Merlin Attractions Operations Limited

Annual Report and financial statements

Registered number 06272935

52 weeks ended 30 December 2017

Contents

Strategic Report

The Directors present their Strategic Report for the 52 weeks ended 30 December 2017.

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 for Merlin Entertainments plc and its subsidiaries (the 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 and other attractions at the iconic Blackpool Tower location.
- 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! – 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 2018.

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 principal risks are discussed within the Annual Report and accounts of Merlin Entertainments plc and details of how to obtain these accounts can be found in note 23. Accordingly no specific risks and uncertainties are identified in these financial statements.

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 £77,661,000 *(2016: £87,577,000)* and revenue of £411,301,000 *(2016: £401,015,000)*. As at 30 December 2017, the Company had net assets of £396,308,000 (*31 December 2016: £335,538,000*).

Directors' Report

The Directors present their Directors' Report and the audited financial statements for the 52 weeks ended 30 December 2017. 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 *(2016: £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	
N Mackenzie	
F Rose	
J Platt	(resigned 7 August 2018)
M Jowett	
F Eastwood	(appointed 7 August 2018)

During the year the Company maintained liability insurance for its Directors and officers.

Political donations

The Company made no political donations during the year *(2016: £nil).*

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.

Post balance sheet events

There are no events after the balance sheet date which require disclosure.

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.

Independent auditors

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.

Information presented in other sections

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. The going concern assessment can be found within note 1 of the financial statements.

Directors' Report (continued)

The Strategic Report and the Directors' Report were both approved by the Board on 20 September 2018.

By order of the Board

Matt Jowett

M Jowett
Director
Link House
25 West Street
Poole
Dorset
BH15 1LD

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

KPMG

Independent Auditor's Report to the members of Merlin Attractions Operations Limited

Opinion

We have audited the financial statements of Merlin Attractions Operations Limited (the Company) for the 52 weeks ended 30 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic Report and Directors' Report

The Directors are responsible for the strategic report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

KPMG

Independent Auditor's Report to the members of Merlin Attractions Operations Limited *(continued)*

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Hugh Green
Senior Statutory Auditor
25 September 2018

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

Statement of comprehensive income
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

	Note	**2017** **£000**	2016 £000
Revenue	*2*	**411,301**	**401,015**
Cost of sales		**(51,684)**	**(49,785)**
Gross profit		**359,617**	**351,230**
Operating expenses		**(273,193)**	**(254,323)**
Operating profit	*3*	**86,424**	**96,907**
Finance income	*6*	**8,184**	**5,368**
Finance costs	*7*	**(16,947)**	**(14,698)**
Profit before tax		**77,661**	**87,577**
Taxation	*8*	**(18,094)**	**(17,213)**
Profit for the year		**59,567**	**70,364**
Other comprehensive income for the year net of income tax		**-**	**-**
Total comprehensive income for the year		**59,567**	**70,364**

The accompanying notes for part of these financial statements.

Statement of financial position

as at 30 December 2017 (2016: as at 31 December 2016)

	Note	**2017**	2016
		£000	£000
Non-current assets			
Property, plant and equipment	*9*	**434,262**	**389,903**
Goodwill and intangible assets	*10*	**166,854**	**166,472**
Investments	*11*	**32,994**	**15,654**
Other receivables	*13*	**33,447**	**91,036**
Deferred tax assets	*16*	-	**444**
		667,557	**663,509**
Current assets			
Inventories	*12*	**8,787**	**8,925**
Trade and other receivables	*13*	**74,830**	**60,693**
Cash and cash equivalents		-	**11,167**
		83,617	**80,785**
Total assets		**751,174**	**744,294**
Current liabilities			
Trade and other payables	*14*	**(164,880)**	**(186,305)**
Tax payable		**(24,768)**	**(13,028)**
Provisions	*15*	**(934)**	**(958)**
Cash and cash equivalents	*21*	**(9,250)**	-
		(199,832)	**(200,291)**
Non-current liabilities			
Other payables	*14*	**(133,312)**	**(193,517)**
Provisions	*15*	**(17,813)**	**(14,948)**
Deferred tax liabilities	*16*	**(3,909)**	-
		(155,034)	**(208,465)**
Total liabilities		**(354,866)**	**(408,756)**
Net assets		**396,308**	**335,538**
Capital and reserves			
Share capital	*17*	-	-
Capital reserve		**6,135**	**4,932**
Retained earnings		**390,173**	**330,606**
Total equity		**396,308**	**335,538**

These financial statements were approved by the Board of Directors on 20 September 2018 and were signed on its behalf by:

Matt Jowett

M Jowett
Director

Statement of changes in equity
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

