

Merlin Attractions Operations Limited

Annual report and financial statements

Registered number 06272935

53 weeks ended 31 December 2016



Contents

Strategic Report	1
Directors' Report	2
Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements	4
Independent auditor's report to the members of Merlin Attractions Operations Limited	5
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Notes to the financial statements	10

Strategic Report

The directors present their Strategic Report for the 53 weeks ended 31 December 2016.

Strategic management

The principal activity of the Company throughout the period continued to be the operation of visitor attractions and providing corporate support functions to these and other attractions within the Merlin Entertainments Group.

The Company continued to operate a number of attractions, including:

- Madame Tussauds London and Madame Tussauds Blackpool – the world famous wax attraction.
- Warwick Castle – a family theme park at the historic Castle site.
- Alton Towers Resort – a destination theme park resort, focused on outdoor attractions including rides and shows, and providing accommodation for both leisure and corporate visitors.
- The Blackpool Tower complex – an observation attraction.
- Chessington World of Adventures Resort – a destination theme park resort, focused on outdoor attractions including rides and shows, and providing accommodation for both leisure and corporate visitors.
- LEGOLAND Windsor Resort – a destination theme park resort, focused on outdoor attractions including rides and shows, incorporating LEGO product throughout, and providing accommodation for both leisure and corporate visitors.
- The London Eye visitor attraction – the world famous observation wheel.
- Thorpe Park Resort – a destination theme park resort, focused on outdoor attractions including rides and shows, and providing accommodation for both leisure and corporate visitors.
- DreamWorks Tours Shrek's Adventure! – opened in London in 2015, an indoor, show based attraction incorporating DreamWorks Animation characters into the theme.

Under agency agreements, the Company directs other companies to perform operational tasks in connection with the attractions concerned, for which it pays an agency fee.

The directors are committed to developing all the businesses with the introduction of new features for 2017.

Business environment

Competition in the leisure and entertainments industry, together with the influence of the weather and socio-economic environment on visitor numbers, represents continuing risks for the Company. The Company's principal risks and uncertainties are directly related to the Merlin Entertainments Group and accordingly no other specific risks and uncertainties are identified in these financial statements. The principal risks are discussed within the accounts of Merlin Entertainments plc and details of how to obtain these accounts can be found in note 23.

Alton Towers accident

On 2 June 2015 an accident occurred at Alton Towers Resort on 'The Smiler' ride. From the outset the Company accepted full responsibility for the events that day and has since endeavoured to support those who were injured and their families. Admission of liability at the earliest opportunity has allowed those injured to claim compensation as quickly as possible and we expect those claims to be settled in full expeditiously.

In determining the cause of the accident, the Company has fully cooperated with the Health and Safety Executive (HSE) in its investigation and has subsequently pleaded guilty to a breach of the Health and Safety at Work Act. The prosecution brought by the HSE was concluded in September 2016, resulting in a fine of £5 million. The expected costs of meeting this fine had already been provided for in the Company's financial statements for the year ended 26 December 2015.

Strategic Report *(continued)*

Business performance

The directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators (KPIs) for an understanding of the development, performance and position of the Company. The results for the Company show a profit before tax of £87,577,000 (2015: £60,340,000) and turnover of £401,015,000 (2015: £385,102,000). As at 31 December 2016, the Company had net assets of £335,538,000 (26 December 2015: £263,730,000).

Directors' Report

The directors present their Directors' Report and the audited financial statements for the 53 weeks ended 31 December 2016. Details of the Company's principal activity and future developments; its principal risks and uncertainties; and its KPIs can be found within the Strategic Report.

Dividends

The directors do not recommend the payment of a dividend (2015: £nil).

Directors

The directors who held office during the year and up until the date of the signing of these financial statements were as follows:

F Montgomery

NS Mackenzie

F Rose

J Platt

M Jowett (appointed 26 February 2016)

C Armstrong (resigned 26 February 2016)

During the period the Company maintained liability insurance for its directors and officers.

Employees

Regular informal meetings are held between management and employees in order to keep employees informed on current developments within the Company and to take account of their views in making decisions likely to affect their interests. In addition a quarterly newsletter is produced.

Disabled persons

The Company makes no differentiation between able bodied and disabled persons in terms of recruitment, training and career progression. The Company will make every effort to continue the employment and training of those persons who become disabled while employed by the Company.

