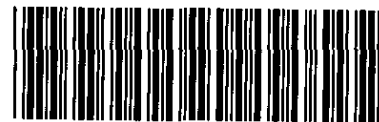


MERLIN ENTERTAINMENTS LIMITED

ANNUAL REPORT AND ACCOUNTS 2020

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COMPANIES HOUSE

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*At the end of 2020 Merlin
operated:*

129
attractions

with
4,640
rooms

in
24
countries

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KPIs

22.1m

VISITORS

-67.0%

How we report our results

Details on the period under review and the performance measures used are set out in the Financial and Operating Review on page 15. Terms used throughout this document are defined in the Glossary on pages 99 to 100.

During 2019 Merlin disposed of its Australian ski resorts, which have been accounted for as discontinued operations. Within this document the figures shown below for 2019 therefore reflect the continuing operations of the Group excluding the ski fields. The Group also adopted IFRS 16 in that year, the new accounting standard for leasing, adopting the 'fully retrospective' approach. Both years are therefore reported under IFRS 16.

£629m

REVENUE

Reported growth
Like for like growth

-63.9%
-64.2%

£(319)m

UNDERLYING
OPERATING LOSS

Reported growth -193.2%

£(426)m

TOTAL
OPERATING LOSS

£(648)m

LOSS BEFORE TAX

GUEST SATISFACTION

This is based on guest satisfaction surveys; our target is a score over 90%. We are proud that we maintained the same high score of 94% as in 2019, despite having to introduce a number of measures in respect of social distancing and other COVID-19 related safety protocols, to help keep our guests safe. See more on page 7.

HEALTH AND SAFETY

In 2020 we helped lead the location based entertainment industry in implementing new measures to enable us to trade safely during the COVID-19 pandemic. The Medical Treatment Case (MTC) rate captures the rate of guest injuries requiring external medical treatment relative to 10,000 guest visitations. This key measure remained constant with 2019 and is an improvement on 2018. See more on pages 23 to 24.

EMPLOYEE ENGAGEMENT

We are proud of our global team of employees and now, more than ever, employee engagement continues to be one of the key elements of our business model. In 2020 we relaunched the 'MyMerlin' intranet and introduced a fortnightly company digital newsletter, which provide digital content including the latest reassuring health and safety information, updates from senior leaders and celebratory content from our attractions, to help ensure our global teams continue to feel engaged and connected with the business.

In 2020, as a result of COVID-19 related closures, many of our staff were on furlough and therefore we did not run our annual employee engagement survey that for many years showed results consistently above our target score of being over 80% (2019: 87%, 2018: 86%). In 2021 we look forward to new engagement and feedback tools being launched. See more on page 22.

AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT

MERLIN IS EUROPE'S NUMBER ONE AND THE WORLD'S SECOND-LARGEST VISITOR ATTRACTION OPERATOR AND OPERATES 129 ATTRACTIONS, 21 HOTELS AND SIX HOLIDAY VILLAGES IN 24 COUNTRIES AND ACROSS FOUR CONTINENTS.

Our vision	To be the global leader in location based entertainment by number of visitors.
Our purpose	To deliver memorable experiences to our millions of visitors.
Our strategy	Merlin's strategy since its inception in 1999 has been to create a high growth, high return family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors.

Merlin operates two distinct types of visitor attraction, organised into three Operating Groups.

Midway Attractions are high quality, branded, predominantly indoor attractions with a typical one to two hour dwell time located in city centres, shopping malls or resorts. We have high quality, chainable brands and are the only company to successfully operate the Midway model on a global scale.

Theme Parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation.

- LEGOLAND Parks are aimed at families with younger children and have LEGO as the central theme. Highly themed accommodation is central to our strategy to develop the customer offering. Merlin holds the global, exclusive rights to the LEGOLAND brand.
- Resort Theme Parks are national brands aimed at families, teenagers and young adults, with themed accommodation at all locations. They have high brand and customer awareness in their local markets and include the leading theme parks in the UK, Italy and Northern Germany.

Our three Operating Groups are supported by our unique in-house business development, creative, project management and production group, Merlin Magic Making, which includes teams across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for driving innovation across our Group and creating compelling propositions for our attractions; developing new concepts into commercially viable attractions; producing compelling content such as LEGO models, wax figures and attraction theming; and constructing new attractions and investment projects, including new hotels and rides.

Our portfolio of assets and brands is highly diversified across geography, attraction type, brand and customer demographic and well balanced between indoor and outdoor attractions and international and domestic visitation. We also partner with third party intellectual property owners to create new brands which complement the portfolio and broaden our appeal across all key target demographics.

Our footprint across 24 countries provides a high degree of diversity and a strong platform to benefit from long term growth in leisure spending.

We have demonstrated the strength of this diversified business model over many years, where the drivers of our performance have been:

- investment in our existing estate to increase capacity, provide compelling new propositions to guests, and improve customer satisfaction;
- rolling out new Midway attractions to drive revenue growth, often with a 'cluster' focus and in locations that continue our geographic diversification;
- developing new LEGOLAND parks under a combination of operating models. We have parks currently under construction in Asia and in the USA;
- transforming our theme parks into destination resorts by adding a broad range of themed accommodation and other second gate attractions to improve customer satisfaction and drive multi-day visitation;
- leveraging strategic synergies by generating revenue from promotions and marketing; improving our customers' online 'digital journey'; operating more efficiently; and securing procurement savings;
- acquisitions, ranging from large scale transformational transactions to smaller add-on deals.

AT A GLANCE

A GLOBAL LEADER IN LOCATION BASED, FAMILY ENTERTAINMENT

A GLOBAL PORTFOLIO OF ATTRACTIONS AND ACCOMMODATION, REACHING ALL TARGET DEMOGRAPHICS

	UK	Continental Europe	Americas	Asia Pacific	Total	Brand Demographics
MIDWAY ATTRACTIONS						
Global brands						
SEA LIFE	10	18	8	10	46	Families and city centre tourists
Madame Tussauds	2	4	7	9	22	Families and city centre tourists
Dungeons	6	3	1	1	11	Teenagers and young adults and city centre tourists
LEGOLAND Discovery Centre	2	3	12	6	23	Families
Eye	2	-	-	1	3	City centre tourists
Peppa Pig World of Play	-	-	2	1	3	Pre-school families
Other	2	1	-	4	7	
Total	24	29	30	32	115	
LEGOLAND PARKS						
	Windsor, UK (209 rooms)	Billund, Denmark (578 rooms)	California, USA (500 rooms)	Dubai, UAE		
		Günzburg, Germany (461 rooms)	Florida, USA (468 rooms)	Johor, Malaysia (263 rooms)		
				Nagoya, Japan (252 rooms)		
Total					8 parks 2,731 rooms	Families
RESORT THEME PARKS						
	Alton Towers Resort, UK (694 rooms)	Gardaland Resort, Italy (475 rooms)				Families, teenagers and young adults
		Heide Park Resort, Germany (329 rooms)				
	Chessington World of Adventures Resort, UK (254 rooms)					Families
	Warwick Castle, UK (67 rooms)					
	THORPE PARK Resort, UK (90 rooms)					Teenagers and young adults
Total					6 parks 1,909 rooms	

CHIEF EXECUTIVE'S INTRODUCTION

RESPONDING TO THE CHALLENGE

2020 overview

We have all had to respond to the unprecedented challenge of the COVID-19 pandemic, and no one could have predicted the ways in which it has impacted our lives. I am particularly proud of Merlin's response to this difficult period and the way our teams have adapted to this new environment, whilst still ensuring that we deliver the 'magic' we are known for.

Our primary objective at Merlin throughout this period has been to protect the wellbeing of our employees and guests, and as such, we have always followed scientific and government advice, often going above and beyond these requirements to ensure our actions have been safe and socially responsible.

Merlin's global footprint of 129 attractions in 24 countries around the world meant we got experience of the pandemic early, as it was emerging across Asia in the latter part of 2019. We swiftly responded to protect the business by taking multiple steps to safeguard our attractions and teams, minimise our cost base and protect our operating cash flows.

When we were able to open our attractions, it became clear that there is still demand for high quality days out with family and friends, despite the restrictions imposed by social distancing. Our COVID-secure attractions, adopting Merlin's best in class health and safety protocols, have allowed the public to enjoy quality time together, which after the stresses of the pandemic are so crucial to people's mental health and wellbeing. Now more than ever, we recognise we have an important role to play in the worldwide recovery from the COVID-19 pandemic.

2020 trading

Despite the impact of COVID-19 forcing attraction closures and reducing our trading days to far fewer than normal, we still welcomed 22 million visitors to our attractions in 2020 (2019: 67 million) and reported revenue of £629 million (2019: £1,740 million).

When the vast majority of our attractions closed early in 2020, swift action had to be taken early in the crisis to protect the business in the medium term. This included accessing employee furlough schemes and equivalents around the world, managing our costs and cash flows, and promptly raising €500 million in additional liquidity on the public markets to ensure we remained on a stable financial footing.

As restrictions lifted, we were well prepared for opening, although there was still a significant challenge in adapting to new operating procedures, both for staff and our guests. As restrictions were relaxed, we opened swiftly and safely where we were permitted to and flexed our operations with local demand.

Although trading has varied significantly around our estate, since reopening we have seen strong consumer demand from domestic visitors, with a clear 'staycation' benefit which has been evident in our short break and hotel bookings. Our hotels, Resort Theme Parks and LEGOLAND parks have benefited from the staycation impact, with those in Europe and the UK performing particularly well. Our SEA LIFE Centres, especially in coastal areas, also saw strong demand.

Our teams took every opportunity to engage with potential guests and we saw a number of entrepreneurial developments and new, creative ideas across our business. These included 'Making Magic With Merlin' digital activity created for guests to enjoy virtually during lockdown, new online shops, retail-only attraction openings and adaptations to focus on new markets to drive volume.

Unfortunately a small number of our most significant locations had to remain closed for the majority of the year and some that had opened were forced to close again. Furthermore, towards the end of the year additional lockdowns and restrictions were implemented in several key geographies, in many cases continuing into 2021.

Primarily because of these closures, the potential for continued social distancing measures and restrictions on international travel, the corresponding reduction in revenue in the near term has resulted in accounting impairment charges totalling £94 million (2019: £38 million) within the financial statements.

We are currently complying with and expect to continue to comply with the covenants contained within our debt facilities, which are monitored on a regular basis.

Outlook

Despite the many short term challenges presented by COVID-19, we remain confident in the opportunities for the future that our diverse business has. As we report we are pleased to see trading restrictions easing as vaccine roll outs progress and virus transmission rates reduce, with approximately 60% of our attractions currently open. The roll out of vaccines will, we hope, help people stay safe and feel safe.

As restrictions are lifted, we expect the business to return to growth, underpinned by a recovery in sales levels and an ongoing focus on efficient operating practices. We look forward to providing more safe, magical experiences to our guests, as well as much-needed lifts to local economies.

Strategic developments

During 2020 we continued to monitor the situation around our current and planned investments in new business development. As a result of the COVID-19 outbreak, we decided to delay the grand opening of LEGOLAND New York to 2021, albeit we completed a large part of the construction of the park by the end of 2020. The construction of LEGOLAND Korea also continued through the period.

We also maintained ongoing dialogue with a number of potential partners to develop new LEGOLAND parks in China, with a focus on developing and operating these parks under management contracts. An important milestone was reached in November 2020 when we announced that we had entered into a formal co-operation agreement to develop a LEGOLAND resort in the Jinshan District of Shanghai, China. We also have two further projects where we have signed development agreements; one in Sichuan and another in Guangdong Province in southern China, where design development is well progressed.

Although advancement on certain projects has been delayed by the events of 2020, both Merlin and our selected partners continue to pursue opportunities to expand our global estate.

Health, safety and security

The health, safety and security of our guests and employees remains our number one priority. Our industry leading team created enhanced hygiene and safety measures that were rolled out across each of our geographical markets, to help guests stay safe whilst still enjoying a memorable day out.

These measures met, and in many cases exceeded, government guidelines and duly received positive feedback from customers, local authorities, and health agencies. Our staff also had rigorous training and we have been highlighted by government and our industry as leading the way with our health and safety procedures and guest communications.

CHIEF EXECUTIVE'S INTRODUCTION

RESPONDING TO THE CHALLENGE

Despite all the challenges associated with COVID-19, we were especially proud that to the best of our knowledge there were no on-site COVID transmission cases reported for any of the 22 million guests that visited our attractions in 2020. In addition, our key guest accident rate KPI also remained consistent with 2019, which was again very pleasing.

Guest satisfaction

Our guest satisfaction scores have remained strong and reflect our relentless focus on delivering the very best experience to our guests despite the impact of social distancing and other COVID-related measures. These efforts helped maintain our guest satisfaction scores at 94%. Our 'Top Box' scores increased by 1%. We also implemented a programme to extend customers' annual and season passes, and to enable customers with advanced bookings to easily re-book where our attractions were forced to close.