	Share capital £000	**Capital reserve £000**	**Retained earnings £000**	**Total equity £000**
At 27 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**
Profit for the year	-	-	59,567	**59,567**
Equity-settled share based payment transactions	-	1,203	-	**1,203**
At 30 December 2017	**-**	**6,135**	**390,173**	**396,308**

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

1 Accounting policies

Basis of preparation

These financial statements have been prepared for the 52 weeks ended 30 December 2017 *(2016: 53 weeks ended 31 December 2016).*

Merlin Attractions Operations Limited (the Company) is a company incorporated, registered and domiciled in the UK. It is a private company limited by shares. The address of its registered office is Link House, 25 West Street, Poole, Dorset BH15 1LD.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

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.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect 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 Group companies;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; 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 Link House, 25 West Street, Poole, Dorset BH15 1LD.

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.

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 December 2017 have had a material impact on the Company.

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.

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

1 Accounting policies *(continued)*

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.

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. A corresponding asset retirement provision is 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.

Notes to the financial statements
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

1 *Accounting policies* *(continued)*

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 in accordance with IAS 39.

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.

Finance income and costs

Finance costs comprise interest expense, finance charges on shares classified as liabilities and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Finance income comprises interest income from funds invested, gains on foreign exchange contracts 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.

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

1 Accounting policies *(continued)*

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 evenly 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.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised directly in equity, or when it relates to items recognised in other comprehensive income, when it is recognised through the statement of comprehensive income.

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 following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. 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
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

3 Operating profit

	2017	2016
	£000	£000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment	**42,011**	38,325
Operating lease rentals – land and buildings	**48,582**	48,476
Operating lease rentals – plant and equipment	**675**	558

Auditor's remuneration:

	2017	2016
	£000	£000
Audit of these financial statements	**126**	153
Other assurance services	**22**	25

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:

	2017	2016
Attraction management and central administration	**527**	537
Operations	**5,379**	5,369
	5,906	5,906

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**101,840**	97,228
Share-based payments	**1,330**	1,444
Social security costs	**7,254**	6,367
Other pension costs	**2,488**	2,488
	112,912	107,527

5 Directors' remuneration

The Directors received no remuneration from the Company during the year *(2016: £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

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

6 Finance income

	2017 £000	2016 £000
Interest income on amounts owed by Group undertakings	**8,184**	4,917
Net foreign exchange gains	**-**	450
Other interest income	**-**	1
	8,184	5,368

7 Finance costs

	2017 £000	2016 £000
Interest expense on amounts owed to Group undertakings	**8,795**	10,347
Net foreign exchange losses	**3,869**	-
Unwinding of discount on asset retirement provision	**316**	482
Finance lease charges	**3,948**	3,867
Other interest expense	**19**	2
	16,947	14,698

8 Taxation

Recognised in the income statement

	2017 £000	2016 £000
Current tax expense		
Current year	**13,909**	14,857
Adjustments for prior periods	**(168)**	(2,994)
Total current income tax	**13,741**	11,863
Deferred tax expense (note 16)		
Origination and reversal of temporary differences	**3,696**	4,818
Changes in tax rate	**(48)**	(241)
Adjustments for prior periods	**705**	773
Total deferred tax	**4,353**	5,350
Total tax expense in income statement	**18,094**	17,213

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

8 Taxation *(continued)*

Reconciliation of effective tax rate

	2017 %	2017 £000	2016 %	2016 £000
Profit before tax		**77,661**		87,577
Income tax using the domestic corporation tax rate	**19.3%**	**14,950**	20.0%	17,516
Expense not deductible for tax purposes	**2.6%**	**1,988**	2.5%	2,211
Impact of share-based payments	**0.9%**	**667**	(0.1%)	(52)
Effect of changes in tax rate	**(0.1%)**	**(48)**	(0.3%)	(241)
Adjustments in respect of prior periods	**0.7%**	**537**	(2.5%)	(2,221)
Total tax expense in the income statement	**23.4%**	**18,094**	19.6%	17,213

The standard rate for UK corporation tax used in the 52 weeks ended 30 December 2017 was 19.3% *(2016: 20.0%)*.