Charitable activities

The Company participates in The Merlin Entertainments Group's own charity "Merlin's Magic Wand", which delivers magical experiences to children who are disadvantaged through sickness or disability. During the period, charitable donations in the United Kingdom amounted to £84,000 (2015: £86,000). The Company made no political donations during the period (2015: £nil).

Directors' Report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The Strategic Report and the Directors' Report were both approved by the Board on **26** September 2017.

For and on behalf of the Board



F Rose
Company Secretary

3 Market Close
Poole
Dorset
BH15 1NQ

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Merlin Attractions Operations Limited

We have audited the financial statements of Merlin Attractions Operations Limited for the 53 weeks ended 31 December 2016 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

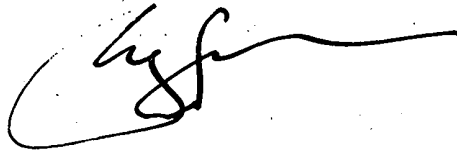
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Merlin Attractions Operations Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Hugh Green
Senior Statutory Auditor

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

28 September 2017

Statement of comprehensive income

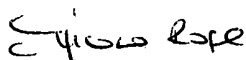
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	<i>Note</i>	2016 £000	2015 £000
Revenue	2	401,015	385,102
Cost of sales		(49,785)	(45,664)
Gross profit		351,230	339,438
Operating expenses		(254,323)	(264,546)
Operating profit	3	96,907	74,892
Finance income	6	5,368	4,828
Finance costs	7	(14,698)	(19,380)
Profit before tax		87,577	60,340
Taxation	8	(17,213)	(16,248)
Profit for the year		70,364	44,092
Other comprehensive income for the year net of income tax		-	-
Total comprehensive income for the year		70,364	44,092

Statement of financial position
at 31 December 2016 (2015: 26 December 2015)

	<i>Note</i>	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	9	389,903	368,773
Goodwill and intangible assets	10	166,472	166,472
Investments	11	15,654	6,416
Other receivables	13	91,036	29,721
Deferred tax assets	16	444	5,794
		663,509	577,176
Current assets			
Inventories	12	8,925	8,301
Trade and other receivables	13	60,693	40,724
Cash and cash equivalents		11,167	95,562
		80,785	144,587
Total assets		744,294	721,763
Current liabilities			
Trade and other payables	14	(186,305)	(138,714)
Tax payable		(13,028)	(9,860)
Provisions	15	(958)	(5,982)
		(200,291)	(154,556)
Non-current liabilities			
Other payables	14	(193,517)	(290,696)
Provisions	15	(14,948)	(12,781)
		(208,465)	(303,477)
Total liabilities		(408,756)	(458,033)
Net assets		335,538	263,730
Capital and reserves			
Share capital	17	-	-
Capital reserve		4,932	3,488
Retained earnings		330,606	260,242
Total equity		335,538	263,730

These financial statements were approved by the board of directors on **26** September 2017 and were signed on its behalf by:



F Rose
Director

Statement of changes in equity

for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

	Share capital £000	Capital reserve £000	Retained earnings £000	Total equity £000
At 28 December 2014	-	2,683	216,150	218,833
Profit for the year	-	-	44,092	44,092
Equity-settled share based payment transactions	-	805	-	805
At 26 December 2015	-	3,488	260,242	263,730
Profit for the year	-	-	70,364	70,364
Equity-settled share based payment transactions	-	1,444	-	1,444
At 31 December 2016	-	4,932	330,606	335,538

Notes to the financial statements

for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

1 Accounting policies

Basis of preparation

These financial statements have been prepared for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015).

Merlin Attractions Operations Limited (the "Company") is a company incorporated and domiciled in the UK. It is a private company Limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 29 December 2013 have not been restated.
- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 29 December 2013.

In these financial statements, the Company has applied the exemptions available under FRS 101 which allow the omission of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy or the reclassification of items in the financial statements; and
- Disclosures in respect of the compensation of Key Management Personnel.

