | 39.9% | 38.6% | |

Resort Theme Parks reported an improved performance in 2018, with organic revenue growth of 9.1%.

The Operating Group enjoyed strong trading throughout the peak summer season and the Halloween period which is now one of the most important trading periods of the year due to successful product offerings such as 'Scarefest' at Alton Towers, resulting in like for like revenue growth of 8.6%. Our major capex investment at Alton Towers - the 'Wicker Man' roller coaster - drove growth in visitation and revenue per capita, whilst the introduction of Peppa Pig Lands at Heide Park and Gardaland proved similarly successful, supporting significant growth in the young family and pre-school markets. Additionally, very favourable weather in both the UK and Continental Europe allowed for a more positive market backdrop following the difficult conditions which adversely impacted 2017 performance.

Accommodation revenue grew by 7.3% on a constant currency basis. This reflected the full period benefit of the 76 room CBeebies Hotel which opened in 2017, and continued growth in our existing accommodation.

Underlying EBITDA grew by 23.1% on a constant currency basis and resulted in a margin of 24.5% (24.0% including the effect of IFRS 15). The margin increase is a result of continued tight cost control and strong like for like revenue growth.

Operating free cash flow conversion improved to 59% (2017: 39%) due to growth in EBITDA and an £8 million reduction in existing estate capex.

Geographic performance

Merlin has the longer term aim of sourcing revenues equally from Europe, the Americas and Asia Pacific regions. 2018 performance against this is as follows:

Europe (56% of revenue, 2017: 55%) saw organic revenue growth of 5.0%, driven by strong trading in the Resort Theme Parks attractions which are all in Europe.

The Americas (27% of revenue, 2017: 27%) saw organic revenue growth of 6.6% driven by new Midway attractions and the opening of the 250 room LEGOLAND California Castle Hotel.

Asia Pacific (17% of revenue, 2017: 18%) grew 3.8% on an organic basis. This is predominantly due to the opening of new Midway attractions in the region and the 252 room hotel at LEGOLAND Japan.

Chief Financial Officer's review

| | Total 52 weeks ended 29 December 2018 £m | Underlying 52 weeks ended 29 December 2018 £m | Underlying 52 weeks ended 30 December 2017 £m | Underlying growth (actual currency) | Underlying organic growth (constant currency) |
|---|---|--|--|---|--|
| Revenue (without the adoption of IFRS 15) | 1,653 | 1,653 | 1,594 | 3.7% | 5.2% |
| Revenue (as reported) | 1,688 | 1,688 | 1,594 | 5.9% | |
| EBITDA | 490 | 494 | 474 | 4.3% | 6.2% |
| Depreciation and amortisation | (167) | (167) | (151) | (10.5)% | (12.0)% |
| Operating profit | 323 | 327 | 323 | 1.3% | 3.4% |
| Net finance costs | (38) | (38) | (52) | 26.1% | |
| Profit before tax | 285 | 289 | 271 | 6.5% | |
| Taxation | (55) | (55) | (62) | 11.6% | |
| Profit for the year | 230 | 234 | 209 | 11.9% | |
| Earnings per share | 22.5p | 22.9p | 20.5p | 11.7% | |
| ROCE | | 8.9% | 9.1% | | |
| Operating free cash flow | | 345 | 315 | 9.7% | |
| Leverage on net debt to underlying EBITDA | | 2.4x | 2.4x | | |

Introduction

In 2018 the Group's trading performance reflected the diverse nature of Merlin's portfolio, with overall growth driven by our new business development activity and the strong demand for our themed accommodation offering. In a challenging cost environment we mitigated many of those pressures, and made progress on our Productivity Agenda that we believe will deliver cost savings and efficiency benefits in years to come. We continued to invest capital both in the existing estate where returns are generated immediately, as well as our Midway roll out and LEGOLAND park developments where trading profits and cash flow will be seen in future years.

Revenue and trading

In 2018 the Group has adopted IFRS 15, the new accounting standard for revenue accounting. In the first year of adoption, this change creates an increase in revenue of £35 million and an equal and opposite increase in cost of sales. This primarily results from revenue derived from third party arrangements such as tickets purchased through online travel agents. Under IFRS 15, and depending on the terms of the relevant contractual arrangements, Merlin records revenue at the higher amount paid by the visiting customer rather than the lower amount received by the Group from the intermediary third party. In addition, Merlin partners with third parties in the operation of in-attraction offerings such as photo operations and games, where there are some small changes in revenue, depending on the role of each party in the operation of those offerings.

There is no adjustment to previously reported 2017 numbers, and a negligible impact on EBITDA. To aid comparability, growth rates within these reported results refer to movements excluding the impact of IFRS 15 unless otherwise stated. Also, and unless otherwise stated, all growth rates are presented on a constant currency basis, that is, as if the 2018 results were retranslated at 2017 average rates.

Underlying results and exceptional items

Our Productivity Agenda initiatives will together look to streamline and evolve the Group's back office and operations. We expect to incur total costs of approximately £35 million on this programme and plan to see the benefits of this in lower operating costs with up to £35 million of annualised costs savings by 2022. In order to present the underlying performance of the business more accurately, the costs of these initiatives are reported within exceptional items.

Unless otherwise stated, the commentary below refers to underlying results, that is, before the impact of exceptional items.

Revenue

Reported revenue increased to £1,688 million. Organic revenue growth, excluding the impact of IFRS 15, was 5.2%, rising to £1,653 million. On a like for like basis, revenue grew by 1.8%, reflecting growth in the Resort Theme Parks Operating Group and broadly flat performances in the Midway Attractions and LEGOLAND Parks Operating Groups.

We made good progress with our new business development. We opened seven new Midway attractions, which together with the full year benefit of 2017 openings, contributed £11 million to revenue growth. Similarly new accommodation added £44 million. Study agreements regarding prospective LEGOLAND parks and the full year effect of LEGOLAND Japan resulted in a further £2 million contribution to revenue.

EBITDA

Underlying EBITDA increased to £494 million resulting in a margin of 29.9% (29.3% including the impact of IFRS 15). This increase reflects strong trading within Resort Theme Parks and the increased accommodation offering across the theme parks, offset by the cost pressures noted elsewhere.