A reduction of the UK corporation tax 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

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

9 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Assets in course of construction £000	Total £000
Cost				
At 27 December 2015	171,018	463,442	26,218	660,678
Inter group transfers	-	(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
Inter group transfers	(100)	(1,573)	-	(1,673)
Additions	358	6,735	80,887	87,980
Disposals	(29)	(1,649)	-	(1,678)
Transfers between classes	23,872	48,365	(72,237)	-
At 30 December 2017	204,770	555,842	42,522	803,134
Depreciation				
At 27 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
Inter group transfers	-	(88)	-	(88)
Charge for the year	4,864	37,147	-	42,011
Disposals	(29)	(1,624)	-	(1,653)
At 30 December 2017	63,511	305,361	-	368,872
Carrying value				
At 27 December 2015	116,648	225,907	26,218	368,773
At 31 December 2016	121,993	234,038	33,872	389,903
At 30 December 2017	**141,259**	**250,481**	**42,522**	**434,262**

Included in the total net book value of land and buildings is £7,879,000 *(2016: £8,448,000)* 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 £15,786,000 *(2016: £17,843,000)* 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
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

10 Goodwill and intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost			
At 27 December 2015 and 31 December 2016	248,479	-	248,479
Inter group transfers	-	290	290
Additions	-	104	104
At 30 December 2017	248,479	394	248,873
Amortisation			
At 27 December 2015 and 31 December 2016	82,007	-	82,007
Charge for the year	-	12	12
At 30 December 2017	82,007	12	82,019
Carrying value			
At 27 December 2015 and 31 December 2016	166,472	-	166,472
At 30 December 2017	**166,472**	**382**	**166,854**

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.

11 Investments

	Shares in subsidiary undertakings £000
Cost and carrying value	
At 27 December 2015	6,416
Additions	9,238
At 31 December 2016	15,654
Additions	**17,340**
At 30 December 2017	**32,994**

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

In 2017, additions to shares in subsidiary undertakings relate to an additional investment of £4,568,000 in Merlin Entertainments India Private Limited and £12,772,000 in Istanbul Sualti Dunyasi Turizm Ticaret A.S.

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

11 Investments *(continued)*

The Company has the following direct investments in subsidiary undertakings:

Company	Country of incorporation	Class of shares held	Ownership 2017	Ownership 2016
Iconic Images International Limited [a]	UK [1]	Ordinary	-	100%
The London Planetarium Company Limited	UK [1]	Ordinary	100%	100%
London Dungeon Limited	UK [1]	Ordinary	100%	100%
Madame Tussaud's Limited	UK [1]	Ordinary	100%	100%
Merlin Entertainments India Private Limited	India [2]	Ordinary	100%	100%
Sea Life Centres Limited	UK [1]	Ordinary	100%	100%
The Seal Sanctuary Limited	UK [1]	Ordinary	100%	100%
Tussauds Attractions Limited	UK [1]	Ordinary	100%	100%
The Tussauds Group Limited	UK [1]	Ordinary	100%	100%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey [3]	Ordinary	100%	100%
Tussauds Limited	UK [1]	Ordinary	100%	100%
Warwick Castle Limited	UK [1]	Ordinary	100%	100%
Merlin Holdings Limited [b]	UAE [4]	Ordinary	1.0%	1.0%
Madame Tussauds Museum LLC [b]	UAE [4]	-	48.0%	48.0%

(a) Company dissolved on 6 December 2017.
(b) 100% beneficial ownership of these entities.

Registered offices:
(1) Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
(2) 44, Regal Building, Connaught Place, New Delhi, Central Delhi DL, 110001, India
(3) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
(4) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates

In addition to the direct investments in subsidiary undertakings listed above, the Company has the following joint venture undertaking:

Company	Country of incorporation	Class of share held	Ownership 2017	Ownership 2016
LL Dubai Hotel LLC	UAE	Ordinary	40.0%	-

The registered office for LL Dubai Hotel LLC is 201-01 Emaar Square, PO Box 123311, Dubai, United Arab Emirates.

12 Inventories

	2017	2016
	£000	£000
Maintenance inventory	**3,293**	2,645
Goods for resale	**5,494**	6,280
	8,787	8,925

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

13 Trade and other receivables

	Non-current 2017 £000	Non-current 2016 £000	**Current 2017 £000**	Current 2016 £000
Trade receivables	**-**	-	**10,010**	4,643
Amounts owed from Group undertakings	**20,119**	89,177	**42,066**	37,524
Amounts owed by related parties	**-**	-	**1,062**	171
Other receivables	**11,635**	-	**3,018**	2,492
Prepayments and accrued income	**1,693**	1,859	**15,555**	15,132
Other taxation and social security	**-**	-	**3,119**	731
	33,447	91,036	**74,830**	60,693

Included in amounts due from Group undertakings is £20,119,000 *(2016: £89,177,000)* 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. Interest on long term amounts owed by Group undertakings is charged at a rate of 2% - 4% per annum *(2016: 2% - 14%)*.