The Company's ultimate parent undertaking, Merlin Entertainments plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with Adopted IFRSs and are available to the public and may be obtained from Merlin Entertainments Group Limited, 3 Market Close, Poole, Dorset, BH15 1NQ.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

1 Accounting policies (continued)

Basis of preparation (continued)

As the consolidated financial statements of Merlin Entertainments plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of financial statements requires management to exercise judgement in applying the Company'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.

Going concern

The Company is expected to continue to trade profitably and generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its fellow Group companies. The directors believe that the Company is well placed to manage its business risks successfully and that it has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the identifiable net assets acquired less any contingent liabilities assumed. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

Property, plant and equipment

Property, plant and equipment (PPE) are stated at cost less accumulated depreciation and impairment losses.

Where components of an item of PPE have different useful lives, they are accounted for separately.

The initial cost of PPE includes all costs incurred in bringing the asset into use and includes external costs for the acquisition, construction and commissioning of the asset, internal project costs (primarily staff expenses) and capitalised borrowing costs.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Land is not depreciated. Assets under construction are not depreciated until they come into use, when they are transferred to buildings or plant and equipment as appropriate. No residual values are typically considered.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

1 Accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful lives are as follows:

Buildings	50 years, or the period of the lease if shorter
Plant and equipment	5 - 30 years

On inception of a lease the estimated cost of decommissioning the leased asset is included within PPE and depreciated over the lease term and a corresponding asset retirement provision set-up and the discounting applied is unwound over the lease term.

Impairment testing

The carrying amounts of the Company's goodwill, intangible assets and PPE are reviewed annually to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

The process of impairment testing is to estimate the recoverable amount of the assets concerned, and recognise an impairment loss whenever the carrying amount of those assets exceeds the recoverable amount.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of goodwill, and then to reduce the carrying amount of other intangible assets and other assets on a pro rata basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured using the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value less attributable fees. These fees are then amortised through the income statement on an effective interest rate basis over the expected life of the loan (or over the contractual term where there is no clear indication that a shorter life is appropriate). If the Company subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Investments

Investments in subsidiaries are stated at cost, less provision for impairment. The carrying amount of the Company's investments in subsidiaries is reviewed annually to determine whether there is any indication of impairment. If any such indication exists the investment's recoverable amount is estimated. If the carrying value of the investment exceeds the recoverable amount, the investment is considered to be impaired and is written down to the recoverable amount. The impairment loss is recognised in the income statement.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

1 Accounting policies (continued)

Finance income and costs

Finance costs comprise interest expense, unwinding of discounts, finance lease charges and net foreign exchange losses that are recognised in the income statement (see foreign currencies accounting policy). Finance income comprises interest income from funds invested and net foreign exchange gains.

Interest income and interest expense are recognised in the income statement as they accrue, using the effective interest rate method.

Foreign currencies

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Leases

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term. This therefore excludes the potential impact of future performance or rent increases based on inflationary indices.

Revenue

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts received from customers (excluding VAT and similar taxes) for admissions tickets, accommodation, retail, food and beverage sales and sponsorship. Ticket revenue is recognised at point of entry. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Retail and food and beverage sales revenues are recognised at the point of sale. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation. Sponsorship revenue is recognised over the relevant contract term.

Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes to the financial statements *(continued)*

for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

1 Accounting policies *(continued)*

Taxation

The tax charge for the year is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes respectively. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

After considering forecast future profits, deferred tax assets are recognised where it is probable that future taxable profits will be available against which those assets can be utilised.

Share-based payments

The fair value of equity-settled share-based payments under share plans operated by Merlin Entertainments plc is recognised as an employee expense with a corresponding increase in equity, in the form of a parent company capital contribution. The fair value is measured at grant date and charged as the employees become unconditionally entitled to the rights.

The fair value of the share plans is recognised as an expense over the expected vesting period net of deferred tax with a corresponding entry to the income statement. The fair value of the share plans is determined at the date of grant. Non-market based vesting conditions (i.e. earnings per share and return on capital employed targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed at each accounting date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or are not exercised.

2 Revenue

Revenue is wholly attributable to the principal activity of the Company and arises solely within the United Kingdom.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

3 Operating profit

	2016 £000	2015 £000
Operating profit is stated after charging/(crediting):		
Fine in respect of accident at Alton Towers (note 15)	-	5,000
Depreciation of property, plant and equipment	38,325	34,597
Dividends received	-	(966)
Operating lease rentals – Land and buildings	48,476	46,888
Operating lease rentals – Plant and equipment	558	562
Sublease income received	(265)	(144)

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	153	36
Other assurance services	25	21

Fees payable to the Company's auditor for services other than the statutory audit of the Company are disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent.