The cost base at our attractions is relatively fixed in the short term so any increases and decreases in revenue normally flow through to the operating result. If revenue is anticipated to fall short of our expectations, we will implement localised cost management initiatives to protect profitability, as far as possible. Operating margins are also impacted by underlying uncontrollable external cost pressures, such as those arising from wage legislation or property taxes. Our more structural Productivity Agenda initiatives will over time help mitigate such cost pressures.

Operating Group margins are also affected by the source and mix of revenue in the existing estate and the dilutive effect of new attractions and accommodation, which typically have lower margins than the existing estate and incur costs in the pre-opening period.

Central costs, whilst relatively fixed in nature, will change over time as central functions evolve to support the increasing breadth and scale of the business. Net central costs of £46 million were £2 million lower than 2017. This reflects increased income in respect of study agreement and consultancy activities that are accounted for centrally, offset by underlying cost increases.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non-Sterling earnings. Retranslating 2018 performance at 2017 rates would result in a £25 million benefit to revenue and a £9 million benefit to EBITDA.

| Currency | 2017 average FX rates | 2018 average FX rates | %age movement in FX rates | Revenue impact £m | Currency | 2017 average FX rates | 2018 average FX rates | %age movement in FX rates | EBITDA impact £m |
|---|-----------------------|-----------------------|---------------------------|-------------------|---|-----------------------|-----------------------|---------------------------|------------------|
| USD | 1.29 | 1.34 | 3.9% | 17 | USD | 1.28 | 1.34 | 4.0% | 6 |
| EUR | 1.14 | 1.13 | (0.8)% | (2) | EUR | 1.13 | 1.13 | 0.0% | - |
| AUD | 1.68 | 1.78 | 5.7% | 6 | AUD | 1.67 | 1.78 | 5.9% | 2 |
| Other | | | | 4 | Other | | | | 1 |
| Increase in 2018 revenues at 2017 FX rates | | | | 25 | Increase in 2018 EBITDA at 2017 FX rates | | | | 9 |

Operating profit

Depreciation and amortisation grew by 12.0% to £167 million reflecting the impact of continued investment in attractions and accommodation and, in particular, the opening of LEGOLAND Japan.

On a constant currency basis, underlying operating profit increased by 3.4% to £327 million.

Exceptional items

Exceptional costs of £4 million were incurred in delivering on our Productivity Agenda, resulting in total operating profit of £323 million. More details on the exceptional items are set out below.

Finance costs

Net finance costs of £38 million were incurred in 2018 (2017: £52 million). The decrease was due in part to the benefit of closing certain derivative positions as part of the refinancing which took place during the period, together with the benefit of foreign exchange movements. The refinancing is explained in more detail below.

Taxation

The tax charge of £55 million represents an effective tax rate of 19.0% of underlying profit before tax. This has fallen from 22.9% in 2017, primarily due to the impact of changes in tax legislation in the USA. Excluding prior year adjustments, which related primarily to these legislative changes, our effective tax rate would have been 23.5%.

Significant factors which may impact the Group's future effective tax rate include the USA tax reforms, the ability to continue with our current internal financing arrangements and changes to local or international tax laws.

The international corporate tax environment is becoming ever more complex. We have seen rapid change in the US and Europe and international bodies such as the Organisation for Economic Cooperation and Development ('OECD') have had a significant impact on tax policy. In particular, the interpretation of tax law, or uncertainties in the application of tax law, increases the potential for challenges by relevant tax authorities and could lead to additional tax exposures.

More specifically there is an European Commission ('EC') investigation into the UK's Controlled Foreign Company rules, where the preliminary finding of the EC is that this legislation constitutes unlawful State Aid (see note 5.2 to the financial statements). Like many other UK-based international groups, should there be a final determination against the UK this may adversely affect the Group.

Dividend

In September 2018 we paid an interim dividend of 2.5 pence per share and the Board is recommending a final dividend of 5.5] pence per share. This equates to a full year dividend of 8.0 pence per share and represents growth of 8.1% from 2017. This equates to a payout ratio of 35% of adjusted earnings per share.

Cash flow

| | 2018 £m | 2017 £m |
|---|--------------|-------------|
| Underlying EBITDA | 494 | 474 |
| Exceptional items | (4) | - |
| Working capital and other movements | 6 | 3 |
| Tax paid | (46) | (64) |
| Net cash inflow from operating activities | 450 | 413 |
| Capital expenditure – existing estate | (149) | (159) |
| Capital expenditure – new business development | (183) | (177) |
| Grants received | 14 | - |
| Other investing activities | - | (12) |
| Proceeds from share capital | 6 | 8 |
| Interest paid, net of interest received | (44) | (45) |
| Dividends paid | (76) | (74) |
| Other | - | 4 |
| Net cash inflow/(outflow) before refinancing and repayment of borrowings | 18 | (42) |
| Refinancing and repayment of borrowings (net) | (220) | 132 |
| Net cash (outflow)/inflow for the year | (202) | 90 |

Merlin continues to be highly cash generative, delivering operating free cash flow (being underlying EBITDA less existing estate capital expenditure) of £345 million in 2018 (2017: £315 million). Net cash flow from operating activities for the 52 weeks to 29 December 2018 was £450 million (2017: £413 million).

A total of £332 million was incurred on capital expenditure in 2018. The total comprised £149 million invested in the existing estate and £183 million on new business development (NBD), of which £78 million related to attractions or accommodation not yet opened. NBD investment represented £88 million in developing new accommodation across our theme park estate, £60 million in respect of new Midway attractions that either opened in 2018 or will open in 2019, and £35 million on the longer term investments of developing new LEGOLAND parks, primarily LEGOLAND New York.

Grants received of £14 million relate to LEGOLAND Korea. The local government has agreed to support direct funding for the project totalling KRW 80 billion (£56 million), of which this was the first instalment.

Financing activities

During the year, we successfully refinanced a significant portion of the Group's debt facilities. The issuance of a US Dollar denominated bond, enlarging the Revolving Credit Facility (RCF) to £600 million from £300 million and utilising surplus cash on the balance sheet enabled us to repay the existing term loans which were due to mature in March 2020. At 29 December 2018 £148 million of the RCF was drawn down (2017: £nil).

The cash outflow of £220 million on repayment of borrowings (2017: £132 million inflow) reflects these transactions and the subsequent use of additional surplus cash to pay down the RCF.

The refinancing has extended our average maturity, as well as providing us with greater flexibility to finance working capital requirements and capital investment. All covenant requirements were satisfied throughout the year.