Employee engagement

During 2020 it was often not possible to get out and see our fantastic teams delivering memorable experiences to our guests, so to maintain regular contact we relaunched our intranet and our company newsletter into easy-access digital formats. The new, mobile-accessible 'MyMerlin' intranet includes dynamic creative content and news updates, and the Executive Committee and I keep colleagues up to date via the relaunched fortnightly digital newsletter 'The Wizard's News', which was previously a quarterly paper magazine. These digital forums enable us to keep spirits and staff engagement high through regularly showcasing the great work from our teams as they look after our guests, care for our animals and support wider local communities.

One consequence of the shorter trading period and reduced levels of activity in 2020 was the need to place staff members on furlough. While it was the right thing to do, it was frustrating that for often extended periods, so many of our team were unable to do the jobs they do so well. Furthermore, we were forced to delay and reduce the recruitment of our teams of seasonal staff who work for Merlin over the peak trading period, including many that have been part of the business over several seasons. We hope that they will be able to re-join the Merlin team as trading gets back more to normal.

I have a huge sense of pride when I reflect on our achievements over the last 12 months and how hard our teams have worked under challenging circumstances. I've seen so many of our people going above and beyond, taking on responsibilities outside of their usual roles and showing a clear dedication to get back to creating magical memories for our guests.

This level of dedication, the experience of our leadership team, and the ongoing commitment of our shareholders all combine to ensure that Merlin is well placed for future growth.

Nick Varney
Chief Executive Officer
15 April 2021

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

COMPETITIVE STRENGTHS IN A LONG TERM ATTRACTIVE MARKET ENVIRONMENT

A unique portfolio of strong brands and iconic assets

We operate a unique global portfolio of brands and iconic assets which are widely recognised by consumers, enabling us to differentiate our attractions from unbranded operators. Our Midway attractions portfolio includes chainable brands while the Resort Theme Parks attractions are typically number one or two in their respective markets. Our LEGOLAND parks also benefit from a mutually synergistic relationship with LEGO, the world's leading toy brand.

Together, the strength and breadth of this portfolio enable us to offer compelling propositions through a wide variety of visitor experiences across a broad range of geographies. This allows us to attract target demographic groups ranging from families with young children, teenagers, young adults to older adults. It also provides a degree of resilience to short term trading shocks arising from a particular geography, brand or demographic.

Intellectual Property (IP) partnerships

Merlin's global reach and multi-format expertise means we are well placed to benefit from the growing opportunities to partner with leading owners of intellectual property (IP) content, enabling us to deliver memorable experiences to our visitors and offer our partners opportunities to increase engagement with their customers.

Most significant is our core global, multi-product and exclusive relationship with the LEGO Group, where we hold the global, exclusive rights to the LEGOLAND brand under the licencing and co-operation agreement with KIRKBI, one of our major shareholders (see page 7).

We have multiple other IP agreements ranging from local relationships for specific attractions, to global, multi-product relationships with some exclusivity as we establish and continue to develop, global, regional and local IP partnerships with brands such as Ghostbusters, The Gruffalo, Shrek, Kung Fu Panda and CBeebies, the latter through our partnership with BBC Studios. We continue to develop and strengthen new IP partnerships, most notably through our relationship with Hasbro, where we have a multi-territory exclusivity arrangement to develop a range of attractions based on the Peppa Pig brand, one of the most well-known pre-school IP's in the world.

Unique portfolio of skills

Our three Operating Groups are supported by other teams including our in-house innovation and product delivery group, Merlin Magic Making (MMM), which includes teams across Europe, North America and the Asia Pacific region. Together they capture a unique combination of skills, including research, creative, production and project management. We have resources dedicated to researching future opportunities – dedicated teams within the Operating Groups search for locations for potential new attractions and negotiate with local landlords, developers and civic bodies.

MMM create world class, compelling propositions and develop new concepts into commercially viable attractions. Our in-house production capabilities include bespoke content such as wax figures, attraction theming and LEGO model production, thereby creating efficiencies and reducing costs. Our operating teams in Merlin have world class animal welfare expertise and ethical animal husbandry skills.

We manage any scale of construction project ranging from individual rides and attractions in our existing estate, new Midway attractions across the globe, through to the development of full-scale LEGOLAND parks, the latter led by a senior management team who pursue new locations for potential parks through multiple ownership models.

Long term attractive market environment

Notwithstanding the severe short term impact of the COVID-19 pandemic, we continue to believe that Merlin operates in an attractive marketplace, benefiting from underlying growth characteristics and favourable dynamics. At its heart are long term increases in disposable income, including in emerging economies, for example such as China.

During 2020 we reacted swiftly to re-engineer how we can operate flexibly in a changing environment and under a number of challenges and restrictions. The positive results we saw once our sites were able to trade gives us confidence that this more dynamic operating model will support us operating successfully as the external environment evolves. We continue to see long term growth opportunities from tourism; this benefits our resorts and drives visitation to our gateway city locations, where we operate our Midway attraction clusters.

We also expect to see the growth in domestic short break holidays to continue. We are increasingly well-positioned to meet this demand through our offering of themed, on-site accommodation and second gate attractions that extend the duration of our visitors' stay. Accommodation offerings also enable greater cross-selling opportunities, drive improved levels of guest satisfaction, and lead to increases in pre-bookings, revenue visibility and positive working capital. Our domestically focused resort positioning also provides a hedge against the impact of macro-economic volatility on tourist flows.

OUR CULTURE

Merlin's business model is underpinned by our entrepreneurial culture, a focus on strong and effective corporate governance, and how we operate as a responsible business. 'The Merlin Way' sets out these values which are embedded throughout the business. We are proud of the inclusive environment we create for all the people who work at Merlin and focus significant effort in driving a culture of accountability and fairness.

Corporate governance

Merlin believes that effective corporate governance is the foundation of a well-run company and maintains high standards of governance. We recognise that a strong governance framework is fundamental to the execution of Merlin's strategic objectives, underpinned by a clear purpose and well understood culture and values. More details are set out on pages 27 to 31.

Health, safety and security

Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group. This involves adopting industry leading standards, reinforcing a rigorous safety culture and demanding complete commitment from our teams.

These principles have underpinned our response to the COVID-19 pandemic. We have been instrumental in developing best practice enhanced hygiene and safety measures for the hospitality and leisure industry, including in numerous territories helping government agencies to develop sector specific COVID guidance. Our robust COVID safety protocols and procedures have been rolled out across each of our geographical markets and have received positive feedback from customers, local authorities and health agencies. More details on HSS are on pages 23 to 24.

BUSINESS MODEL

COMPETITIVE STRENGTHS AND A STRONG CULTURE

Business responsibility

Merlin has an ethical operating culture and high animal welfare standards, with a commitment to managing environmental impacts. Our attractions operate responsibly at the heart of their communities and contribute to the local economy. We partner with two charities. Merlin's Magic Wand provides memorable experiences to children faced with the challenges of serious illness, disability, and adversity. The SEA LIFE Trust works to protect the marine environment. More details are set out on page 26.

DELIVERING FOR OUR STAKEHOLDERS

Customers

We constantly monitor the views of our guests and engage with them directly and on social media to measure the quality of their experience and drive improvements. We measure the results of this engagement through a combination of guest satisfaction and 'Top Box' scores from touchscreen data at our attractions, and 'Net Promoter' scores that measure whether a guest would recommend our attractions. We are proud that we maintained the same high guest satisfaction score as in 2019, again well ahead of our 90% benchmark, and that the Top Box measure increased by 1%. The Group's average Net Promoter score remained above the 50% level which is considered 'world class'. These results are despite introducing a number of measures to help keep our guests safe in response to the operating restrictions required in 2020.

Employees

Our many thousands of employees are committed to delivering memorable experiences, and now more than ever, employee engagement continues to be one of the key elements of our business model. In 2020 we utilised several new and existing resources to help ensure our global teams continue to feel engaged and connected with the business. In a normal year we run our staff survey, 'The Wizard Wants to Know', which for many years has shown results consistently above our target score of being over 80%. This was not completed in 2020 because of the COVID-19 pandemic. See more on how we maintained employee engagement through the pandemic on page 22.

Investors

Merlin was listed on the London Stock Exchange from November 2013 until November 2019, when a consortium of three long term investors joined forces to take Merlin back into private ownership, with the capability to support Merlin's growth ambitions. The consortium work together in accordance with the principles set out at the time of the transaction. Their investment is held in Merlin's ultimate parent company, Motion JVco Limited.

Details of the investor consortium are set out below and details of their representation on Merlin's Board of Directors are set out on pages 30 to 31.

- Blackstone – one of the world's leading investment firms, that seeks to create positive economic impact and long term value for investors, the companies in which it invests, and the communities in which it works. Blackstone's asset management businesses had \$619 billion in assets under management as at 31 December 2020 across a range of investment vehicles. Blackstone has long-standing experience investing in location based entertainment businesses, like Merlin, as well as the wider hospitality, travel and leisure sector. Blackstone's investment in Merlin has been made through its long-dated Core Private Equity Strategy, which invests in high-quality businesses for typically ten to 15 or more years.
 - Canada Pension Plan Investment Board (CPP Investments) – a professional investment management organisation that manages the CPP Fund in the best interest of the more than 20 million contributors and beneficiaries of the Canada Pension Plan. CPP Investments is governed and managed independently of the Canada Pension Plan and at arm's length from governments. At 31 December 2020, the Fund totalled C\$476 billion, including approximately C\$20 billion of assets invested in the United Kingdom, and net investments of C\$120 billion in private equity. CPP Investments' private equity team is a committed long term investor with permanent capital, a focus on sizeable investments alongside aligned partners, the ability to invest across the full spectrum of ownership, and the ability to shape the duration and underwriting approach of investments to support longer-date returns on investment initiatives.
- In May 2020, Merlin's ultimate parent company, Motion JVco Limited, issued shares to a new minority investor for proceeds of £150 million.
- KIRKBI – the private holding and investment company of the Kirk Kristiansen family, founded to manage, protect and develop the LEGO brand and its activities under long term family ownership. KIRKBI's strategic activities include a 75% ownership of the LEGO Group, a 100% ownership of the LEGO and LEGOLAND trademarks, and investments in renewable energy supporting the LEGO Group's commitment to balance global consumption of energy with renewable energy. KIRKBI manages an international, diversified investment portfolio with a long term investment profile and is a responsible investor with high environmental, social and governance standards. At the end of 2020, KIRKBI's investment activities amounted to approximately EUR 10 billion. KIRKBI was a strategic investor in Merlin while the Group was listed, holding 29.6% of Merlin's listed equity. Following the transaction in 2019 KIRKBI's ownership in the Group increased, now being held through their investment in Motion JVco Limited.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

CAPITAL EXPENDITURE

Existing estate

Part of Merlin's growth strategy is to make regular, targeted investments to update and refresh the existing estate in order to grow visitation to attractions, providing something new to market and a degree of pricing power.

Each attraction has a planned investment cycle with varying capex levels over a number of years. These help to smooth overall expenditure across the portfolio and ensure investments are funded from operating free cash flow. Midway attractions require relatively lower capital expenditure due to the smaller scale of the attractions and the higher proportion of 'first-time' tourist visitors, while our theme parks require relatively higher capital expenditure due to the scale and nature of new rides and attractions and the drive to attract repeat visitors.

New business development

Our growth strategy has historically involved the roll out of our chainable Midway attractions in new locations and countries, often creating 'clusters', where we develop multiple attractions in one location. We continue to see the opportunity to open new Midway attractions, especially using IP as a central element of the attraction.

New business development capex also includes the expansion of our theme parks into destination resorts, and the development of new LEGOLAND parks. These are described in more detail below.

TRANSFORMATION OF THEME PARKS TO DESTINATION RESORTS

We continue to transform our theme parks into destination resorts, extending visitor market reach and enhancing revenues from a number of sales channels. These include primary admissions (including multi-day tickets and second gate admission fees), and commercial spend such as the sale of food and beverages, retail merchandise and souvenirs such as photos.

The themed accommodation offerings in our hotels and holiday villages continue to be very successful. They provide an integral contribution to the overall customer experience, helping to drive pre-bookings, increase multi-day ticket sales and improve guest satisfaction.

There are also ongoing opportunities to add visitor attractions that are located next to theme parks and for which additional admission fees are charged. These attractions, such as waterparks, are referred to as second gate attractions. This is an increasing area of focus across the two theme park Operating Groups.

LEGOLAND PARK DEVELOPMENTS

We have a proven track record of developing and operating LEGOLAND parks globally, where we have three operating and investment models.