4 Staff numbers and costs

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

	2016	2015
Attraction management and central administration	537	597
Operations	5,369	5,709
	5,906	6,306

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	97,228	91,288
Share based payments	1,444	805
Social security costs	6,367	6,430
Other pension costs	2,488	2,755
	107,527	101,278

5 Directors' remuneration

The directors received no remuneration from the Company during the year (2015: £nil) and are paid by other group undertakings. None of the directors received remuneration for their services to the Company as the services provided to the Company form part of their wider role in the Group.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

6 Finance income

	2016 £000	2015 £000
Interest income on amounts owed by group undertakings	4,917	4,792
Net foreign exchange gains	450	-
Other interest income	1	36
	<u>5,368</u>	<u>4,828</u>

7 Finance costs

	2016 £000	2015 £000
Interest expense on amounts owed to group undertakings	10,347	13,043
Net foreign exchange losses	-	2,083
Unwinding of discount on asset retirement provision	482	435
Finance lease charges	3,867	3,819
Other interest expense	2	-
	<u>14,698</u>	<u>19,380</u>

8 Taxation

Recognised in the income statement

	2016 £000	2015 £000
<i>Current tax expense</i>		
Current year	14,857	9,880
Adjustments for prior periods	(2,994)	(514)
Total current income tax	<u>11,863</u>	<u>9,366</u>
<i>Deferred tax expense (note 16)</i>		
Origination and reversal of temporary differences	4,818	4,830
Changes in tax rate	(241)	245
Adjustments for prior periods	773	1,807
Total deferred tax	<u>5,350</u>	<u>6,882</u>
Total tax expense in income statement	<u>17,213</u>	<u>16,248</u>

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

8 Taxation (continued)

Reconciliation of effective tax rate

	2016 %	2016 £000	2015 %	2015 £000
Profit before tax		87,577		60,340
Income tax using the domestic corporation tax rate	20.0%	17,516	20.3%	12,219
Non-deductible expenses	2.5%	2,211	4.8%	2,867
Income not subject to tax			(0.3%)	(196)
Other	(0.1%)	(52)	(0.3%)	(180)
Effect of changes in tax rate	(0.3%)	(241)	0.4%	245
Effect of recognising deferred tax assets previously unrecognised	-	-	-	-
Adjustment for prior periods	(2.5%)	(2,221)	2.1%	1,293
Total tax expense in the income statement	19.6%	17,213	27.0%	16,248

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. The standard rate for UK corporation tax used in the 53 weeks ended 31 December 2016 was 20% (2015: 20.25%). Closing deferred tax balances have been valued at 19% (2015: 19%).

An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

9 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
Cost				
At 28 December 2014	142,527	414,200	24,291	581,018
Additions	13,629	19,214	46,874	79,717
Disposals	-	(57)	-	(57)
Transfers between classes	14,862	30,085	(44,947)	-
At 26 December 2015	171,018	463,442	26,218	660,678
Transfer intra group	-	(4,108)	-	(4,108)
Additions	5,261	16,218	42,097	63,576
Disposals	(71)	(1,570)	-	(1,641)
Transfers between classes	4,461	29,982	(34,443)	-
At 31 December 2016	180,669	503,964	33,872	718,505
Depreciation				
At 28 December 2014	50,450	206,908	-	257,358
Charge for the year	3,920	30,677	-	34,597
Disposals	-	(50)	-	(50)
At 26 December 2015	54,370	237,535	-	291,905
Charge for the year	4,377	33,948	-	38,325
Disposals	(71)	(1,557)	-	(1,628)
At 31 December 2016	58,676	269,926	-	328,602
Carrying value				
At 28 December 2014	92,077	207,292	24,291	323,660
At 26 December 2015	116,648	225,907	26,218	368,773
At 31 December 2016	121,993	234,038	33,872	389,903

Included in the total net book value of land and buildings is £8,448,000 (2015: £9,064,000) in respect of assets held under finance leases which arose as a result of a sale and leaseback transaction in 2007.