Interest payments of £44 million (2017: £45 million) include the part year impact of the refinancing.

Merlin's current loan facilities are detailed in note 4.1 to the financial statements. Leverage on net debt at the year end equates to 2.4x underlying EBITDA (2017: 2.4x).

Net assets

| | 2018 £m | 2017 £m |
|---|--------------|--------------|
| Property, plant and equipment | 2,344 | 2,092 |
| Goodwill and intangible assets | 1,028 | 1,018 |
| Investments and other non-current receivables | 75 | 70 |
| Working capital | (181) | (169) |
| Net debt | (1,190) | (1,160) |
| Corporate and deferred tax | (190) | (175) |
| Employee benefits | (6) | (6) |
| Other liabilities | (136) | (103) |
| Net assets | 1,744 | 1,567 |

Property, plant and equipment increased by £252 million, primarily reflecting the capital additions referred to previously, offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates.

The increase in reported net debt is primarily due to the impact of foreign exchange movements on non Sterling borrowings and finance leases.

Return on investment

Reflecting Merlin's disciplined approach to the use of capital, a variety of measures are used in assessing financial performance and in appraising individual projects.

The Board considers Return on Capital Employed (ROCE) to be an important metric for appraising the Group's financial performance and uses it in the remuneration of senior executives. The profit measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

ROCE in 2018 was 8.9%, which is above our estimated weighted average cost of capital. The significant investment in attractions or accommodation which have yet to open, including new LEGOLAND parks, or into attractions which have yet to mature, such as the new Midway brands or existing brands opening in new markets, has been a major contributor to the reduction in ROCE in recent years.

Due to the long gestation period of a number of our capital projects, and Merlin's aim to create value over the long term, Internal Rate of Return is employed as the primary criteria for the appraisal of individual projects. This is supplemented by shorter term measures such as an assessment of payback period.

Productivity Agenda

Merlin is changing as we evolve our business model and the way we work, and also in response to the significant cost pressures affecting the business. Our global Productivity Agenda programme has therefore gathered pace in 2018.

Firstly, we have made progress mobilising the project team in developing our new cloud based finance system that will be rolled out across the business from the second half of 2019. This 'back office' investment, which includes better use of technology and automation, will support changes in how the finance teams support the business in the coming years. Secondly, under the heading of 'model evolution' we have launched initiatives seeking to simplify and streamline the operations of our smaller Midway attractions and applying lean continuous improvement principles in our parks. We have also exited certain non-core smaller Midway attractions.

These activities are partly enabled through capital investment, but also through incurring certain one-off operating costs. Because these costs do not form part of the underlying trading of the Group, they are reported within exceptional items, which totalled £4 million in 2018.

As this programme accelerates, we expect to incur total costs of approximately £35 million over the periods 2018 through 2021. We anticipate that these initiatives will generate up to £35 million of annualised savings by 2022.

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

| | Note | 2018 Underlying trading | 2018 Exceptional items ⁽⁴⁾ | Total £m | 2017 Total £m |
|--|----------|----------------------------|--|-------------|---------------------|
| Revenue | 2.1 | 1,688 | - | 1,688 | 1,594 |
| Cost of sales | | (298) | - | (298) | (255) |
| Gross profit | | 1,390 | - | 1,390 | 1,339 |
| Staff expenses | 2.1 | (448) | - | (448) | (420) |
| Marketing | | (84) | - | (84) | (85) |
| Rent | | (105) | - | (105) | (104) |
| Other operating expenses | | (259) | (4) | (263) | (256) |
| EBITDA ⁽¹⁾ | 2.1 | 494 | (4) | 490 | 474 |
| Depreciation and amortisation | 3.1, 3.2 | (167) | - | (167) | (151) |
| Operating profit | | 327 | (4) | 323 | 323 |
| Finance income | 2.3 | 10 | - | 10 | 3 |
| Finance costs | 2.3 | (48) | - | (48) | (55) |
| Profit before tax | | 289 | (4) | 285 | 271 |
| Taxation | 2.4 | (55) | - | (55) | (62) |
| Profit for the year ⁽²⁾ | | 234 | (4) | 230 | 209 |
| Earnings per share | | | | | |
| Basic earnings per share (p) | 2.5 | | | 22.5 | 20.5 |
| Diluted earnings per share (p) | 2.5 | | | 22.5 | 20.5 |
| Dividend per share ⁽³⁾ (p) | 4.2 | | | 8.0 | 7.4 |

⁽¹⁾ EBITDA – this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of jointly controlled entities.

⁽²⁾ Profit for the 52 weeks ended 29 December 2018 and the 52 weeks ended 30 December 2017 is wholly attributable to the owners of the Company.

⁽³⁾ Dividend per share represents the interim paid and the final proposed dividend for the year.

⁽⁴⁾ Details of exceptional items are provided in note 2.2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Profit for the year | 230 | 209 |
| Other comprehensive income | | |
| <i>Items that cannot be reclassified to consolidated income statement</i> | | |
| Defined benefit plan remeasurement gains and losses | (1) | 2 |
| | (1) | 2 |
| <i>Items that may be reclassified to the consolidated income statement</i> | | |
| Exchange differences on the retranslation of net assets of foreign operations | 14 | 3 |
| Exchange differences relating to the net investment in foreign operations | (5) | (15) |
| Cash flow hedges - effective portion of changes in fair value | 1 | 4 |
| Income tax on items relating to components of other comprehensive income | - | (1) |
| | 10 | (9) |
| Other comprehensive income for the year net of income tax | 9 | (7) |
| Total comprehensive income for the year | 239 | 202 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 238 | 202 |
| Non-controlling interest | 1 | - |
| Total comprehensive income for the year | 239 | 202 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 29 December 2018 (2017: 30 December 2017)