Firstly, in more proven locations, we follow an 'owned and operated' model, securing the land and developing the infrastructure ourselves. LEGOLAND New York and LEGOLAND Korea are being developed in this way, with construction continuing during 2020 on both parks. As a result of the COVID-19 outbreak, we decided to delay the grand opening of LEGOLAND New York to 2021, albeit we completed a large part of the construction of the park by the end of 2020.

Secondly, we might work with a local partner, marrying their capabilities and expertise with our strengths and experience to both parties' mutual benefit. Typically, the funding for the capital investment is provided by a third party and we operate the park under a management contract.

In November 2020 we announced that we had entered into a formal co-operation agreement with the Shanghai Jinshan District Government, CMC Inc. and KIRKBI to develop a LEGOLAND resort in the Jinshan District of Shanghai, China. This followed the signing of a framework agreement in November 2019. All parties will form a joint venture company and contribute funding to the construction and development of LEGOLAND Shanghai.

In September 2019, we announced that we had entered into an agreement to partner in the development of LEGOLAND Sichuan and operate it under a management contract arrangement, with the resort scheduled to open by the end of 2023.

Design development is well progressed on a third LEGOLAND park project in Guangdong Province in southern China.

We maintain ongoing dialogue with a number of other potential partners to develop several LEGOLAND parks in China, with a focus on developing and operating these parks under this model. We currently operate LEGOLAND Malaysia and LEGOLAND Dubai under this model.

Thirdly, we can operate parks under a 'leased and operated' model, where the acquisition of the park site, the development of the infrastructure and the basic construction is funded by a third-party partner. We fund and build the rides and the necessary theming, lease the site on a long term basis, and operate the LEGOLAND park. LEGOLAND Japan, for example, was developed using this approach, with a KIRKBI subsidiary as the lessor.

GROWTH DRIVERS

HOW WE DRIVE GROWTH

LEVERAGING STRATEGIC SYNERGIES

We aim to simplify our operations, maximise the synergies afforded by our scale and leverage relationships with our shareholders.

Strategic initiatives include:

- Operational efficiency – we continue to focus on operational excellence, as we streamline how we work while still delivering memorable experiences for our guests. In 2020, in response to COVID-19, we have made significant changes to how our attractions operate and continued the transformation of our support functions through shared service centre initiatives. An example is our 'Finance 21' transformation project, that continued its roll out during the year, underpinned by a new cloud-based finance system.
- Merlin Annual Pass and Merlin Pass Monthly Membership – where we offer customers a pass that enables them to visit all attractions within a particular country.
- Accesso ticketing – the accesso[®] 'Passport' ticketing system helps improve the customer 'digital journey' to access our tickets and other offerings, as the shift towards advance booking continues.
- Promotions and marketing – where we apply flexible pricing and promotional strategies to manage visitor numbers through periods of high and low attendance volume, extend the length of stay, encourage repeat visits and enhance overall revenue.
- Procurement synergies – our scale combined with the support and knowledge of our shareholders allows us to exploit procurement cost efficiencies within a country or region, and where practical across clusters.
- LEGO relationship – we continue to benefit from the mutually synergistic relationship with LEGO, the world's leading toy brand.

STRATEGIC ACQUISITIONS

We continue to consider acquisitions of, or investments in, visitor attractions, sites and brands that could strategically enhance our portfolio and enable us to grow into new geographies, and believe that there remain further attractive acquisition opportunities that would meet our investment criteria in the future.

FINANCIAL AND OPERATING REVIEW

SWIFT AND DECISIVE ACTION

	Total 52 weeks ended 26 December 2020 £m	Underlying 52 weeks ended 26 December 2020 £m	Underlying 52 weeks ended 28 December 2019 £m	Underlying growth (actual currency) %
Revenue	629	629	1,740	(63.9) %
EBITDA	(89)	(76)	569	(113.3) %
Depreciation, amortisation and impairment	(337)	(243)	(227)	(7.0) %
Operating (loss)/profit	(426)	(319)	342	(193.2) %
Net finance costs	(222)	(222)	(108)	(106.7) %
(Loss)/profit before tax	(648)	(541)	234	(330.9) %
Taxation	124	96	(67)	242.9 %
(Loss)/profit for the year	(524)	(445)	167	(366.3) %
Operating free cash flow		(159)	406	

See 'How we report our results' on page 15 for details of how we report our financial performance

Introduction

In 2020 Merlin, like every business, has had to respond to the challenges presented by the COVID-19 pandemic. Having started the year with strong early trading, the geographic diversity of our business alerted us to the potential impact of COVID-19 early in China and we started taking broader decisive actions as the pandemic impacted across global markets.

We acted swiftly to preserve cash flow while also creating a ground up cost plan, restructuring our activities to maximise profitability once attractions were able to open. We were encouraged by the Group's ability to trade in an environment of social distancing and reduced customer demand.

We have actively engaged to access government support in a number of areas, most notably in relation to the costs of furloughed staff in qualifying jurisdictions. We temporarily reduced our planned capital expenditure programme and actively engaged with our landlords to seek rent abatements.

Working together with the investor consortium, Merlin's parent companies raised €500 million in senior notes on the public markets to provide extra liquidity.

Our new business development programme continued to make progress, with construction ongoing at two new LEGOLAND parks. We also progressed further Midway attractions, developments in China, and other opportunities for the future.

Presentation of results

As noted on page 7, Merlin Entertainments Limited (MEL) (formerly Merlin Entertainments plc) was acquired by a consortium of investors in November 2019. The acquisition was financed through a combination of investor equity and external debt finance arranged by new companies set up for that purpose and which sit above MEL in the enlarged group structure.

Certain accounting related matters affect how our results are reported and these are set out below.

- Australian ski resorts – during 2019 the Group disposed of its two Australian ski resorts. These have been accounted for as discontinued operations in that period and accordingly our results relate to the continuing operations of the Group excluding the ski resorts.
- Underlying results and exceptional items – in order to present the underlying performance of the business more accurately, the impacts of certain activities are reported within exceptional items. More details on exceptional items can be found on page 13. Unless otherwise stated, the commentary below refers to underlying results, that is, before the impact of exceptional items. The impact of COVID-19 on our trading has all been reflected within our underlying results.
- Alternative performance measures – on page 15 we set out in more detail explanations of how we adopt certain alternative performance measures to help present our trading performance in the most helpful and meaningful way.

Performance summary

During March substantially all of our attractions either closed or did not open for the 2020 trading season, which caused a severe decline in revenues compared to 2019. In the second half of Q2, attractions reopened where possible and by the end of September, nearly 90% of our attractions, 19 of 21 hotels and five out of six holiday villages were open. Unfortunately, a small number of our most significant locations had to remain closed for the majority of the year and some that had opened were forced to close again.

The performance of individual attractions has varied significantly depending on a number of factors, including the nature of ongoing local restrictions and their impact on both consumer demand and attraction capacity. In general, where an attraction typically sources its visitors from local domestic markets, and the perception of the risk of infection has been low, attendance has been encouraging, with demand exceeding capacity in some attractions at points in peak season.

Conversely, attractions with a higher proportion of tourist visitation have seen a greater impact on demand, particularly where those attractions normally have a significant element of international tourist visitation. This has affected both Midway city centre clusters and resorts in more tourist-driven markets.

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SWIFT AND DECISIVE ACTION

Overall, revenues for the year reduced by £1,111 million from £1,740 million in 2019 to £629 million. Visitation and revenues both benefited to some extent from the temporary reduction in VAT rates in the UK and Germany.

Cost of sales reduced by £185 million from £317 million because of the fall in revenue.

Since the global COVID-19 pandemic began, we have implemented a number of operating cost and cash control measures at various stages throughout the crisis. These included initially delaying the hiring of seasonal staff; implementing temporary voluntary salary reductions; reducing marketing and advertisement spend; and reducing other variable costs wherever possible. Where available, we accessed government schemes to support employees placed on furlough.

We have also taken steps to adjust how we operate in the future and reduce our ongoing fixed cost base in line with our reduced revenues. The cost base at our attractions has historically been relatively fixed, with increases and decreases in revenue normally flowing through to the operating result. Our actions this year have created a more flexible cost base with a higher proportion of costs that flex with visitor volumes.

These cost reduction activities augmented projects that were already underway to improve our operating efficiency against the backdrop of ongoing, significant cost pressures. We have continued to rationalise a number of our central functions and invest in our Shared Service Centre in Basingstoke, UK, changing the way finance supports the business, underpinned by our new cloud-based finance system.

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

Staff expenses reduced by £170 million from £459 million to £289 million as savings initiatives were implemented to respond to reduced trading. The reported figure is stated net of government support in respect of furloughed staff in qualifying jurisdictions. Marketing expenses reduced by £60 million from £90 million to £30 million as marketing activities were scaled back. Other operating expenses reduced by £51 million from £305 million to £254 million. This reflected lower spend on repairs and maintenance, where savings could be made in a period of lower than normal ride usage while still ensuring that high standards of guest and ride safety were maintained. Other costs such as performance-based rental payments, rates and utilities were also lower than in 2019.

The combined effect of the above factors was a decrease in EBITDA from £569 million to negative £76 million.

Within our central functions, as in the Operating Groups, we reduced the level of underlying ongoing expenditure. However, lower revenues in respect of consultancy agreement contracts, the write off of certain project costs as a result of COVID-19, and other one-off expenses, meant that net central costs of £55 million were £13 million higher than in 2019.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2020 performance at 2019 rates would result in a £2 million increase in revenue and a £2 million increase in EBITDA. We set this out in more detail by major currency on page 101.

Operating profit/(loss)

Depreciation and amortisation increased by £16 million from £227 million to £243 million. This increase was primarily due to the continued investment in our estate that took place up to the end of 2019. Operating earnings fell from a profit of £342 million to a loss of £319 million.

Exceptional items relating to operating activities totalled £13 million (2019: £73 million). Together with a further £94 million of impairment related charges (2019: £38 million), these resulted in a total operating loss of £426 million (2019: profit of £231 million). More details on exceptional items can be found on page 13.

Profit/(loss) before tax

In 2019 there were exceptional net gains of £10 million within financing costs relating to the sale to the investor consortium.

As a result of the factors noted above, underlying loss before tax was £541 million (2019: profit of £234 million) while the total loss before tax was £648 million (2019: profit of £133 million).

Midway Attractions

	2020	2019	Growth (actual currency)	Like for like growth
Visitors (m)	12.7	40.2	(68.4)%	
Revenue (£m)	228	674	(66.2)%	(66.5)%
Underlying EBITDA (£m)	(8)	240	(103.3)%	
EBITDA margin (%)	(3.5)	35.7		
Underlying operating (loss)/profit (£m)	(120)	137	(187.5)%	

Substantially all of the attractions in the Midway Attractions Operating Group closed before the end of March as the COVID-19 pandemic developed across the world. Attractions gradually reopened following the local relaxation of restrictions. Midway attractions are generally indoors and therefore their ability to reopen, and the restrictions imposed once open, have varied significantly depending on the differing local regulations. Towards the end of the year restrictions were reimposed in some locations, particularly in the UK and continental Europe.

Midway Attractions contains a mix of brands and a wide geographic spread, and therefore the impact of the pandemic has varied significantly across the estate. The largest Midway attraction clusters are typically located in international gateway cities, which have seen a significant decline in international tourist visitation.

However, attraction brands that are primarily focused on resident markets (as is the case for many local SEA LIFE Centres for example) have performed significantly better.

To offset the impact of lower revenues we made operating costs savings where possible, particularly in staffing costs and marketing expenses. While for most of the year, the proportion of closed attractions meant EBITDA remained negative, in Q3 more attractions could open. In that period we saw more positive volumes, which, combined with the operational changes in our attractions, helped generate EBITDA of £11 million despite lower revenues compared to previous years.

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LEGOLAND Parks

	2020	2019	Growth (actual currency)	Like for like growth
Visitors (m)	5.0	15.7	(68.2)%	
Revenue (£m)	228	669	(65.9)%	(66.5)%
Underlying EBITDA (£m)	(21)	243	(108.7)%	
EBITDA margin (%)	(9.3)	36.3		
Underlying operating (loss)/profit (£m)	(85)	183	(146.2)%	

Merlin's two LEGOLAND parks in the US, and LEGOLAND Japan, are normally open all year round. Of these, the parks in Florida and California closed in mid-March. LEGOLAND Florida reopened at the start of June, while LEGOLAND California has remained closed. LEGOLAND Japan has been able to largely remain open. Both LEGOLAND Florida and LEGOLAND Japan have seen demand impacted by local perceptions of COVID-19 transmission rates.

Our three seasonal European parks normally trade from the spring onwards but were closed in March, thereby missing the Easter holiday trading period and certain May national holidays. The attractions in Germany and Denmark reopened in late May and early June respectively. LEGOLAND Windsor reopened in early July. Overall, the European resorts saw a steady increase in consumer demand following reopening and enjoyed encouraging levels of visitation over the peak summer season.