Included in the total net book value of plant and equipment is £17,843,000 (2015: £20,228,000) in respect of assets held under finance leases which arose as a result of a sale and leaseback transaction in 2007.

The leased property, plant and equipment secures the related lease obligations.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

10 Goodwill and intangible assets

	Goodwill £000
<i>Cost</i>	
At 28 December 2014, 26 December 2015 and 31 December 2016	248,479
<i>Amortisation</i>	
At 28 December 2014, 26 December 2015 and 31 December 2016	82,007
<i>Carrying value</i>	
At 28 December 2014, 26 December 2015 and 31 December 2016	166,472

Impairment testing:

Goodwill is not amortised but is tested annually for impairment. This involved estimating the recoverable amounts, being the greater of value in use and fair value less costs to sell. The estimation of the recoverable amount concluded that no impairment of goodwill is required.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

11 Investments

	Shares in subsidiary undertakings £000
<i>Cost and carrying value</i>	
At 27 December 2014	6,217
Additions	199
	<hr/>
At 26 December 2015	6,416
Additions	9,238
	<hr/>
At 31 December 2016	15,654
	<hr/>

In 2015, additions to shares in subsidiary undertakings relate to an investment of £199,000 in Merlin Entertainments India Private Limited.

In 2016, additions to shares in subsidiary undertakings relate to an additional investment of £1,756,000 in Merlin Entertainments India Private Limited and £7,482,000 in Turkuazoo Istanbul Sualti Dunyasi A.S.

The Company has the following direct investments in subsidiary undertakings:

Company	Country of incorporation	Class of shares held	Ownership 2016	Ownership 2015
Iconic Images International Limited	UK	Ordinary	100%	100%
The London Planetarium Company Limited	UK	Ordinary	100%	100%
London Dungeon Limited (previously known as Tussauds Holdings Limited)	UK	Ordinary	100%	100%
Madame Tussaud's Limited	UK	Ordinary	100%	100%
Merlin Entertainments India Private Limited	India	Ordinary	100%	100%
Sea Life Centres Limited (previously known as Tussauds Hotels Limited)	UK	Ordinary	100%	100%
The Seal Sanctuary Limited (previously known as Tussauds Theme Parks Limited)	UK	Ordinary	100%	100%
Tussauds Attractions Limited	UK	Ordinary	100%	100%
The Tussauds Group Limited	UK	Ordinary	100%	100%
Turkuazoo Istanbul Sualti Dunyasi A.S	Turkey	Ordinary	100%	100%
Tussauds Limited	UK	Ordinary	100%	100%
Warwick Castle Limited	UK	Ordinary	100%	100%

12 Inventories

	2016 £000	2015 £000
Maintenance inventory	2,645	2,631
Goods for resale	6,280	5,670
	<hr/>	<hr/>
	8,925	8,301
	<hr/>	<hr/>

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

13 Trade and other receivables

	Non-current 2016 £000	Non-current 2015 £000	Current 2016 £000	Current 2015 £000
Trade receivables	-	-	4,643	4,937
Amounts owed by group undertakings	89,177	27,460	37,524	11,578
Amounts owed by related parties	-	-	171	381
Other receivables	-	-	2,492	8,399
Prepayments and accrued income	1,859	2,261	15,132	13,999
Other taxation and social security	-	-	731	1,430
	<u>91,036</u>	<u>29,721</u>	<u>60,693</u>	<u>40,724</u>

Amounts owed by group undertakings include £89,177,000 (2015: £27,460,000) where the Company has agreed not to seek repayment of the loans concerned for a period of at least one year, and accordingly they have been classed as non-current.

14 Trade and other payables

	Non-current 2016 £000	Non-current 2015 £000	Current 2016 £000	Current 2015 £000
Trade payables	-	-	12,729	7,969
Amounts owed to group undertakings	140,778	237,833	113,654	76,717
Amounts owed to related parties	-	-	923	812
Other taxation and social security	-	-	34	45
Other payables	50	174	663	1,246
Finance leases	52,689	52,689	-	-
Accruals and deferred income	-	-	58,302	51,925
	<u>193,517</u>	<u>290,696</u>	<u>186,305</u>	<u>138,714</u>

Certain amounts owed to group undertakings are classified as non-current as they are owed to group undertakings which have confirmed that they do not intend to call in the amounts due to them from the Company. Interest on long term amounts owed to group undertakings is charged at an average rate of 4% (2015: 4%).