| | Note | 2018 £m | 2017 £m |
|---|------|--------------|--------------|
| Non-current assets | | | |
| Property, plant and equipment | 3.1 | 2,344 | 2,092 |
| Goodwill and intangible assets | 3.2 | 1,028 | 1,018 |
| Investments | | 61 | 59 |
| Other receivables | | 14 | 11 |
| Deferred tax assets | | 35 | 33 |
| | | 3,482 | 3,213 |
| Current assets | | | |
| Inventories | | 47 | 37 |
| Trade and other receivables | | 125 | 100 |
| Derivative financial assets | | 3 | 5 |
| Cash and cash equivalents | 4.1 | 110 | 309 |
| | | 285 | 451 |
| Total assets | | 3,767 | 3,664 |
| Current liabilities | | | |
| Interest-bearing loans and borrowings | 4.1 | 8 | 7 |
| Finance leases | 4.1 | 1 | 1 |
| Derivative financial liabilities | | 4 | 3 |
| Trade and other payables | | 353 | 306 |
| Tax payable | | 43 | 37 |
| Provisions | | 7 | 5 |
| | | 416 | 359 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 4.1 | 1,092 | 1,271 |
| Finance leases | 4.1 | 199 | 190 |
| Other payables | | 47 | 28 |
| Provisions | | 81 | 72 |
| Employee benefits | | 6 | 6 |
| Deferred tax liabilities | | 182 | 171 |
| | | 1,607 | 1,738 |
| Total liabilities | | 2,023 | 2,097 |
| Net assets | | 1,744 | 1,567 |
| Equity | | | |
| Issued capital and reserves attributable to owners of the Company | | 1,739 | 1,563 |
| Non-controlling interest | | 5 | 4 |
| Total equity | | 1,744 | 1,567 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

| Note | Share capital £m | Share premium £m | Translation reserve £m | Hedging reserve £m | Retained earnings £m | Total parent equity £m | Non-controlling interest £m | Total equity £m |
|---|---------------------|---------------------|---------------------------|-----------------------|-------------------------|---------------------------|--------------------------------|--------------------|
| At 1 January 2017 | 10 | 2 | (5) | (3) | 1,420 | 1,424 | 4 | 1,428 |
| Profit for the year | - | - | - | - | 209 | 209 | - | 209 |
| Other comprehensive income for the year net of income tax | - | - | (13) | 4 | 2 | (7) | - | (7) |
| Total comprehensive income for the year | - | - | (13) | 4 | 2 | (7) | - | (7) |
| Shares issued | - | 8 | - | - | - | 8 | - | 8 |
| Equity dividends | 4.2 | - | - | - | (74) | (74) | - | (74) |
| Equity-settled share-based payments | - | - | - | - | 3 | 3 | - | 3 |
| At 30 December 2017 | 10 | 10 | (18) | 1 | 1,560 | 1,563 | 4 | 1,567 |
| Profit for the year | - | - | - | - | 230 | 230 | - | 230 |
| Other comprehensive income for the period net of income tax | - | - | 8 | 1 | (1) | 8 | 1 | 9 |
| Total comprehensive income for the year | - | - | 8 | 1 | 229 | 238 | 1 | 239 |
| Shares issued | - | 6 | - | - | - | 6 | - | 6 |
| Equity dividends | 4.2 | - | - | - | (76) | (76) | - | (76) |
| Equity-settled share-based payments | - | - | - | - | 8 | 8 | - | 8 |
| At 29 December 2018 | 10 | 16 | (10) | 2 | 1,721 | 1,739 | 5 | 1,744 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

| | Note | 2018 £m | 2017 £m |
|---|----------|------------|------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 230 | 209 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 3.1, 3.2 | 167 | 151 |
| Finance income | 2.3 | (10) | (3) |
| Finance costs | 2.3 | 48 | 55 |
| Taxation | 2.4 | 55 | 62 |
| | | 490 | 474 |
| Profit on sale of property, plant and equipment | | - | (3) |
| Working capital changes | | (22) | 1 |
| Changes in provisions and other non-current liabilities | | 28 | 5 |
| | | 496 | 477 |
| Tax paid | | (46) | (64) |
| Net cash inflow from operating activities | | 450 | 413 |
| Cash flows from investing activities | | | |
| Interest received | | 1 | 1 |
| Acquisition of investments | | - | (12) |
| Acquisition of property, plant and equipment | | (332) | (336) |
| Disposal of property, plant and equipment | | - | 4 |
| Grants received | 5.1 | 14 | - |
| Net cash outflow from investing activities | | (317) | (343) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | | 6 | 8 |
| Equity dividends paid | 4.2 | (76) | (74) |
| Proceeds from borrowings | | 651 | 178 |
| Repayment of borrowings | | (863) | (43) |
| Capital repayment of finance leases | | (2) | (1) |
| Interest paid | | (50) | (46) |
| Financing costs | | (6) | (2) |
| Settlement of interest rate swaps | | 5 | - |
| Net cash (outflow)/inflow from financing activities | | (335) | 20 |
| Net (decrease)/increase in cash and cash equivalents | | (202) | 90 |
| Cash and cash equivalents at beginning of year | 4.1 | 309 | 215 |
| Effect of movements in foreign exchange | | 3 | 4 |
| Cash and cash equivalents at end of year | 4.1 | 110 | 309 |

SECTION I

BASIS OF PREPARATION

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

I.1 BASIS OF PREPARATION

Merlin Entertainments plc (the Company) is a public company limited by shares which is incorporated in the United Kingdom and its registered office is Link House, 25 West Street, Poole, Dorset, BH15 1LD.

The consolidated financial statements for the 52 weeks ended 29 December 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They were approved by the Directors on 27 February 2019 along with this preliminary announcement.

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

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

The consolidated financial statements are presented in Sterling.

All values are stated in £ million (£m) except where otherwise indicated.

The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 (the "Act"). The financial information for the 52 weeks ended 29 December 2018 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the 52 weeks ended 29 December 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

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

Going concern

The Group reported a profit for the year of £230 million (2017: £209 million) and generated operating cash inflows of £450 million (2017: £413 million).

Following refinancing activities that completed in May 2018, the Group is now funded by senior unsecured notes due for repayment in 2022 and 2026 and a multi-currency revolving credit facility maturing in April 2023. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.1.

After reviewing the Group and Company's statement of financial position, available facilities, cash flow forecasts and trading budgets, the Directors believe the Group to be operationally and financially sound and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Judgements and estimates

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgements

Management considers the following areas to be the judgements that have the most significant effect on the amounts recognised in the financial statements.

- Useful life of brands (note 3.2) - where brands have been recognised as part of an acquisition they have been assessed as having indefinite useful lives and management have considered that this judgement remains appropriate.
- Goodwill impairment reviews (note 3.2) - the level at which goodwill is initially allocated and thereafter monitored.

Estimates

Management considers the following areas to involve a significant degree of estimation uncertainty:

- Valuation of Resort Theme Parks Operating Group (RTP) assets and impairment (note 3.2) - estimation of discounted cash flows when calculating the value in use of assets.