All resorts have lost a significant portion of their trading periods, especially LEGOLAND California. The resorts that have reopened have been operating with reduced capacities because of local regulations and social distancing restrictions. These factors, combined with lower overall demand, have resulted in very significantly lower revenues than would be typically expected.

The Operating Group has made operating costs savings where possible, particularly in staffing costs and marketing expenses. These mitigated the impact of the lower revenues. Underlying EBITDA was negative for the year as a whole, albeit the improved visitation over the summer period together with operational changes in our attractions helped generate EBITDA of £24 million in Q3.

Resort Theme Parks

	2020	2019	Growth (actual currency)	Like for like growth
Visitors (m)	4.4	11.1	(60.5) %	
Revenue (£m)	169	388	(56.5)%	(56.3)%
Underlying EBITDA (£m)	8	128	(94.1)%	
EBITDA margin (%)	4.5	32.9		
Underlying operating (loss)/profit (£m)	(46)	76	(161.3)%	

The main trading period for the Resort Theme Parks attractions, all of which are located in Europe, normally starts during the early spring. As a result of the developing COVID-19 pandemic the resorts either closed in March or did not open as planned. They therefore missed the Easter holiday trading period and certain May national holidays. The two parks in Germany and Italy reopened in late May and mid-June respectively, while the UK parks remained closed until early July.

Following reopening, the resorts saw an increasing level of consumer demand into peak season, particularly in the UK. Several of the UK resorts traded close to their new (reduced) capacities on multiple days over peak season and benefited from higher admissions revenue per guest.

All attractions operated with significantly reduced capacities because of local regulations and social distancing restrictions. These restrictions, combined with lower overall demand, particularly where exposed to international tourism, and the limited operating season, have suppressed trading. This has resulted in significantly lower revenues than would be typically expected.

The Operating Group has made operating costs savings where possible, particularly in staffing costs and marketing expenses. These, together with operational changes in our attractions, mitigated the impact of the lower revenues. Resort Theme Parks delivered a positive EBITDA in Q3 of £52 million and a positive EBITDA of £8 million for the year.

FINANCIAL AND OPERATING REVIEW

SWIFT AND DECISIVE ACTION

Financing and tax

Finance costs

Net finance costs of £222 million were incurred in 2020 (2019: £108 million).

The acquisition of the MEL Group in November 2019 was financed through a combination of investor equity and external debt finance arranged by new companies set up for that purpose and which sit above MEL in the enlarged group structure. These new companies made loans to the MEL Group partly to enable repayment of certain elements of the MEL Group's external debt.

The overall increase in finance costs in 2020 accordingly arises from a full year of interest on those intra-group balances, which more than offset lower interest charges on external debt, following those repayments in late 2019.

The increased level of financing therefore means that interest charges are consequentially higher than in previous periods.

Taxation

The total tax credit of £124 million represents an effective tax rate (ETR) of 19.1% of loss before tax.

The difference between the reported ETR of 19.1% and the UK standard tax rate of 19.0% is largely attributable to the Group's geographic mix of profits and the benefit derived from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the US, offset by the Group's inability to obtain relief for interest expenses and the impact of non-deductible preference share dividends. The Group's geographic mix of profits includes the effect of the exceptional impairment of assets held by overseas Group companies. When the effect of the exceptional items is removed the underlying ETR is 17.7%.

The Group has benefited from certain reliefs available in the CARES Act in the US. This allows operating losses generated in 2020 to be carried back five years. As the US corporate tax rate was higher in the earlier years the Group has obtained a permanent benefit from the carry back.

Significant factors impacting the Group's future ETR include the Group's geographic mix of profits, the ability to obtain effective relief for interest expenses and changes to local or international tax laws.

The impact of the European Commission's finding relating to the UK's Controlled Foreign Company rules is further detailed in note 5.4.

The Group has a tax policy that sets out our approach in the areas of governance, risk management, tax planning and how we deal with tax authorities. This is available on the Merlin website.

Further detail on taxation is provided in note 2.4 to the financial statements.

Exceptional items

	2020 £m	2019 £m
Underlying (loss)/profit for the year	(445)	167
<i>Exceptional items:</i>		
Within operating expenses	(13)	(73)
Within depreciation, amortisation, and impairment	(94)	(38)
Within finance income and costs	-	10
Income tax credit on exceptional items above	28	14
(Loss)/profit for the year	(524)	80

To present the underlying performance of the business more accurately, the impact of certain activities is reported within exceptional items as set out below.

Exceptional items reported within operating expenses totalled £13 million before tax credits (2019: £73 million). This reflects pre-tax costs primarily associated with restructuring activities as we take steps to reduce our ongoing fixed cost base, offset by pre-tax credits of £2 million as final costs were calculated in respect of the sale of the MEL Group to the investor consortium in late 2019. In 2019 exceptional items within operating expenses included expenses incurred in connection with the sale of the Group; certain staff related costs that primarily related to employee share schemes that vested upon the sale; and productivity programme related expenses.

Exceptional items reported within depreciation, amortisation and impairment totalled £94 million before tax credits (2019: £38 million). These impairment charges reflect the impact of COVID-19 on short term trading, which is therefore taken into account in the discounted cash flows that underpin our value in use calculations. The charges relate to property, plant, and equipment (£78 million, 2019: £32 million) as well as right-of-use assets (£16 million, 2019: £6 million).

In particular, these impairment charges include consideration of LEGOLAND New York, where the opening has been delayed and where we are expecting shorter term headwinds, limiting our ability to launch the attraction and build momentum in an environment where social distancing may well be in operation and an uncertain economic environment will prevail. We remain confident in the longer term future of this third LEGOLAND park in North America, that will add to the already successful parks in California and Florida.

Impairment charges in respect of certain of the Group's Midway attractions arise from a review of market and economic conditions at those locations, also reflecting the impact of COVID-19.

Exceptional net gains of £10 million in 2019 within financing costs related to the sale to the investor consortium.

Further details can be found in note 2.2 of the financial statements.

FINANCIAL AND OPERATING REVIEW

SWIFT AND DECISIVE ACTION

Cash flow

	2020 £m	2019 £m
Underlying EBITDA	(76)	569
Exceptional items	(13)	(73)
Working capital and other movements	50	37
Tax paid	(16)	(73)
Net cash (outflow)/inflow from operating activities	(55)	460
Capital expenditure – existing estate	(83)	(163)
Capital expenditure – new business development (NBD)	(223)	(216)
Grants received	-	41
Disposal of subsidiaries	-	92
Proceeds from share capital	-	30
Interest paid, net of interest received and settlement of interest rate swaps	(163)	(97)
Dividend paid	-	(56)
Other	1	7
Net cash (outflow)/inflow before proceeds from borrowings	(523)	98
Proceeds from / (repayment of) borrowings (net)	7	(793)
Proceeds from parent company loans (net)	519	800
Capital repayment of leases	(16)	(48)
Net cash (outflow)/inflow for the year	(13)	57

Operating cash flow

Despite the activities referred to previously as we sought to maximise our available liquidity, net cash flow from operating activities for the year was negative £55 million (2019: positive £460 million).

Operating free cash flow (being underlying EBITDA less existing estate capital expenditure) was negative £159 million in 2020 (2019: positive £406 million).

Investing activities

A total of £306 million was incurred on capital expenditure in 2020.

New business development (NBD) investment of £223 million represented £175 million on the longer term investments of developing new LEGOLAND parks, substantially all relating to LEGOLAND New York and LEGOLAND Korea. A further £23 million related to new accommodation development across our theme park estate, and £25 million was in respect of new Midway attractions.

NBD capital expenditure investment is slightly higher in 2020 than in 2019, primarily in respect of costs incurred developing the new LEGOLAND parks. It is, however, lower than planned. This is a result of delays to new Midway sites originally planned for 2020 and 2021 openings, and our decision to reschedule the LEGOLAND New York construction programme and delay the grand opening to 2021. The construction of LEGOLAND Korea has continued through the year.

Existing estate capital expenditure of £83 million for the year was significantly lower than in 2019, reflecting site closures and the volume of trading.

During 2019 we received the second and final instalment of £41 million in respect of grants relating to LEGOLAND Korea, where the local government has agreed to support direct funding for the project. Grants received total KRW 80 billion (see note 3.4).

Disposal of subsidiaries totalled £92 million in respect of the Australian ski resorts transaction that completed in April 2019.

During 2019 the Company received £30 million in relation to the issue of 14.5 million new shares and the vesting of share awards.

A final dividend of 5.5 pence per share was paid in May 2019 in relation to the year ended 29 December 2018.

Financing activities

Interest on debt is greater than in 2019. This reflects the increased level of debt within the MEL Group following the acquisition of the Group in late 2019, relating to borrowings from parent companies which are greater than the external debt held while the MEL Group was listed. Higher interest payments on this debt are offset by lower payments to landlords for leases where rent deferrals have been agreed (which is also reflected in the lower levels of capital repayments of leases).

In February 2020, one of the new companies sitting above MEL in the new enlarged group structure (following the acquisition of the Group in late 2019) received £133 million (\$173 million) under a delayed draw down term facility. In April 2020 another of those companies completed the issue of a further €500 million of 7.0% senior secured notes due 2025.

Both of these receipts were subsequently lent down to the MEL Group. The receipt of the €500 million above enabled the repayment of £370 million revolving credit facility (RCF) drawings that had been made in Q1 by the MEL Group (within the enlarged group's financing facilities) in response to the COVID-19 pandemic. The cash flows in respect of the RCF have been offset in the cash flow statement.

In 2019 the Group received loans of £800 million from the new companies set up for the acquisition and used the proceeds to repay €700 million of bonds issued in 2015 and 2017, drawings from the Group's £600 million RCF and transaction costs. The MEL Group's £600 million RCF was subsequently cancelled. In September 2019 MEL announced that its solicitation of consents from holders of the \$400 million 2026 notes issued by MEL in 2018 had been successful and as a result the notes remain outstanding.

FINANCIAL AND OPERATING REVIEW

SWIFT AND DECISIVE ACTION

Net assets

	2020 £m	2019 £m
Property, plant, and equipment	2,353	2,263
Right-of-use assets	950	976
Goodwill and intangible assets	1,038	1,012
Investments	19	63
Working capital	(333)	(265)
Cash and cash equivalents	155	160
Interest-bearing loans and borrowings	(324)	(312)
Amounts owed to parent company	(1,384)	(774)
Lease liabilities	(1,203)	(1,158)
Corporate and deferred tax	(6)	(150)
Employee benefits	(11)	(7)
Other assets and liabilities	(110)	(109)
Net assets (excluding preference shares treated as liabilities)	1,144	1,699
Preference shares treated as liabilities	(2,132)	(2,120)
Net liabilities	(988)	(421)

Property, plant, and equipment increased by £90 million, primarily reflecting the capital additions referred to previously, offset by depreciation and impairment charges, together with the retranslation of those assets at different foreign exchange rates.

The reduction in investments primarily relates to a negative adjustment to the Group's investment in Big Bus Tours Group Holdings Limited, which was reflected in other comprehensive income (see note 5.1).

Further analysis of the working capital movements of £68 million is provided in note 3.4 to the financial statements.

Changes in capital resources

Since 28 December 2019 the changes in net external debt, parent company loans, and preference shares treated as liabilities reflect the financing activities described above. Further details on movements in net debt are provided in note 4.1.

Further details are provided in the consolidated statement of financial position on page 43 and the notes to the financial statements on pages 46 to 91.

Summary

2020 has been an incredibly challenging year. We have responded to the COVID-19 pandemic by taking a number of swift and decisive actions to adjust how we operate in a challenging and uncertain environment, maintain liquidity, and continue to invest in projects that we believe will support future growth.

Alistair Windybank
Chief Financial Officer
15 April 2021

How we report our results

Financial KPIs and Alternative Performance Measures (APMs) – we adopt certain APMs that in our view help present our trading performance in the most helpful and meaningful way, and that we use consistently each year. These can be summarised as follows:

- We refer to EBITDA as it is a profit measure we use internally to measure the performance of our attractions. It is the KPI that we feel most appropriately captures the ongoing ability of our attractions to generate operating cash flows. Reflecting IFRS 16, this measure does not include the cost of meeting the obligations under our leases, with the exception of performance-based rentals which continue to be reported within EBITDA.
- We refer to operating free cash flow, which is underlying EBITDA less existing estate capital expenditure and which is then available to contribute to capital reinvestment to support further growth, meet the obligations under our leases, service the Group's debt facilities, settle our tax obligations and provide a return to our shareholders. We therefore also refer to operating free cash flow conversion, which calculates operating free cash flow as a percentage of underlying EBITDA, thereby providing insight as to our cash conversion performance.
- We refer to 'underlying' results, which remove the impact of any exceptional items and provide a more direct comparison of trading performance. Details of exceptional items are provided in note 2.2 to the financial statements.
- To provide a more direct comparison of trading performance in the existing estate, we refer to 'like for like' performance. This represents growth between two years at constant currency and accounting standards, including all businesses owned and operated before the start of the earlier year.