Finance lease liabilities are payable as follows (see note 19 for more information on lease arrangements):

	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000
Less than one year	3,960	(3,960)	-	3,900	(3,900)	-
Between one and five years	15,838	(15,838)	-	15,599	(15,599)	-
More than five years	134,230	(81,541)	52,689	136,533	(83,844)	52,689
	<u>154,028</u>	<u>(101,339)</u>	<u>52,689</u>	<u>156,032</u>	<u>(103,343)</u>	<u>52,689</u>

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

15 Provisions

	HSE prosecution provision £000	Asset retirement provisions £000	Insurance claims provisions £000	Other provisions £000	Total £000
At 27 December 2015	5,000	12,298	1,332	133	18,763
Created during the year	-	1,395	619	117	2,131
Utilised in the year	(5,000)	-	(355)	-	(5,355)
Unused amounts reversed	-	-	(115)	-	(115)
Unwinding of discount	-	482	-	-	482
At 31 December 2016	-	14,175	1,481	250	15,906
<i>2016:</i>					
Current	-	-	958	-	958
Non-current	-	14,175	523	250	14,948
	-	14,175	1,481	250	15,906
<i>2015:</i>					
Current	5,000	-	982	-	5,982
Non-current	-	12,298	350	133	12,781
	5,000	12,298	1,332	133	18,763

The HSE prosecution provision relates to the fine imposed on the Company following the prosecution brought by the Health and Safety Executive in respect of the accident on 'The Smiler' ride at Alton Towers. The prosecution was concluded in September 2016 and resulted in a fine of £5,000,000.

Asset retirement provisions relate to the anticipated costs of removing assets from and restoring the sites concerned at the end of their lease term.

The insurance claims provisions relate to open insurance claims.

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

16 Deferred taxation

Recognised deferred tax assets and liabilities:

Deferred tax assets and liabilities are attributable to the following:

	Assets	Assets	Liabilities	Liabilities	Net	Net
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	6,325	10,070	(6,629)	(5,102)	(304)	4,968
Other short term temporary differences	4,092	4,170	(3,344)	(3,344)	748	826
Net tax assets/(liabilities)	10,417	14,240	(9,973)	(8,446)	444	5,794

Other short term temporary differences primarily relate to financial assets and liabilities and various accruals and prepayments.

Movement in deferred tax during the current year:

	At 26	Recognised in	At 31
	December	income	December
	2015	statement	2016
	£000	£000	£000
Property, plant and equipment	4,968	(5,272)	(304)
Other short term temporary differences	826	(78)	748
Net tax assets/(liabilities)	5,794	(5,350)	444

Movement in deferred tax during the previous year:

	At 27	Recognised in	At 26
	December	income	December
	2014	statement	2015
	£000	£000	£000
Property, plant and equipment	12,578	(7,610)	4,968
Other short term temporary differences	98	728	826
Net tax assets/(liabilities)	12,676	(6,882)	5,794

Notes to the financial statements (continued)

for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

17 Share capital

	2016 £000	2015 £000
<i>Allotted, called up and fully paid</i>		
100 ordinary shares of £1 each	-	-

18 Share based payments

Share based payments – equity-settled schemes

Merlin Entertainments plc operates four employee share incentive schemes: the Performance Share Plan (PSP), the Company Share Option Plan (CSOP), the Deferred Bonus Plan (DBP) and the All Employee Sharesave Plan (AESP). Awards under the PSP vest three years after grant date, upon satisfaction of earnings per share and return on capital employed performance conditions, and continued employment. Awards under the CSOP, the DBP and the AESP vest three years after grant date subject to continued employment. All awards under the PSP and DBP are granted for nil consideration. Further details on these plans including the scheme rules and the performance conditions attaching to the PSP can be found in the Merlin Entertainments plc Annual Report and Accounts.

The first issues of awards under the PSP and CSOP were in November 2013. The first issue of awards under the DBP was in March 2015. The AESP was launched in January 2014.