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

I.1 BASIS OF PREPARATION CONTINUED

IFRS 15 'Revenue from contracts with customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). This approach requires the effect of applying this standard to be recognised at the date of initial application (i.e. 31 December 2017). There is no impact to retained earnings on transition because the timing of recognition of each category of Merlin's revenue under the transfer of risks and rewards principles in IAS 18 matches the timing under the control principles in IFRS 15. In line with adopting IFRS 15 using the cumulative effect method, the information presented for 2017 has not been restated.

IFRS 15 requires Merlin to make an assessment, considering the control principles of IFRS 15, as to whether parties involved in providing goods or services to a customer are acting as a principal (if they control delivery to the customer) or, if they are arranging for those goods or services to be provided by the other party, as an agent. Under IAS 18 this assessment was made based on which entity had the exposure to the significant risks and rewards associated with the transaction.

We have reviewed how this change affects situations where a third party is involved, together with Merlin, in providing visitors to Merlin attractions with admission tickets and/or accommodation, or commercial offerings such as photos and games services once inside a Merlin attraction. There is no difference in the pattern of revenue recognition arising from this change.

- Trade partners – Merlin engages with trade partners (such as online travel agents), in selling admission tickets and accommodation to the visiting customer. In instances where this leads to trade partners being considered Merlin's agent, Merlin records revenue at the amount paid by the visiting customer ('gross') and records the amount of underlying commission retained by the agent within cost of sales.
- Commercial offerings – Merlin partners with third parties in the operation of commercial offerings within theme park resorts and Midway attractions. The most significant of these are photo and games operations where the Group has analysed which party is considered to control the relevant operation. The nature of the operations concerned, and the judgements made, impact each Operating Group in different ways.

The following table summarises the impacts of adopting IFRS 15 on the Group's consolidated income statement for the 52 weeks ended 29 December 2018 and each of the line items affected. There was no material impact on the Group's statement of financial position, statement of cash flows or statement of comprehensive income.

| | As reported £m | Adjustments £m | Amounts without adoption of IFRS 15 £m |
|---------------|----------------------|-------------------|--|
| 2018 | | | |
| Revenue | 1,688 | (35) | 1,653 |
| Cost of sales | (298) | 35 | (263) |
| Gross profit | 1,390 | - | 1,390 |

The following categories of revenue (all excluding VAT and similar taxes) have been disaggregated:

- Visitor revenue - which represents admissions tickets, retail, food and beverage sales and other commercial offerings such as photos and games experiences inside a Merlin attraction. Ticket revenue is recognised at point of entry. Revenue from annual passes and other tickets that entitle a customer to continued visits over a period of time is deferred and then recognised evenly over the period that the pass is valid. Retail and food and beverage revenue, along with other similar commercial offerings, is recognised at point of sale.
- Accommodation revenue – which represents overnight stay and conference room revenue along with food and beverage revenue earned within our hotels and other accommodation offerings. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation.

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

I.1 BASIS OF PREPARATION CONTINUED

- Other revenue – which represents sponsorship, function, management and service contract revenue along with other sundry items. Sponsorship revenue is recognised over the relevant contract term. Function revenue is recognised at the time of the event. Management and service contract revenue is recognised in line with the performance obligations in the specific contract.

Information regarding the Group's results including the disaggregation of revenue by nature as required by IFRS 15 is included in note 2.1.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for 2019 reporting periods onwards and introduces a single, on-balance sheet lease accounting model for lessees. Under IFRS 16 the Group, as the lessee, will recognise an asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. The Group will elect to take recognition exemptions for short term leases and leases of low-value items. Leases that fall within the Group's defined parameters for these exemptions will be excluded from the IFRS 16 lease accounting requirements and be expensed on a straight-line basis over the life of the lease.

The Group plans to apply IFRS 16 initially on 30 December 2018, using the fully retrospective approach.

As at 29 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to £1,852 million (2017: £1,897 million) on an undiscounted basis. Of these commitments an insignificant value relates to short term and low value leases which will continue to be recognised on a straight line basis as an expense within the income statement.

For leases within the scope of IFRS 16 the nature of expenses will change from straight-line operating lease expense to a depreciation charge and an interest expense. Under existing accounting standards, during 2018 £107 million was recognised as an expense in respect of operating leases. Where the Group's rental expense is linked to turnover or other performance criteria, or relates to short term and low value leases, these elements will continue to be recorded as rent within operating expenses. Based on 2018 results the impact on EBITDA of adopting IFRS 16 would therefore have been an increase of approximately £85 million. Due to the Group's most significant leases being in their earlier stages, the 'front loading' impact of the finance costs results in an initial reduction in reported earnings. There would therefore have been a decrease in reported profit before tax of approximately £15 million.

As at 30 December 2018, the Group expects to recognise right-of-use (ROU) assets of approximately £1,020 million, including ROU assets in respect of existing finance leases and asset retirement provisions on leased properties, both previously classified under property, plant and equipment. The Group expects to recognise total lease liabilities of approximately £1,200 million, including existing finance lease liabilities of £200 million. The impact of adopting IFRS 16 on net debt would therefore be approximately £1,000 million.

A net accruals and prepayments adjustment will reduce liabilities by approximately £30 million, primarily resulting from the derecognition of balances in relation to IAS 17 lease accounting where leases were expensed to the income statement on a straight-line basis. An increase in deferred tax assets of approximately £30 million is also anticipated. Based on information currently available the adjustments will in aggregate result in a decrease in net assets of approximately £100 million. The numbers above are approximate as there has been a need to re-assess the accounting treatment for leases which contained elements of both operating leases and finance leases. This has involved reviewing the historic values of leased assets at inception and their treatment under IFRS 16 in subsequent periods on an asset by asset basis. We will refine these approximate numbers as we embed the processes for accounting under IFRS 16 into the business.

The Group's leverage threshold loan covenants are under 'frozen-GAAP' and as such the adoption of IFRS 16 is not expected to impact the ability to comply with them.