Period under review – in most years we report on a '52 week' period. In certain years an additional week is included to ensure that the reporting date stays in line with the end of December.

Reference to financial statements – further information regarding the Group's segmental analysis; geographical revenues and assets; and certain operating costs are provided in note 2.1 to the financial statements on pages 49 to 52. Those areas requiring significant judgement in the preparation of the financial statements are summarised on page 48.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Internal control and risk management

Merlin maintains effective internal control and risk management systems, with the Board sub-committees and executive management keeping them under regular review. These activities are supported by 'The Merlin Way', our corporate values, which we believe should drive good behaviours and actions by all employees.

In 2020, the changing patterns of business activity, and availability of resources, as a result of governmental COVID restrictions, meant it was impractical to always operate these internal control and risk management processes in the normal way. Significant investment was made in ensuring that additional health and safety protocols and controls were put in place at all attractions that remained open to keep all our staff and guests COVID safe; to protect corporate resources; and to remain agile during the various lockdown occurrences.

Where required, we flexed our operational and financial control frameworks to maintain adequate control effectiveness despite the restrictions in place. The Audit Committee and Health, Safety and Security Committee kept the effectiveness of these revised frameworks under regular review.

Should governmental responses to the impact of the virus in the coming months continue to affect the ability of our attractions to operate normally, the Board and the sub-committees will consider the resulting risks and the required responses to ensure that internal control and risk management systems remain effective.

Internal control framework

The creation of an effective internal control framework helps ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws, regulations, policies and procedures including those relating to health and safety matters; and
- effective and efficient operation of business processes.

Merlin's internal control framework is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The key elements of the internal control framework are described below:

- Management structure – clearly defined reporting lines, accountabilities, and authority levels.
- Strategic planning, risk management and business performance monitoring – reviewed by the Board annually, with our pipeline for the delivery of new attractions reviewed regularly to:
 - (i) assess whether new compelling experiences and attractions in development are progressing according to schedule.
 - (ii) identify new ideas and assess fit with our brand portfolio; and
 - (iii) assess the expected commercial returns.
 Business objectives and performance measures are set annually together with budgets and forecasts. Regular business performance reviews are conducted at both Operating Group and individual attraction level.
- Policies and procedures – a portfolio of policies and procedures is in place for all areas of the business. The appropriateness and application of these is continuously monitored to ensure they are proportionate to the risk and complied with. Assurance comes from several sources that include HSS, financial and operational audit activities and self-certification.

Our key control activities include:

- Operational – there are a range of control measures and performance indicators in place to ensure the effective and efficient operation of our attractions and to give our guests safe and memorable visits.
- Health, safety and security – all our sites operate using a well-established Safety Management System designed to ensure that they operate in compliance with relevant regulatory and legislative requirements. Regular HSS internal audits are undertaken to confirm this is the case, ensuring that any safety and security matters are understood and dealt with promptly.
- Information technology – the Group has a wide range of IT technical, security, and disaster recovery controls to ensure that it has a stable infrastructure platform from which to operate.
- Financial – our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels. Oversight controls are typically performed by senior managers at Group and business unit level. Month end and year end procedures are performed as part of our regular financial reporting. Transactional level controls operate on a day-to-day basis. To specifically address potential fraud risks at a transactional level, a group of profit protection professionals are employed to support management in addressing these risks at an attraction level.
- Business continuity planning – disaster recovery plans and crisis management protocols are in place to allow attractions to reinstate performance in the event of adverse events.

Risk management framework

The risk management framework sets out responsibilities together with the oversight, monitoring, reporting and management processes that support their fulfilment. The framework looks at both 'top down' and 'bottom up' approaches to risk management whereby the Board retains overall responsibility for risk management, while sites are responsible for identifying, assessing and mitigating operational risks.

Risk oversight and monitoring is the responsibility of the following Committees:

- Health, Safety and Security (HSS) Committee – oversight and guidance on management of HSS risks. Responsible for ensuring compliance with legislation or industry standards in safeguarding guests, employees, visitors, and contractors.
- Audit Committee – oversight and guidance on financial process risk. Responsible for assessing the effectiveness of the Group's overall approach to risk management and internal control.
- Commercial and Strategic Risk Management Committee – oversight and guidance on management of commercial and strategic risk. Responsible for the treatment of animals in our care.

Each Committee reviews on a regular basis the principal risks and considers whether material changes in the external landscape or recent trading trends require alternative approaches to monitoring and managing risk. Committee members regularly receive deep dive updates on topics related to significant risks as well as regular reporting from internal and external assurance providers.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk appetite

The Group's risk appetite falls into two distinct categories:

- **Compliance risk** – the requirement to comply with legislative or regulatory requirements in all territories where the Group operates. It includes, but is not limited to, ride safety, accounting practices, fraud and bribery, as well as ensuring compliance with the Group's values and ethical principles. In these areas we are risk averse and do not countenance any breaches in compliance obligations.
- **Commercial risk** – Commercial risks are taken to maximise profitable growth and sustainable returns, without compromising the health, safety and security of guests, employees, contractors, animals or other visitors. They must be aligned with the Group's policies on sustainability and the environment. The Group manages these commercial risks through an appropriate analysis of threats and opportunities together with structured review processes, independent expert opinions and decision making authority levels. Factors such as the scale of possible commercial upside, the potential market size, the quantum of downside risk and timescales involved may all be relevant to commercial risk decisions.

Quantitative and qualitative measures ensure effective governance of the Group's risk appetite. Quantitative measures include defined financial and non-financial targets such as EBITDA, operating profit, and customer satisfaction scores. Qualitative measures consider items such as reputational impact and compliance with laws and regulations.

Brexit

While we are headquartered in the UK, many of our trading activities are in other countries and Merlin's business model does not require a significant level of cross border trading. As such, our ability to provide services to our customers in the countries in which we operate, inside or outside the EU, remains largely unaffected by Brexit.

Ahead of the conclusion of the Brexit negotiations, we acted to minimise risks in the areas that could affect the Group's operations. The actions taken looked to mitigate risks relating to:

- Structural issues requiring bilateral or multilateral governmental agreement on taxation, trade tariffs and restrictions on workforce migration of potential employees; and
- Transitory issues arising from administrative, process or market changes, which will unwind in the short term (for example delays in the movement, or restrictions on the actual availability, of goods and products).

We continue to keep the consequences of the UK exit from the EU under review in relation to the social and economic impacts it may have on our guests travelling to the countries in which we operate and will act to address significant future risks if they emerge.

Effectiveness of risk management and internal control systems

Based on its review of risk management systems, both throughout the year and annually, the Board is satisfied that the risk management and internal control systems that were in place during 2020 were effective and confirms that:

- there is an ongoing process for identifying, assessing, managing and monitoring the Group's principal risks;
- management's assessment of the principal risks is appropriate and those risks that have the potential to impact liquidity have been considered;
- the principal risks and internal control processes have been in place and considered by management and the Board throughout the year and up to the date of approval of the Annual Report and Accounts; and
- no significant failings or weaknesses in internal control processes have been identified.

Plans for 2021

In 2021 we plan to simplify the risk management processes with focus applied to the most significant issues. We will continue the existing focus on standardising and automating transactional activities, to improve the consistency of business processes and strengthen the internal control framework.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk factors**COVID-19 impacts**

Merlin has adapted its operating model to help protect guests and staff whilst at the same time re-shaping the overall customer experience through revised operating procedures and the use of personal protective equipment (PPE). Where roles permitted, we supported our staff in working remotely so they could perform their roles in a safe, effective, and efficient way.

COVID-19 has had a significant impact on all location based entertainment businesses. We responded quickly to protect the business as the pandemic unfolded by ensuring there was enough liquidity and obtaining all available government support in the countries in which we operate. Global vaccination programmes offer cause for optimism but we continue to be watchful and agile in our approach, reflecting the evolving nature of the virus and the variety of possible responses by authorities in the event of further outbreaks.

Specific COVID-related risk factors and Merlin's response are set out below. The assessment of each continuing principal risk is set out on pages 19 to 21. After careful consideration, the Board concluded that these ongoing principal risk categories would be retained as they accurately describe the risks that could impact the longer term outlook for the business.

COVID-19 risk factor

1. Without appropriate safety protocols and adherence to social distancing guidelines, there is a risk of COVID-19 transmission at our attractions.
2. The COVID-19 pandemic has significantly impacted trading and for part of the year required the closure of substantially all our attractions. This caused reduced or negative operating cash flows, resulting in lower liquidity.
3. Operating visitor attractions under social distancing and COVID-related restrictions could negatively impact the guest experience.
4. Many office based employees were asked to work from home, increasing demands on security for IT systems and data.

Merlin response

- The implementation of strong health and safety protocols to ensure a 'COVID-secure' environment for guests and staff, with active management and monitoring by dedicated teams to encourage guest adherence.
- Ensuring sufficient PPE was available and used appropriately.
- The geographic spread of our attractions provided an element of mitigation.
- Early and decisive action to minimise non-essential expenditure, negotiate payment holidays and deferrals, obtain government support and delay or cancel capital projects has supported cash flow and maximized available liquidity during the periods of mandated closure.
- We have made significant changes to how we operate our attractions and the business more broadly to reduce both fixed and variable costs. These changes have maximised the financial contribution made where attractions have been permitted to open, in an environment of social distancing restrictions and reduced demand.
- Attraction staff worked tirelessly to meet exacting health, safety and security standards and to help guests understand how to safely enjoy their visit whilst reminding them of their role in ensuring the overall safety of all guests and staff.
- Acceleration in roll out of user applications with greater security features, whilst at the same time infrastructure changes were made to help manage cyber security risks.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Principal risks

Management has identified Merlin's principal risks as set out below. The gross risk trend reflects the exposure before mitigation and is used to compare to the previous year as to whether significant risks are stable, increasing or decreasing and take no account of the impact of COVID-19 on the underlying risk.

	Increasing risk	Decreasing risk	Stable
Risk	Description		
	How risks are managed		
1. Safety	<p>Serious incidents leading to guests, staff members or contractors being harmed or becoming ill because of:</p> <ul style="list-style-type: none"> a failure to follow health and safety management systems. inadequate maintenance and management of buildings, infrastructure and vegetation; or substandard build quality, asset degradation, fire, flood, storm or utility failure. 	<ul style="list-style-type: none"> Regular performance reviews by Board Committee with a specific mandate for this area. Ownership of HSS risks by line management. Competent operational and engineering staff monitor and inspect facilities in accordance with a planned programme, backed up by professional HSS teams. Annual risk register review and action planning processes. Regular internal and independent external auditing and review regimes. Contractor selection, approval and monitoring by in-house qualified project managers. 	
2. Security	<p>Reduction in guest confidence to visit the Group's attractions because of sabotage or a terrorist attack on a ride or attraction leading to a guest or staff member or animal in our care being harmed.</p>	<ul style="list-style-type: none"> Detailed security protocols before individuals access an attraction (e.g. bag searches). Regular infrastructure reviews to reduce the opportunity for physical threats to guests, staff or animals. Extensive use of CCTV. Regularly tested major incident management plans. Current events vigilantly monitored to identify emerging risks. Co-operation with local and national security forces. Appropriate insurance cover. Board Committee established with specific mandate for this risk area. 	
3. Commercial impact of external threats to location based entertainment operations	<ul style="list-style-type: none"> Personal health and security concerns that flow from terrorist activity, public health pandemics or climate change events, resulting in falling visitation to a location in which the Group operates, with displacement of both international and domestic tourists. In extremis, such events may lead to governmental or other regulatory instructions to close our attractions, including over multiple geographies. Exchange rate volatility can have a positive or adverse impact on inbound tourism. If exchange rates work against a country in which the Group generates significant revenue, this can adversely impact visitation. 	<ul style="list-style-type: none"> Increased geographical hedging as a result of further global diversification. Ability to reduce variable expenditure, for example in staffing, property and marketing costs. Ability to defer non essential capital expenditure. Crisis management procedures for each attraction that set out the appropriate response. Ability to direct marketing and promotional activity towards domestic or international audiences depending on tourism trends. Ability to promote access to a wide portfolio of attractions using annual pass or cluster ticketing. 	