Analysis of awards	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2016	Number of shares 2015
PSP	11/13 - 09/16	-	2017 - 2019	1.2	561,002	458,958
DBP	03/15 - 03/16	-	2018 - 2019	1.3	21,970	17,625
CSOP	11/13 - 09/16	3.15 - 4.81	2017 - 2026	8.0	831,754	742,050
AESP	01/14 - 03/16	2.96 - 3.53	2017 - 2019	1.6	1,712,764	1,750,406

19 Commitments

(a) Capital commitments

At the year end, the Company has a number of outstanding capital commitments in respect of capital expenditure at its attractions.

Capital commitments at the end of the year, for which no provision has been made, are as follows:

	2016 £000	2015 £000
Contracted	23,877	5,191

Notes to the financial statements (continued)
for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

19 Commitments (continued)

(b) Non-cancellable operating lease rentals

The minimum rentals payable under non-cancellable operating lease rentals are as follows:

	2016	2015
	£000	£000
Less than one year	44,124	43,560
Between one and five years	175,202	173,542
More than five years	856,026	882,507
	<u>1,075,352</u>	<u>1,099,609</u>

Lease arrangements

The Company's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the property, plant and equipment of certain attractions. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. Details of the Company's finance lease liabilities can be found in note 14. A further sale and leaseback transaction of the LEGOLAND Windsor Hotel in 2012 is being accounted for as an operating lease.

Each of these sale and leaseback agreements runs for a period of 35 years from inception and allows for annual rent increases based on the inflationary index in the United Kingdom. The Company has the option, but is not contractually required, to extend each of the lease agreements individually for two further terms of 35 years, subject to an adjustment to market rates at that time. The Company also enters into operating leases which are typically of a duration between ten and 60 years, with rent increases determined based on market practice in the United Kingdom. In addition to a fixed rental element, rents can also contain a performance related element, typically based on turnover at the site concerned. Options to renew leases may also exist.

The lease commitments noted above run to the end of the respective lease term and do not include possible renewals. They do not include the potential impact of future performance or rent increases based on inflationary indices.

The key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term. The potential impact on rent charges of future performance or increases based on inflationary indices are each excluded from these calculations.

There are no significant operating restrictions placed on the Company as a result of its lease arrangements.

Notes to the financial statements *(continued)*

for the 53 weeks ended 31 December 2016 (2015: 52 weeks ended 26 December 2015)

20 Pension commitments

During the year the Company operated a defined contribution pension scheme for a number of its employees. The pension charge for the year was £2,488,000 (2015: £2,755,000). The pension costs are charged to the income statement in the period that they are incurred and any outstanding contributions at the period end are included within creditors. The assets of the scheme are held separately from those of the Company in independently administered funds. At the year end the outstanding contributions due to the scheme were £45,000 (2015: £41,000).

21 Banking arrangements

Along with other group companies in the United Kingdom, the Company is a member of a consolidated banking arrangement which includes notional bank pooling and an overdraft facility. As such it is party to a cross guarantee to the Bank for debts or liabilities arising from the banking arrangement whereby each member company guarantees the obligations of each other member to the Bank.

As a result of the above pooling arrangements, at any reporting date, group companies will hold assets in a combination of intercompany balances and cash which can vary.

22 Related party transactions

Related party		Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
KIRKBI Invest A/S	2016	-	1,247	-	786
KIRKBI Invest A/S	2015	-	1,270	-	798
LEGO Group	2016	11	7,159	7	120
LEGO Group	2015	46	7,287	17	14
Parties related to LEGOLAND Malaysia	2016	-	-	-	-
Parties related to LEGOLAND Malaysia	2015	37	-	356	-
BIG BUS Group	2016	357	285	394	13
BIG BUS Group	2015	-	-	-	-

These balances have arisen during the normal course of business.

23 Ultimate parent company

The ultimate parent company is Merlin Entertainments plc, a company incorporated in the United Kingdom, which is the only company preparing group financial statements, with a registered address of 3 Market Close, Poole, Dorset, BH15 1NQ. The consolidated financial statements of this group are available to the public and may be obtained from Merlin Entertainments Group Limited, 3 Market Close, Poole, Dorset, BH15 1NQ.

The immediate parent company is Charcoal MidCo 1 Limited, with a registered address of 3 Market Close, Poole, Dorset, BH15 1NQ.