SECTION 2

RESULTS FOR THE PERIOD

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.1 PROFIT BEFORE TAX

Segmental information

An operating segment, as defined by IFRS 8 'Operating segments' is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group is managed through its three Operating Groups, which form the operating segments on which the information shown below is prepared. The Group determines and presents operating segments based on the information that is provided internally to the Chief Executive Officer (CEO), who is the Group's chief operating decision maker, and the Board. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

| | Midway Attractions £m | LEGOLAND Parks £m | Resort Theme Parks £m | Segment results £m | Other items ⁽⁴⁾ £m | Exceptional Items ⁽⁵⁾ £m | Total £m |
|---------------------------------|-----------------------------|-------------------------|--------------------------------|--------------------------|-------------------------------------|---|--------------|
| 2018 | | | | | | | |
| Visitor revenue | 651 | 469 | 287 | 1,407 | - | - | 1,407 |
| Accommodation revenue | - | 142 | 68 | 210 | - | - | 210 |
| Other revenue | 26 | 26 | 12 | 64 | 7 | - | 71 |
| Revenue ⁽¹⁾ | 677 | 637 | 367 | 1,681 | 7 | - | 1,688 |
| EBITDA ⁽²⁾ | 210 | 242 | 88 | 540 | (46) | (4) | 490 |
| Depreciation and amortisation | (71) | (48) | (37) | (156) | (11) | - | (167) |
| Operating profit ⁽²⁾ | 139 | 194 | 51 | 384 | (57) | (4) | 323 |
| 2017 ⁽³⁾ | | | | | | | |
| Visitor revenue | 627 | 481 | 259 | 1,367 | - | - | 1,367 |
| Accommodation revenue | - | 102 | 60 | 162 | - | - | 162 |
| Other revenue | 29 | 26 | 10 | 65 | - | - | 65 |
| Revenue ⁽¹⁾ | 656 | 609 | 329 | 1,594 | - | - | 1,594 |
| EBITDA ⁽²⁾ | 220 | 230 | 72 | 522 | (48) | - | 474 |
| Depreciation and amortisation | (68) | (39) | (36) | (143) | (8) | - | (151) |
| Operating profit ⁽²⁾ | 152 | 191 | 36 | 379 | (56) | - | 323 |

⁽¹⁾ Revenue is disaggregated in the three categories described in note 1.1.

⁽²⁾ Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included for information purposes.

⁽³⁾ The Group has initially applied IFRS 15 and IFRS 9 at 31 December 2017. Under the transition methods chosen, comparative information is not restated.

⁽⁴⁾ Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributed to the reportable segments.

⁽⁵⁾ Details of the exceptional items are provided in note 2.2.

SECTION 2

RESULTS FOR THE PERIOD CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.1 PROFIT BEFORE TAX CONTINUED

Geographical areas

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

Geographical information

| | Revenues 2018 £m | Non- current assets 2018 £m | Revenues 2017 £m | Non- current assets 2017 £m |
|--------------------|------------------------|---|------------------------|---|
| United Kingdom | 527 | 939 | 486 | 921 |
| Continental Europe | 413 | 1,031 | 389 | 986 |
| North America | 453 | 748 | 438 | 620 |
| Asia Pacific | 295 | 668 | 281 | 594 |
| | 1,688 | 3,386 | 1,594 | 3,121 |
| Deferred tax | | 35 | | 33 |
| Investments | | 61 | | 59 |
| | | 3,482 | | 3,213 |

Operating expenses

Staff numbers and expenses

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

| | 2018 | 2017 |
|--|--------|--------|
| Operations | 19,057 | 17,834 |
| Attraction management and central administration | 2,066 | 2,037 |
| | 21,123 | 19,871 |

The aggregate payroll costs of these persons were as follows:

| | 2018 £m | 2017 £m |
|-----------------------|------------|------------|
| Wages and salaries | 381 | 360 |
| Share-based payments | 8 | 3 |
| Social security costs | 46 | 44 |
| Other pension costs | 13 | 13 |
| | 448 | 420 |

SECTION 2

RESULTS FOR THE PERIOD CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.2 EXCEPTIONAL ITEMS

| | 2018 £m | 2017 £m |
|---|------------|------------|
| <i>Within other operating expenses:</i> | | |
| Productivity Agenda activities ⁽¹⁾ | 4 | - |
| Exceptional items included within EBITDA and operating profit | 4 | - |
| Income tax credit on exceptional items above | - | - |
| Exceptional items for the year | 4 | - |

⁽¹⁾ Certain one-off operational costs have been incurred in 2018 as part of the Group's Productivity Agenda initiatives that are expected to continue through 2021, as well as exit costs in respect of certain small, non-core Midway sites. They are separately presented as they are not part of the Group's underlying operating expenses.

2.3 FINANCE INCOME AND COSTS

Finance income

| | 2018 £m | 2017 £m |
|--|------------|------------|
| <i>In respect of assets not held at fair value</i> | | |
| Interest income | 1 | 3 |
| <i>In respect of assets held at fair value</i> | | |
| Cash flow hedges – reclassified to profit and loss | 4 | - |
| <i>Other</i> | | |
| Net foreign exchange gain | 5 | - |
| | 10 | 3 |

Finance costs

| | 2018 £m | 2017 £m |
|--|------------|------------|
| <i>In respect of liabilities not held at fair value</i> | | |
| Interest expense on financial liabilities measured at amortised cost | 46 | 47 |
| Re-measurement of financial liabilities measured at amortised cost | - | 4 |
| Other interest expense | 2 | 2 |
| <i>Other</i> | | |
| Net foreign exchange loss | - | 2 |
| | 48 | 55 |

SECTION 2

RESULTS FOR THE PERIOD CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.4 TAXATION

Recognised in the income statement

| | 2018 £m | 2017 £m |
|---|------------|------------|
| <i>Current tax expense</i> | | |
| Current year | 55 | 65 |
| Adjustment for prior periods | (3) | (3) |
| Total current income tax | 52 | 62 |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 12 | 24 |
| Changes in tax rate | (6) | (25) |
| Adjustment for prior periods | (3) | 1 |
| Total deferred tax | 3 | - |
| Total tax expense in income statement | 55 | 62 |

Reconciliation of effective tax rate

| | 2018 % | 2018 £m | 2017 % | 2017 £m |
|---|-----------|------------|-----------|------------|
| Profit before tax | | 285 | | 271 |
| Income tax using the UK domestic corporation tax rate | 19.0% | 54 | 19.3% | 52 |
| Effect of tax rates in foreign jurisdictions | | 15 | | 22 |
| Non-deductible expenses | | 5 | | 8 |
| Income not subject to tax | | (11) | | (14) |
| Effect of changes in tax rate | | (6) | | - |
| Unrecognised temporary differences | | 4 | | 4 |
| Effect of recognising deferred tax assets previously unrecognised | | - | | (1) |
| Effect of USA tax reform | | - | | (7) |
| Adjustment for prior periods | | (6) | | (2) |
| | 19.2% | 55 | 22.9% | 62 |

The effective tax rate (ETR) reflects updates to the headline UK rate, including the effect on the measurement of deferred tax.