14 Trade and other payables

	Non-current 2017 £000	Non-current 2016 £000	**Current 2017 £000**	Current 2016 £000
Trade payables	**-**	-	**8,469**	12,729
Amounts owed to Group undertakings	**80,623**	140,778	**80,573**	113,654
Amounts owed to related parties	**-**	-	**981**	923
Other taxation and social security	**-**	-	**55**	34
Other payables	**-**	50	**680**	663
Finance leases	**52,689**	52,689	**-**	-
Accruals and deferred income	**-**	-	**74,122**	58,302
	133,312	193,517	**164,880**	186,305

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 non-current amounts owed to Group undertakings is charged at an average rate of 3% per annum *(2016: 4%)*.

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

14 Trade and other payables *(continued)*

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

	Future value of minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
2017			
Less than one year	4,064	(4,064)	-
Between one and five years	16,255	(16,255)	-
More than five years	131,931	(79,242)	52,689
At 30 December 2017	**152,250**	**(99,561)**	**52,689**
2016			
Less than one year	3,960	(3,960)	-
Between one and five years	15,838	(15,838)	-
More than five years	134,230	(81,541)	52,689
At 31 December 2016	154,028	(101,339)	52,689

15 Provisions

	Asset retirement provisions £000	Insurance claims provisions £000	Other provisions £000	Total £000
At 1 January 2017	14,175	1,481	250	15,906
Created during the year	1,125	387	1,449	2,961
Utilised in the year	-	(333)	-	(333)
Unused amounts reversed	-	(103)	-	(103)
Unwinding of discount	316	-	-	316
At 30 December 2017	**15,616**	**1,432**	**1,699**	**18,747**
2017				
Current	-	934	-	934
Non-current	15,616	498	1,699	17,813
	15,616	**1,432**	**1,699**	**18,747**
2016				
Current	-	958	-	958
Non-current	14,175	523	250	14,948
	14,175	1,481	250	15,906

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

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16 Deferred taxation

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2017 £000	Assets 2016 £000	**Liabilities 2017 £000**	Liabilities 2016 £000	**Net 2017 £000**	Net 2016 £000
Property, plant and equipment	**5,832**	6,325	**(10,985)**	(6,629)	**(5,153)**	(304)
Other short term temporary differences	**1,449**	4,092	**(205)**	(3,344)	**1,244**	748
Net tax assets/(liabilities)	**7,281**	10,417	**(11,190)**	(9,973)	**(3,909)**	444

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 1 January 2017 £000	**Recognised in income statement £000**	**At 30 December 2017 £000**
Property, plant and equipment	(304)	(4,849)	(5,153)
Other short term temporary differences	748	496	1,244
Net tax assets/(liabilities)	**444**	**(4,353)**	**(3,909)**

Movement in deferred tax during the previous year:

	At 27 December 2015 £000	**Recognised in income statement £000**	**At 31 December 2016 £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**

17 Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
100 ordinary shares of £1 each	-	-

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

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.

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2017	Number of shares 2016
PSP	November 2013 – September 2017	-	2018 - 2020	1.3	683,529	561,002
DBP	March 2015 – March 2017	-	2018 - 2020	0.4	22,933	21,970
CSOP	November 2013 – September 2017	3.15 - 4.81	2018 - 2027	7.8	831,685	831,754
AESP	January 2014 – April 2017	2.96 – 4.10	2018 - 2020	1.8	1,326,481	1,712,764

19 Commitments

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:

	2017 £000	2016 £000
Contracted	**21,586**	23,877

Non-cancellable operating lease rentals

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

	2017 £000	2016 £000
Less than one year	**46,320**	44,124
Between one and five years	**186,557**	175,202
More than five years	**860,122**	856,026
	1,092,999	1,075,352

Non-cancellable operating lease rentals

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.

Notes to the financial statements
for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

19 Commitments *(continued)*

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.

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 *(2016: £2,488,000)*. 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 £3,000 *(2016: £45,000)*.

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	**2017**	**-**	**1,393**	**-**	**844**
KIRKBI Invest A/S	2016	-	1,247	-	786
LEGO Group	**2017**	**42**	**6,655**	**48**	**13**
LEGO Group	2016	11	7,159	7	120
Parties related to LEGOLAND Malaysia	**2017**	**-**	**-**	**219**	**-**
Parties related to LEGOLAND Malaysia	2016	-	-	-	-

These balances have arisen during the normal course of business.

Notes to the financial statements

for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016)

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. The consolidated financial statements of this Group are available to the public and may be obtained from Link House, 25 West Street, Poole, Dorset BH15 1LD. The immediate parent company is Charcoal MidCo 1 Limited, with a registered address of Link House, 25 West Street, Poole, Dorset BH15 1LD.