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk	Description	How risks are managed
4. Innovation, brand development and customer satisfaction	Our growth potential could be impacted if guests: <ul style="list-style-type: none"> consider our offerings are outdated, no longer relevant or enjoyable; or provide negative social media comments that adversely influence the likelihood of a customer to visit an attraction. 	<ul style="list-style-type: none"> Customer feedback collected at every location and analysed against challenging satisfaction targets. Actions then taken accordingly. Ongoing investment in our attractions to continually refresh the customer experience. Engagement with the public and on social media to take any requisite action.
5. People availability and expertise	The challenge of attracting and retaining appropriately experienced and well-motivated customer service orientated staff, especially in locations with significant upwards wage pressures. This could impact: <ul style="list-style-type: none"> guest satisfaction; or the successful delivery of planned future expansion. 	<ul style="list-style-type: none"> Driving greater productivity to ensure more motivated, better rewarded employees. Personal development plans across the business to encourage long term employment stability. Proactively managed succession planning processes embedded across the Group. Annual employee survey to monitor employee engagement and identify opportunities to develop HR policies and processes.
6. Competition and Intellectual Property (IP)	<ul style="list-style-type: none"> Competition – for leisure time; from new or existing providers of location based entertainment; and for IP around which compelling propositions are created. Withdrawal of permission to use third party IP content where contractual obligations are not met or partner relationships are not managed effectively. 	<ul style="list-style-type: none"> Diversification of the portfolio. Ongoing investment to ensure continued appeal to visitors. Competitor research and monitoring. Dedicated in-house creative team to deliver new and innovative compelling propositions and IP. Proactive management of IP partnerships.
7. Availability and delivery of new sites and attractions	The ability of the Group to grow in line with strategic objectives could be inhibited by the lack of: <ul style="list-style-type: none"> economically viable sites to locate Midway attractions and LEGOLAND parks; and timely approval of planning consent required for building new rides, attractions and accommodation. 	<ul style="list-style-type: none"> Experienced site search and business development teams, working several years in advance to maintain a strong pipeline of opportunities. Sites regularly update development masterplans and work closely on fostering links with local communities and planning authorities. Dedicated resources used to support the Group's roll out strategy.
8. Animal welfare	Incidents or staff behaviours leading to animals in our care being harmed as a result of: <ul style="list-style-type: none"> a failure to follow prescribed welfare protocols; or inadequate maintenance and management of buildings, infrastructure and vegetation. 	<ul style="list-style-type: none"> External zoo licence audits. An internal ethics committee and the SEA LIFE Conservation, Welfare and Engagement team monitor the treatment of animals. A comprehensive range of policies, standards, procedures and guidelines. Training programmes for all staff who interact with animals. Planned preventative maintenance programmes to ensure buildings, infrastructure and vegetation remain suitable for displaying the animals in our care.

PRINCIPAL RISKS

RISKS AND UNCERTAINTIES

Risk	Description	How risks are managed
9. IT robustness, technological developments and cyber security	<p>The Group operates various IT systems and applications, the obsolescence or failure of which could impede trading or the ability to operate an attraction.</p> <p>Without the technical developments necessary to meet consumer or business expectations, the Group may fail to deliver the growth required by the business strategy.</p> <p>Failure to put in place adequate preventative measures, if attacked, could lead to data loss or inability to use the IT systems for a prolonged period or loss of personal data resulting in a GDPR compliance investigation.</p>	<ul style="list-style-type: none"> Strategic focus to ensure the long term stability of operating systems and data security, whilst keeping pace with changing consumer IT expectations. Increasing resilience and stability of IT infrastructure and security through an expanded use of secured hosting partners and penetration testing regimes. Further security measures to mitigate the increasing threat of cyber security risk. A number of data protection policies are in place to protect the privacy rights of individuals in accordance with relevant data protection legislation. Independent assessment of compliance arrangements.
10. Anti-bribery and corruption	<p>While Merlin's business model is lower risk as the majority of transactions are of low value and typically from individual customers, a number of the territories in which Merlin is operating or considering entering have a greater historic propensity for incidents of bribery and corruption.</p> <p>Any such incident could lead to criminal or civil prosecution, fines and cause reputational damage to the Group.</p>	<ul style="list-style-type: none"> A well-embedded corporate culture in which fraud and bribery at any level are not tolerated. Global fraud and bribery training programmes and a fraud policy sign-off for all staff. Effective financial and contractual controls with regard to procurement activities. Internal audit monitors purchasing processes on a rotational basis. A separate profit protection team monitors for theft or other criminal activity across the Group and ensures best practice for protection is shared between sites. A whistleblowing policy is in place together with an independently operated employee hotline.
11. Liquidity/cash flow risk	<p>A lack of liquidity could inhibit the ability of the Group to grow in line with the strategic objectives if:</p> <ul style="list-style-type: none"> insufficient cash is generated during peak trading periods to cover fixed costs, interest and tax payments and capital investments (including strategic acquisitions, the roll out of Midway attractions, the development of new LEGOLAND parks and new accommodation offerings); and changes in the global credit market impact the Group's long term ability to meet current growth targets. <p>In extremis, adverse events may lead to a requirement to seek extra sources of liquidity.</p>	<ul style="list-style-type: none"> A committed £400 million multi-currency revolving credit facility assists with liquidity and seasonal cash flow requirements. Review of weekly cash flow forecasts covering a period of 12 weeks assists planning for short term liquidity. Strategic plans cover at least four future years and are reviewed regularly to ensure sufficient financial headroom exists or whether it needs to be created in the future. We also monitor the impact of the plans on the covenant tests set out in the Group's banking facilities. Merlin maintains strong relationships with a number of lenders and keeps the debt markets under review in order to ensure that funding can be obtained at the right time and at the right price to ensure the availability of funds to meet strategic growth plans.
12. Foreign exchange translation risk	<p>Merlin generates its main profits in Sterling, Euros and US Dollars and has debt in Euros and US Dollars.</p> <p>Merlin reports its results in Sterling and is therefore subject to translation risk from exchange rate fluctuations when reporting its consolidated results.</p>	<ul style="list-style-type: none"> The Group presents constant currency figures where appropriate to show underlying results excluding the impact of translation differences. Treasury policies in place and reviewed annually with regular reviews of currency exposures. Broad match of borrowings in the currencies of underlying profits. Currency exposures hedged where appropriate.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Our approach

Merlin's commitment and strong social conscience drives our approach to business responsibility and 'being a force for good'. This is reflected in how we treat, and care about, our visitors, our people, our suppliers, our planet, the animals we look after and the communities in which we operate. We have robust governance standards and practices that extend throughout the business.

We set out our approach below, including in respect of the five specific areas required under the non-financial reporting requirements set out in the Companies Act. Further information can also be found on Merlin's website and the websites of our partner charities.

Employees

Employee engagement

We are proud of our global team of employees who are the driving force behind our purpose – delivering memorable experiences for our guests. Now more than ever, employee engagement continues to be one of the key elements of our business model.

'The Merlin Way' is the set of values which embody everything we do, and which provide the basis for our goals and objectives. We advocate 'The Merlin Way' through many of our global engagement activities such as our STAR peer-to-peer recognition programme and via our staff wellbeing programme, with a focus during the COVID-19 pandemic on mental health and the available resources and support for our global teams. In 2020 we continued with 'Your Voice Counts' (YVC) forums at our attractions and central locations, albeit remotely for the majority of the year, to discuss matters which affect employees' immediate working environments and to agree changes.

With the necessary changes in working practices over 2020 we have reviewed the ways in which we communicate with our employees and how they feed back to us. The latest attraction news, company updates from the Executive Committee and key business information was made more easily accessible via the relaunched 'MyMerlin' intranet. We also launched a fortnightly company digital newsletter 'The Wizard's News', emailed to our employees and available via SharePoint and on mobile via the SharePoint app. These two new platforms provide access to engaging digital content including the latest reassuring health and safety information, video updates from senior leaders, podcasts and celebratory content from our attractions as they support local food banks and testing initiatives, to help ensure our global teams continue to feel engaged and connected with the business.

In 2020, as a result of COVID-19 related closures, many of our staff were on furlough and therefore we did not run our annual employee engagement survey. In 2021 we look forward to updated engagement and feedback tools being launched. We intend to relaunch the employee survey through a digital platform allowing instant feedback, personalisation and proactive points of action for each individual.

Recruitment, training and development

Merlin runs a range of training and development activity across all parts of the business. This ranges from induction training and role specific learning (for example in health and safety, and animal welfare), through a range of management and leadership programmes, and on to executive leadership development. Our Merlin Careers website shows available roles across the business globally as well as providing information on the apprenticeships we offer in areas such as hospitality, engineering, management, and marketing. In 2020 we responded to the COVID-19 pandemic by creating even more online content and self-led learning modules so that our teams could continue to access learning opportunities remotely and whilst on furlough.

Diversity and inclusivity

We are proud of the inclusive environment we create for all the people who work at Merlin and focus significant effort in driving a culture of accountability and fairness. It's part of who we are, and we adopt several approaches to attract and retain a diverse talent base, representative of the communities in which we operate.

In 2020 we undertook a detailed diversity and inclusion survey. From the results we have identified three key focus areas for 2021: gender equality, ethnic diversity and 'inclusion for all'. We have established four regional taskforces lead by business leaders and each sponsored by an Executive Committee member. Each taskforce is responsible for developing a regional plan to support our global diversity and inclusion goals.

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

At December 2020, two of our nine Directors were female, and one of our eight Executive Committee members was female. Of our senior management positions (being attraction General Managers up to and including the Executive Committee) 134 (38%) are female and 217 (62%) are male. This is consistent with 2019. The percentage of female permanent employees is 50% (2019: 51%) totalling 4,010 (2019: 4,815). The overall number has reduced as a result of changes made to our organisational structures in attractions and support functions, primarily in response to the COVID-19 pandemic but the even split of male versus female employees has been maintained.

We are actively encouraging and promoting more females into senior roles. Where possible, we encourage greater female participation in occupations such as engineering where there are proportionally fewer female employees, and host a number of initiatives to educate and inspire career progression within Merlin among female staff.

Gender pay gap

Merlin continues to produce a gender pay gap report for UK employees under the UK gender pay gap reporting rules which identify differences in pay between men and women.

For the latest available reporting period to 5 April 2020, Merlin's mean gender pay gap (calculated as the difference between the average hourly pay of men and women as a percentage of the average hourly pay of men) was 4.7% (2019: 12.9%). The median gender pay gap (the difference between the hourly pay of an employee in the middle of the range of male wages and an employee in the middle of the range of female wages), was 3.5% (2019: 2.4%). The figures differed from the prior year due to the majority of our employees being on furlough at reduced pay at the reporting date and therefore considered non-relevant full pay employees for the purpose of the pay calculations. The key reasons behind our gender pay gap continue to be lower numbers of female representation in senior, higher paid roles; relatively large populations of employees in traditionally male-dominated roles (for example, engineering staff and electricians); and a large proportion of females taking up roles with greater flexibility in working hours.

Risk management

For details of how we manage the risks of people availability and their expertise, see page 20.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Health, safety and security

Merlin is dedicated to delivering best in class health, safety and security (HSS) standards that are clearly understood and implemented across the Group and ensure the safety and wellbeing of our guests, employees and contractors. To support this mission, Merlin sets out its core HSS strategic initiatives and how these must direct and focus all efforts in a manner that is both systematic and progressive. To help communicate these to our key internal and external stakeholders, Merlin publishes an informative brochure called 'Protecting the Magic – a Guide to Health, Safety and Security at Merlin Entertainments'. This document is available via our corporate website and our dedicated HSS 'Protectingthemagic.com' website. Additional HSS news items and features are also published throughout the year on Merlin's 'Backstage' website.

COVID-19

In 2020 the world was significantly impacted by the emergence and rapid spread of the COVID-19 pandemic. No country, or aspect of society within, was left untouched by the devastating health and economic effects of this new coronavirus. National governments and business leaders alike have had to battle the full consequences of this disease and take decisive action to safeguard public health and corporate operations. The global service sector in particular, including hospitality and leisure businesses, have been severely impacted by the pandemic and the associated response policies from governments, most notably their imposition of societal and economic restrictions.

From an early stage, Merlin responded proactively and comprehensively to this new threat, in order to protect both guest and employee safety. We have developed and implemented robust COVID-19 safety protocols and procedures, which have been enacted through comprehensive training and communications. Regular and positive liaisons with health authorities, enforcement authorities and sector associations have helped to ensure we remain fully connected and able to share, or learn about, best practice safety standards.

In numerous territories we have helped government agencies to develop sector specific COVID-19 guidance. We are therefore proud of the fact that we safely welcomed over 22 million guests to our attractions in 2020 - to the best of our knowledge no on-site COVID-19 transmission cases were reported for any guests that visited.