The difference between the reported ETR of 19.2% and the UK standard tax rate of 19.0% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, particularly the USA. In addition, the reported rate is increased by non-deductible expenses which primarily arise as a result of depreciation on capital expenditure from continued investment in our attractions. These factors are offset by the Group's internal financing arrangements, which have been put in place to support development and ongoing funding needs in overseas territories.

The Group's ETR has fallen from 22.9% to 19.0% (based on underlying results). This is primarily driven by the ongoing impact of a package of measures enacted in the Tax Cuts and Jobs Act (USA tax reform) in the USA on 22 December 2017. In particular, the reduction in the US federal tax rate, effective in the 2018 period, has driven a significant reduction in the effect of tax rates in foreign jurisdictions (2018: 5.2%; 2017: 8.2%).

SECTION 2

RESULTS FOR THE PERIOD CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.4 TAXATION CONTINUED

In 2017 the transitional impact of USA tax reform was separately disclosed. The net £7 million (2.4%) reduction in the prior year ETR comprised:

- (i) the effect of changes in tax rates (£25 million) as deferred tax liabilities were revalued due to the federal tax rate reducing from 35% to 21% effective 1 January 2018; offset by
- (ii) an increase in unrecognised temporary differences (£9 million) resulting from new restrictions on interest deductibility; and
- (iii) other tax charges and deductions (£9 million) originating from revisions to the USA taxation of foreign investments.

Significant factors impacting on the Group's future ETR include the USA tax reform, the ability to continue current financing arrangements and changes to local or international tax laws. With regard to the latter, the European Commission's preliminary finding relating to the UK's Controlled Foreign Company rules are further detailed in note 5.2.

The Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 19 September 2016.

Otherwise, the Group's future ETR will primarily be affected by the geographic mix of profits.

2.5 EARNINGS PER SHARE

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

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Profit attributable to ordinary shareholders | 230 | 209 |
| Exceptional items net of tax (note 2.2) | 4 | - |
| Adjusted profit attributable to ordinary shareholders | 234 | 209 |

| | 2018 | 2017 |
|---|---------------|---------------|
| Basic weighted average number of shares | 1,021,234,537 | 1,018,610,976 |
| Dilutive potential ordinary shares | 1,778,532 | 2,083,168 |
| Diluted weighted average number of shares | 1,023,013,069 | 1,020,694,144 |

Share incentive schemes are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2018 and 2017, the PSP has a marginal dilutive effect as the performance measures have been partially achieved. The DBP, CSOP and AESP are marginally dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

SECTION 2

RESULTS FOR THE PERIOD CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

2.5 EARNINGS PER SHARE CONTINUED

Earnings per share

| | 2018 Pence | 2017 Pence |
|--|---------------|---------------|
| Basic earnings per share on profit for the year ⁽¹⁾ | 22.5 | 20.5 |
| Exceptional items net of tax | 0.4 | - |
| Adjusted earnings per share on adjusted profit for the year ⁽¹⁾ | 22.9 | 20.5 |

Diluted earnings per share

| | 2018 Pence | 2017 Pence |
|--|---------------|---------------|
| Diluted earnings per share on profit for the year ⁽¹⁾ | 22.5 | 20.5 |
| Exceptional items net of tax | 0.4 | - |
| Diluted adjusted earnings per share on adjusted profit for the year ⁽¹⁾ | 22.9 | 20.5 |

⁽¹⁾ Earnings per share is calculated based on figures before rounding and is then rounded to one decimal place.

SECTION 3 OPERATING ASSETS AND LIABILITIES

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

3.1 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Plant and equipment £m | Under construction £m | Total £m |
|---|--------------------------|---------------------------|--------------------------|--------------|
| Balance at 31 December 2017 | 1,024 | 863 | 205 | 2,092 |
| Additions - owned assets | 43 | 37 | 270 | 350 |
| Movements in asset retirement provisions | 8 | (2) | - | 6 |
| Transfers | 153 | 104 | (257) | - |
| Depreciation for the period - owned assets | (39) | (117) | - | (156) |
| Depreciation for the period - leased assets | (5) | (4) | - | (9) |
| Effect of movements in foreign exchange | 38 | 16 | 7 | 61 |
| Balance at 29 December 2018 | 1,222 | 897 | 225 | 2,344 |

Capital commitments

At the year end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions (including accommodation), as well as for Midway attractions and LEGOLAND parks that are under construction. These commitments are expected to be settled within two financial years of the reporting date. These amount to £142 million (2017: £143 million) for which no provision has been made.

At year end foreign exchange rates, the Group is intending to invest £148 million in LEGOLAND Korea (2017: £73 million), net of project funding from LL Developments (see note 5.1).

3.2 GOODWILL AND INTANGIBLE ASSETS

| | Goodwill £m | Intangible assets | | Total £m |
|---|----------------|-------------------|-------------|--------------|
| | | Brands £m | Other £m | |
| Balance at 31 December 2017 | 814 | 185 | 19 | 1,018 |
| Additions | - | - | 1 | 1 |
| Amortisation for the period | - | - | (2) | (2) |
| Effect of movements in foreign exchange | 9 | 2 | - | 11 |
| Balance at 29 December 2018 | 823 | 187 | 18 | 1,028 |

The carrying amounts of the Group's goodwill, intangible assets and property, plant and equipment were tested for impairment in accordance with the Group's accounting policy. As a result of these tests, no impairment losses were recorded in 2018 or 2017.

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions.

Particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £93 million (2017: £32 million). The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

In undertaking sensitivity analysis for RTP, consideration has been given to movements in forecast EBITDA, increases in discount rates and reductions in long term growth rates.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.1 NET DEBT

Net debt is the total amount of cash and cash equivalents less interest-bearing loans and borrowings and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

| | 31 December 2017 £m | Net cash flows £m | Non-cash Movements £m | Effect of movements in foreign exchange £m | 29 December 2018 £m |
|---------------------------------------|------------------------------|-------------------------|-----------------------------|--|------------------------------|
| Cash and cash equivalents | 309 | (202) | - | 3 | 110 |
| Interest-bearing loans and borrowings | (1,278) | 259 | (45) | (36) | (1,100) |
| Finance leases | (191) | 10 | (9) | (10) | (200) |
| Net debt | (1,160) | 67 | (54) | (43) | (1,190) |

Interest-bearing loans and borrowings

During the year the Group refinanced a significant portion of its long term debt. The Group issued \$400 million US Dollar denominated 5.75% senior notes due 2026 and increased its revolving multi-currency credit facility from £300 million to £600 million with the repayment date extended to April 2023. The proceeds, together with surplus cash, were used to repay £250 million of Sterling and \$540 million of US Dollar denominated term loans due to mature in March 2020.

The Group's facilities are:

- A £600 million multi-currency revolving credit facility of which £148 million had been drawn down at 29 December 2018 (2017: £nil). The margin on this facility is dependent on the Group's adjusted leverage ratio and at 29 December 2018 was at a margin of 1.25% (2017: 1.75%) over the floating interest rates when drawn. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.73% (2017: 0.51%), and 2.64% (2017: 1.61%) respectively at 29 December 2018.
- A bond in the form of €700 million seven year notes with a coupon rate of 2.75% to mature in March 2022.
- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.

The interest-bearing loans and borrowings are initially recognised at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is amortised through the income statement over the period of the borrowings using the effective interest method. Fixed rate borrowings, which have been hedged to floating rates are measured at amortised cost adjusted for changes in the value attributable to the hedged risk arising from the changes in underlying market interest rates.

The interest-bearing loans and borrowing are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain customary financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €700 million and \$400 million notes. All covenant requirements were satisfied throughout the year.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

4.2 DIVIDENDS

The following dividends were declared and paid by the Company:

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Final dividend for the 53 weeks ended 31 December 2016 of 4.9 pence per share | - | 50 |
| Interim dividend for the 52 weeks ended 30 December 2017 of 2.4 pence per share | - | 24 |
| Final dividend for the 52 weeks ended 30 December 2017 of 5.0 pence per share | 51 | - |
| Interim dividend for the 52 weeks ended 29 December 2018 of 2.5 pence per share | 25 | - |
| | 76 | 74 |

The Directors of the Company propose a final dividend of 5.5 pence per share for the year ended 29 December 2018 (2017: 5.0 pence per share), amounting to £56 million (2017: £51 million). The total dividend for the current year, subject to approval of the final dividend, will be 8.0 pence per share (2017: 7.4 pence per share).

SECTION 5

OTHER NOTES

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

5.1 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with a major shareholder, key management personnel, joint ventures and other co-investors. The defined benefit pension scheme for certain former UK employees of The Tussauds Group is also a related party. All dealings with related parties are conducted on an arm's length basis.

Transactions with shareholders

During the period the Group entered into transactions with a major shareholder, KIRKBI Invest A/S; the LEGO Group, a related party of KIRKBI Invest A/S; and LLJ Investco K.K., a subsidiary of KIRKBI A/S.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties and rent, and trading balances outstanding at 29 December 2018 and 30 December 2017, were as follows:

| | Goods and services | | | |
|-------------------|--------------------|--|---|--|
| | Sales £m | Amounts owed by related party £m | Purchases, royalties and rent £m | Amounts owed to related party £m |
| 2018 | | | | |
| KIRKBI Invest A/S | - | - | 13 | 3 |
| LEGO Group | 1 | 2 | 63 | 3 |
| LLJ Investco K.K. | - | - | 8 | - |
| | 1 | 2 | 84 | 6 |
| 2017 | | | | |
| KIRKBI Invest A/S | - | - | 12 | 3 |
| LEGO Group | 1 | 1 | 61 | 2 |
| LLJ Investco K.K. | - | 4 | 10 | - |
| | 1 | 5 | 83 | 5 |

During 2017 the Group entered into an agreement with KIRKBI Invest A/S to exchange small parcels of land in Billund, Denmark. This was conducted on an arm's length basis. The value of the land sold to KIRKBI was £2 million and the cost of the land purchased was £4 million.

In 2017 Group entered into a 50 year lease with LLJ Investco K.K. relating to LEGOLAND Japan. The Group's obligations come in the form of fixed rental payments of £6 million per year in addition to turnover rent and ongoing repair obligations under the terms of the lease. The amount in the table above represents the rental payment incurred during the period.

Transactions with other related parties

LEGOLAND Malaysia

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park. On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 29 December 2018 and 30 December 2017, are as follows:

| | 2018 £m | 2017 £m |
|-------------------------------|------------|------------|
| Sales to related party | 4 | 5 |
| Amounts owed by related party | 3 | 3 |

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

5.1 RELATED PARTY TRANSACTIONS CONTINUED

LEGOLAND Korea

During the year the Group entered into transactions with LL Developments, a Korean company which acts under the direction of the Gangwon Province and which will provide funding and infrastructure support of KRW 80 billion to the development of LEGOLAND Korea. Before the end of the reporting period LL Developments provided KRW 20 billion (£14 million) to the Group as the first tranche of this support, which the Group has committed to spend on costs associated with the project. This has been recorded within deferred income. The funding and infrastructure support will be accounted for as a capital grant and offset against the total project costs within property, plant and equipment. The conditions of the funding require that Merlin completes the park's construction and operates the park for a period of time post-opening.

5.2 CONTINGENT LIABILITIES

In 2017 the European Commission (EC) published a preliminary finding that certain elements of the UK's Controlled Foreign Company rules amount to unlawful State Aid. If the EC confirms its preliminary finding and there are no successful appeals, the Group calculates the maximum potential liability, excluding penalties and interest, to be £36 million. Based upon advice taken, the Group does not consider any provision is necessary at this time. The Group continues to monitor developments and a final EC decision is expected in early 2019, but is subject to possible appeal.

5.3 SUBSEQUENT EVENTS

On 21 February 2019, the Company entered into an agreement to sell its Australian ski resorts at Mount Hotham and Falls Creek to Vail Resorts Inc. for a cash consideration of A\$174 million (£95 million), subject to certain adjustments related to the timing of completion. These attractions form part of the Midway Attractions Operating Group. In 2018 revenue and underlying EBITDA for the two sites were £35 million and £11 million respectively.