Strategic HSS initiatives

The following strategic initiatives form the cornerstones to Merlin's *Protecting the Magic* programme:

- Leadership and engagement – requiring our leaders to exhibit visible, proactive and unwavering leadership towards HSS, supported by our people who are fully engaged with this shared responsibility. An example is 'safety leadership walks' which are on-site walks, both in visitor areas and 'back of house', by senior leaders in the business where dedicated time is spent talking with staff about HSS matters and understanding what more can be done.
- Competency and culture – fostering a positive and proactive safety culture, with competent and talented people focused on the effective management of HSS risks. Rigorous training and instruction are fundamental to Merlin's approach to HSS across the business, with mandatory new starter training for all employees and safety leadership training for managers.
- Assessment and control of risk – identifying, understanding and controlling HSS risks effectively. For example, in fire safety, fire engineering surveys of our hotels have helped ensure that we continue to uphold the highest physical and procedural controls at all of our hotels. With regard to food safety we adopt the best practice system of Hazard Analysis and Critical Control Points (HACCP). We ensure traceability and assurance over food produce sources and support our guests in their choice of products based on their specific dietary and allergy requirements.
- Standards and procedures – developing and rigorously implementing clear and suitable standards and procedures for safe design, construction, maintenance and operation of assets and equipment.
- Assets and equipment – managing our assets and equipment to ensure they are fit for purpose throughout their life-cycle and that no unacceptable or uncontrolled HSS risk is created. Maintenance systems and procedures comprise daily, weekly, monthly and annual maintenance programmes across Merlin's rides, buildings, facilities and estates.
- Monitoring and assurance – assessing and critically reviewing our performance, in a balanced and objective manner, to understand, improve and sustain our HSS performance. HSS performance, including near-miss and incident reporting, is regularly reviewed by each attraction, each Operating Group's senior leadership team and the HSS Committee, with best practice learning shared throughout the HSS management community. All attractions undergo three types of routine health and safety reviews (annual self-audits, independent internal audits and periodic independent external audits), in addition to pre-opening assessments and tactical ad-hoc audits. A comprehensive food safety audit programme is also undertaken by third party specialists.

This process includes the use of two types of performance metric, being:

- (i) *Leading indicators* – which monitor the activities we undertake as part of our HSS governance and monitoring processes. Our approach includes arrangements by attractions for near-miss/unsafe condition reporting, trend analysis and corrective action management. Due to the impact of cross-border travel restrictions brought on by the COVID-19 pandemic, as well as extensive attraction temporary closures, on-site food safety audits were not able to take place in 2020. Furthermore, because no employee survey took place in the year, the safety culture reporting normally incorporated in that process was not captured.
- (ii) *Lagging indicators* – which capture incident rates for both guests and employees.

Please see overleaf for the results of our monitoring and assurance activities.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Leading indicators	2020	2019
Safety Inspection Certificates – Rides ⁽¹⁾	100%	100%
Safe Operating Procedures – Rides ⁽²⁾	100%	100%
Food Safety Audits ⁽³⁾	N/A	89%
Safety Culture Survey Results ⁽⁴⁾	N/A	93%
HSS Committee Meetings ⁽⁵⁾	100%	100%
Lagging indicators		
Medical Treatment Case Rate (Guests) ⁽⁶⁾	0.02	0.02
Medical Treatment Case Rate (Employees) ⁽⁶⁾	0.04	0.06

(1) Safety Inspection Certificates are issued annually by independent ride examiners following the thorough inspection and testing of every theme park ride in Merlin. This % score indicates the percentage of rides that have a valid annual Safety Inspection Certificate issued or a formal extension granted to such annual Inspection Certificate due to the impact of cross-border travel restrictions brought on by the COVID-19 pandemic.

(2) Each theme park ride in operation in Merlin must have Safe Operating Procedures in place covering the ongoing use of the ride. These procedures must state what the necessary risk controls are for each ride. This % score indicates the percentage of rides that have Safe Operating Procedures in place.

(3) Merlin commissions an independent specialist to audit attractions for compliance with its Food Safety Manual. This % score represents the average compliance score. Where opportunities for improvement to local practices are identified these are discussed with local management and plans implemented to address them.

(4) Merlin's annual 'The Wizard Wants to Know' employee survey features a series of questions relating to health and safety and this % score represents the overall safety engagement score.

(5) Through the HSS Committee the Board provides strategic direction and performance scrutiny of HSS matters within the business. Additionally, each Operating Group has its own HSS Steering Committee. These forums are intended to meet quarterly and this % score indicates compliance with this expectation.

(6) A Medical Treatment Case (MTC) is defined as an injury which requires external medical treatment (i.e. ambulance attendance to the site or hospital visit directly from the site). The rates referenced are the number of MTCs relative to either 10,000 guest visitations or 10,000 employee hours worked.

Environmental matters

We recognise that our operations impact upon the environment and that effective management, in line with our strategic business goals, is essential for sustainable business success. We are committed to minimising the potentially harmful effects of such activity.

The Executive Committee is responsible for setting strategy, policy, principles, and guidance with ultimate responsibility for our sustainability strategy resting with the Chief Executive Officer, ensuring that strategic policy is implemented and that our sites' sustainability objectives align to our corporate sustainability objectives. We participate in the UK Energy Savings Opportunity Scheme and other applicable environmental regulations globally. Specific budgets are made available each year to test and implement environmentally focused initiatives.

Each attraction has a sustainability champion or manager who is responsible for the delivery of our sustainability objectives at a local level. More details can be found on the policies and reports section of our website where our environmental policy is published.

Climate change

The Group has identified the following issues related to climate change, which are set out below together with Merlin's approach in the relevant area.

- **Energy use** – the risk that using fossil fuel energy contributes to climate change. Merlin is investing in on-site zero to low carbon technologies such as solar photovoltaic.
- **Energy price** – the risk of fluctuation in the global energy price. Merlin is investing in energy efficient systems like LED lighting to reduce the amount of energy we use.
- **Weather** – the risk of distortion in weather patterns. Merlin operates a balance of outdoor theme park resorts and Midway attractions which are generally indoors.
- **Waste, recycling, and the use of landfill** – Merlin is diverting waste from landfill where possible through recycling and generating energy from waste. For example, our four largest UK theme parks recycle and recover all their waste for energy generation.

Commitment to plastics reduction

Merlin is committed to being an environmentally responsible business and has been a long term advocate for reducing plastic pollution. We have already made great strides in our retail stores by removing unnecessary packaging and plastic on all our branded merchandise. Additionally, in our SEA LIFE attractions we have switched 75% of plastic contained within our retail products to a type that is recyclable, and we banned all plastic straws and retail plastic bags by the end of 2018. Other initiatives already undertaken include the removal of plastic water bottles from all our offices, replacing them with water coolers or similar refreshment devices.

We promote marine conservation through our SEA LIFE brand, educating guests on the dangers of plastic pollution in our oceans and actively contributing to raising of awareness through our partner charity, the SEA LIFE Trust. Merlin's 46 SEA LIFE Centres across the world have joined forces with over 200 other aquariums, oceanographic museums and zoos to form a global coalition all pledging to raise public awareness about plastic pollution with the #BeatPlasticsPollution campaign.

We will continue to work with our global supply chain to remove unnecessary plastic packaging from our shops; we will provide opportunities for all our staff and guests to become involved at our attractions as well as helping them consider behaviour change in their everyday lives, and; we will support the SEA LIFE Trust in campaigning for greater protection over our marine environment and its creatures.

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Streamlined energy and carbon reporting

We set out in the table below our report on Merlin's carbon dioxide emissions and energy usage. We have followed the 2019 HM Government Environmental Reporting Guidelines. We have also used the Greenhouse Gas Protocol – Corporate Standard and have used emissions factors from IEA CO₂ Emissions from Fuel Combustion 2020 edition for electricity by countries and the 2020 UK Government's Conversion Factors for other carbon activities.

Our carbon reporting period for 2020 is from September 2019 to August 2020. In 2020 our reported carbon intensity ratio that measures the usage of CO₂ equivalent (CO₂e) as compared to revenue increased significantly; there is a significant element of our energy usage that does not flex with visitor volumes and in our SEA LIFE Centres for example, life support systems for the animals in our care continue to run regardless of whether the attraction is open.

In the period covered by the report, Merlin launched a series of energy efficiency initiatives. However, due to the disruption caused by COVID-19, we were only able to complete ventilator and air conditioning optimisation projects at LEGOLAND Japan and LEGOLAND Billund which are expected to save 339,000 kWh annually, and the installation of solar arrays at Chessington World of Adventures expected to generate approximately 44,000 kWh each year.

In this period, we purchased 46,313 MWh of renewable energy attributes through our energy procurement contract. The attributes are backed by Renewable Energy Guarantees of Origin (REGOs).

	2020		2019	
	UK	Global (excluding UK)	UK	Global (excluding UK)
Energy consumption used to calculate emissions (MWh)	84,707	217,316	118,266	251,142
Emissions from combustion of natural gas, oil and LPG in tCO ₂ e (Scope 1)	4,627	6,125	6,936	7,827
Emissions from combustion of fuel for transport purposes in tCO ₂ e (Scope 1)	423	945	480	1,157
Emissions from use of CO ₂ for food and beverage purposes in tCO ₂ e (Scope 1)	17	38	28	77
Refrigerant emissions from refrigeration systems in tCO ₂ e (Scope 1)	748	3,290	716	3,434
Emissions from purchased electricity and district heating (Scope 2, location-based)	12,837	70,771	18,778	83,144
Emissions after applying purchased green emissions in tCO ₂ e (Scope 2, market-based)	1,168	70,771	4,041	83,144
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel in tCO ₂ e (Scope 3)	11	Not reported	Not reported	Not reported
Total gross in tCO₂e	6,994	81,169	12,201	95,639
 Group total in tCO ₂ e	 88,163		 107,840	
Group revenue (£m)	629		1,740	
Intensity ratio: Group gross in tCO₂e £1 million revenue	140		62	

Table notes:

- Scope 1 refers to direct emissions (natural gas, LPG, heating oil, refrigerants, diesel, petrol)
- Scope 2 refers to indirect emissions (purchased electricity, purchased heat and steam)
- Scope 2 market based include REGOs for our UK operations
- We recalculated and republished our 2019 base year due to a change in our reporting period from December 2018 – November 2019 to September 2018 – August 2019
- Our annual carbon reduction target is measured based on market-based emissions

CORPORATE SOCIAL RESPONSIBILITY

A RESPONSIBLE BUSINESS

Social matters

Our strong social conscience informs how the Group operates, including with regard to both the people and creatures connected to our business. This is exemplified by areas such as our ethical animal husbandry activities, our work with children faced with the challenges of serious illness, disability and adversity, and how we approach visitor accessibility.

Animal conservation and welfare

We operate to world class welfare standards through our animal care network and support the work of our pioneering marine conservation charity partner, the SEA LIFE Trust, in its mission to protect marine life and habitats across the world. Our global SEA LIFE teams continue to deliver world class animal welfare throughout our animal care network, as well as developing new and exciting guest experiences which will inspire future generations to care for our oceans and all marine life.

Whilst the doors of our attractions may have been closed for much of 2020 this did not prevent our world class conservation and welfare activities continuing. Teams across our welfare sites worked through various lockdowns to ensure high standards of care were maintained and continued to drive engagement with our guests. Hundreds of social-media films and live feeds reached millions across the globe including live Q&A's, feeding times and a range of educational home-schooling activities.

Merlin's strong welfare and conservation work also continued throughout 2020, with over 70 grey and harbour seals rescued across the SEA LIFE and SEA LIFE Trust seal rescue facilities in northern Europe and the UK, and over 50 turtles and one Australian sand tiger shark rescued in Australia. The team at SEA LIFE Sydney Aquarium also launched the world's first Seahorse Hotel, part of an important breeding and recovery project in collaboration with the NSW Department of Primary Industries (DPI) Fisheries and the University of Technology Sydney.

A real 'world first' was also seen in August 2020 when the SEA LIFE Trust and Merlin's long held vision came to life as beluga whales Little White and Little Grey moved into their new home in Klettsvik Bay, Iceland; site to the world's first Beluga Whale Sanctuary. We were delighted to have a documentary crew following this monumental moment and the documentary, fronted by UK celebrity John Bishop, aired on ITV in the UK in October 2020. It will be aired in other countries across the world in 2021. In early 2021 John and Melanie Bishop became the Trust's first ever patrons.

We support additional animal welfare initiatives that are not connected to the marine environment. Chessington World of Adventures Resort in the UK and WILD LIFE Sydney Zoo in Australia both maintained their long-standing commitment to animal breeding or managed species programmes.

For details of how we manage the risks regarding animal welfare, see page 20.

Merlin's Magic Wand

Our dedicated children's charity partner, Merlin's Magic Wand (MMW), is now in its 13th year of operation. Although various challenges were presented as a result of the global pandemic in 2020, the charity was still able to deliver 21,560 Magical Days Out tickets to children and their families, who are facing challenges of serious illness, disability and adversity. We also completed the 50th Merlin's Magic Spaces project, ready for launch in 2021, in Goshen, New York, near to the new LEGOLAND New York resort. The charity also worked with our attraction teams to reach over 5,300 children virtually through the Magic on Tour programme.

In 2021, the charity aims to deliver on the remaining Magical Days Out visits, Magic Spaces project commitments, and virtual Magic on Tour offerings that it committed to in 2020, as well as 'building back better' so that more of our beneficiaries and charity partners can look forward to a year full of magic in 2021.

Accessibility

We remain focused on ensuring guests with disabilities can access the magic of Merlin, including making necessary reasonable adjustments to our facilities for guests with different requirements. We understand our obligations and we care about continuously improving accessibility. In 2020 we were proud to 'light up purple' on 3 December at our attractions across the world to celebrate International Day of Persons with Disabilities, and Heide Park Resort were delighted to be the first theme park in Germany to open a Changing Places facility.

We also kept our disabled guests in mind as we adapted to navigate the requirements for social distancing and face coverings, ensuring guidance was established to continue to provide suitable adjustments.

To support the ongoing commitment to accessibility and to drive systematic improvements across our business we have established a steering group led by an Executive Committee member and continue to work alongside experts in the field including the UK's 'Business Disability Forum' and 'Valuable500' to inform developments.

Other areas

Anti-corruption and anti-bribery matters

Merlin's approach regarding the management of anti-bribery and corruption risks is set out on page 21. Merlin has a zero tolerance approach in this area, with regular reports on whistleblowing being provided to the Audit Committee.

Ethical sourcing

We have a responsibility to the workers in our supply chain and seek to ensure our products are made in an appropriate environment and the products we source are produced in accordance with international laws and legislation. More details on this area are available on our website.

Human rights

Merlin has implemented a Human Rights Policy, guided by the International Labour Organisation Declaration on Fundamental Principles and Rights at Work together with the OECD Guidelines for Multinational Enterprises.

Further details and Merlin's Modern Slavery and Human Trafficking Statement can be found on Merlin's website.

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Overview

The Board continues to believe that effective corporate governance is the foundation of a well-run company and is committed to maintaining the highest standards of governance throughout the Group. The Board recognises that a strong governance framework is fundamental to the execution of Merlin's strategic objectives, underpinned by a clear purpose and well understood culture and values. Merlin's overriding purpose is to create truly memorable experiences for visitors and long term value for our investors. Our corporate governance framework has been designed to safeguard these. The Board is committed to ensuring that the procedures, policies and practices of the business continue to be effective.

Following the acquisition of Merlin Entertainments in November 2019 by the investor consortium, the governance principles for the MEL Group are consistent with those of the Group headed by the ultimate parent undertaking (Motion JVco Limited), which was incorporated in 2019 to act as the top company in the enlarged Group structure. These principles are set out in a shareholder investor agreement between the investor consortium members. The independent Chairman and the Directors that represent the investor consortium are the same for both companies. The Group Chief Executive Officer and the Group Chief Financial Officer are executive roles. They are Directors of the Company (but do not have voting rights at Board meetings), and attend Board meetings of Motion JVco Limited in their roles as executive management.

2020 priorities

During 2020 the main areas of focus for the Board was to oversee Merlin's response to the COVID-19 pandemic. This required constant dialogue between Board members and with executive management, together with an increase in the frequency of Board meetings from the eight required by the shareholder investor agreement to holding fortnightly meetings throughout the summer period.

When the pandemic started to take hold and attractions were closed, these discussions focused on ensuring the Group had sufficient liquidity, including the raising of new debt in the form of new senior notes, and reviewing the Company's actions to manage costs and liquidity. The Board oversaw the reopening of attractions following lockdown periods, including new protocols that ensured the safety of guests and staff. They approved restructuring programmes that re-engineered how the business operates in an environment of social distancing, and projects to reduce the ongoing fixed cost base of the business. They monitored the trading performance of attractions and towards the end of the year the Board reviewed and approved the Company's medium term strategic plan. This included considering the wider macro risks as to how the Company anticipates further recovery from the COVID-19 pandemic, for example from the risk of future virus variants or the impact of potentially slower vaccine roll outs.

Corporate governance framework

Merlin applied the provisions of the UK Corporate Governance Code up to the date of delisting from the London Stock Exchange in late 2019. Following that delisting, the new Board concluded the appropriate approach to corporate governance should be to adopt the Wates Corporate Governance Principles for Large Private Companies, which in many respects follow similar principles to the Code. Merlin's approach to and standard of governance therefore remains essentially unchanged.

During 2021, the Board will continue to maintain the strong corporate governance environment with particular focus around stakeholder engagement, diversity and inclusion, and remuneration. The Wates Principles and details of how the Group approaches them are set out below.

Principle One – Purpose and Leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose

Since 1999, Merlin's strategy has been to create a high growth, high return family entertainment company. The business is based on strong brands and a global portfolio which is naturally balanced against the impact of external factors. This strategy is aligned with our purpose of delivering memorable experiences to our millions of visitors and our vision of being the global leader in location based entertainment.

The Board continues to review and challenge Merlin's strategy, performance, responsibility, and accountability so that every decision made is of the highest quality, and in line with the Company's culture, as set out in 'The Merlin Way' values which are embedded throughout the business from day-to-day management to Board reviews. The business model and the growth drivers of the Group are outlined in pages 6 to 9.

Whilst the Board holds overall responsibility for developing and promoting the purpose of the Group, the Executive Committee ensure that the values, strategy and culture continue to be distilled down into every aspect of the Group on their behalf. The Board's Audit Committee reviews the effectiveness of our whistleblowing and fraud policies.

Principle Two – Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

The Board of Directors of the Company are appointed in accordance with the shareholder investment agreement. This sets out that the Board should include shareholder representatives, an independent Chairman (who was appointed on 7 April 2020), the Chief Executive Officer and the Chief Financial Officer.

Each investor has nominated suitably qualified representatives to sit on the Board. The Directors possess a wide range of skills, backgrounds, experience, and knowledge across a broad range of businesses. The composition of the Board is considered appropriate for the size and complexity of the Company. The Board has established an Audit Committee and Health, Safety and Security Committee that have both been in operation throughout the year. Due consideration has been given in appointing the Chair of each Committee, with the Audit Committee being chaired by an individual with recent and relevant financial experience and the Health, Safety and Security Committee being chaired by an independent health and safety expert. In 2021 the Remuneration Committee has been established. The responsibilities of the Board and these Committees are outlined on page 28 to 29.

The Board and Executive Committee together comprise 12 men and three women. Details of the gender mix of the Group and its senior management are set out on page 22, together with details of our actions in the area of diversity and inclusivity.

Details of the Board members can be found on pages 30 to 31.

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Principle Three – Directors Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge

The Board is responsible for directing the affairs of the Company to best promote the success of the Company for the benefit of shareholders and with consideration of its stakeholders. This is done in a way which is consistent with its ethical, legal, and regulatory responsibilities and the Company's constitution.

Following the Merlin acquisition in late 2019, the shareholder investment agreement and respective terms of reference of the Board and its Committees were formally approved during the year. These give clear guidance on matters which require Board or Committee approval. The Board meet at least eight times a year, either in-person or by video conference calls, although the frequency was much higher in 2020 in response to the COVID-19 pandemic. The Board are provided with appropriate board packs in advance of the meetings, including trading updates, financial performance, employee engagement and welfare, and management of key business risks. When making decisions, only the shareholder representatives have voting rights.

The Board delegates authority for the day-to-day management of the Company to the Executive Committee which meets at least eight times each year. Details of each Committee can be found on pages 28 to 29.

Principle Four – Opportunity and Risk

A board should promote the long term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks

Oversight of risk management is performed on an ongoing basis through the Board's interaction with management and by risk being a regular item on Board agendas. As set out below, two Board Committees have specific responsibilities in the key areas of health, safety and security and wider risk management and internal controls activities. Commercial risks are considered by Committees chaired by executive management and are reported back to the Board.

The Board retains overall responsibility for risk management and approves the risk management framework which sets out the responsibilities, oversight, monitoring, reporting and management processes. Further details regarding the approach to risk management are set out on pages 16 to 21.

Long term strategic opportunities are highlighted through the Group's strategic planning processes that the Board oversees. Dedicated strategy review sessions that were performed in previous years did not take place during 2020 as the Board oversaw the Group's response to the COVID-19 pandemic, but are planned for 2021. Other opportunities are brought to the attention of the Board when they arise.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the long term sustainable success of a company, considering pay and conditions elsewhere in the company

Remuneration matters during the year were considered directly by the Board, pending the creation of the Remuneration Committee at the start of 2021. All future matters relating to remuneration will be considered by that body and recommended to the Board for approval, in line with the Committee's terms of reference that are set out below.

Principle Six – Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions

The Board are aware of the importance of fostering effective stakeholder relationships to enable the long term success of the Group. Details of how Merlin engages with stakeholders, including employees, is provided in the Section 172 statement below. The Group's business model also focuses on our interactions with customers, employees and investors; more information can be found on page 7.

Board and Committee responsibilities

The Board

The responsibilities of the Board are detailed below;

- overseeing strategy, management and approval of major policies
- determining the capital structure
- maintaining the system of internal controls and risk management
- approval of the annual capital expenditure budget, major capital projects and strategic transactions
- effective engagement with shareholders and other stakeholders
- reviewing recommendations from Committees including:
 - Board membership
 - Board and senior management remuneration
 - succession planning
 - diversity
 - financial reports

Board Committees

The following Board Committees have been in operation during the year and unless otherwise stated, remain.

Health, Safety and Security Committee

This Committee ensures that health, safety and security (HSS) matters are managed effectively and proactively throughout the Group, by overseeing our policies and procedures for HSS, monitoring our processes for identifying and managing risks and monitoring the skills, effectiveness and levels of resource within our HSS teams.

The Committee membership comprises an independent chair and representatives from each member of the investor consortium. Meetings are also attended by the Group CEO and CFO, together with the Group Safety, Engineering and Security Director, the Chief Operating Officer of the Midway Attractions Operating Group and the Managing Director of the Resort Theme Parks Operating Group.

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This Committee assists the Board in discharging its responsibilities regarding financial reporting by monitoring the integrity of our financial statements including considering whether the financial statements are 'fair, balanced and understandable'. It assists the Board in relation to external and internal audits, including monitoring and reviewing the effectiveness of the internal audit function and overseeing the performance and independence of external auditors. It also assists the Board in matters of risk management and internal controls, including monitoring and reviewing the effectiveness of our whistleblowing and fraud policies and our internal control and risk management.

The Committee membership comprises representatives from two members of the investor consortium, one of which is a Board member.

Remuneration Committee

The Remuneration Committee was created in early 2021 and the first meeting was held in March 2021.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations on the policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

The Committee will consider all material elements of Merlin's remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice and make recommendations on the framework for executive remuneration. The Committee will also be responsible for making recommendations for the grants of awards under any future share incentive plans.

The Remuneration Committee's membership comprises the independent Chairman and representatives of each of the consortium of investors.

Other Committees

In addition to the Board Committees, there are three non-Board Committees:

- *Executive Committee* – chaired by the Chief Executive Officer, this Committee is responsible for managing the Group's day-to-day operations and the development of strategic plans for consideration by the Board.

Two operational Committees have specific areas of responsibility as follows:

- *Commercial and Strategic Risk Management Committee* – maintains oversight and guidance on management of commercial and strategic risk.
- *Development Board* – appraises significant capital expenditure and development projects.

Section 172 statement

The Board have remained consistent in their approach to stakeholder engagement and acknowledging the need to maintain high standards of business conduct. During the decision-making process the Board continues to have regard for the impact of their decisions on the Company's stakeholders as required in section 172 of the Companies Act 2006, taking into account the likely consequences of any decision in the long term. As is normal for large companies, authority for day-to-day management in these areas is delegated to the Executive Committee, with the Board providing oversight. The Board takes their responsibility to understand the views of stakeholders seriously and strives to build productive business relationships with them. Merlin has engaged with stakeholders throughout the year and the Board will look to further the inclusion of stakeholders' interests within the Board decision-making processes.

Employees

In response to the COVID-19 pandemic, the Board considered how attraction and office closures would impact employees. Accessing government support packages meant that the Company was able to minimise the impact on employees. Throughout the year, lines of communication with our employees were maintained, ensuring that all employees, whether furloughed or working, were kept fully updated on the business operations on a regular basis. Additional occupational support was made available to all employees. Focus on employee welfare has always been a key consideration for the Board and in response to the pandemic the Board ensured that ahead of reopening the attractions, extensive training, using a variety of mediums, was given to all employees.

The Board receives regular HR updates at Board meetings. More details on employee engagement are set out on page 22.

Business partners

Merlin believes a collaborative approach with business partners enables the most mutually beneficial relationship, allowing us to engage on matters that affect both Merlin's and our business partners' key strategies.

Examples of such collaboration are set out below:

- Extensive discussions with the business partner of LEGOLAND Dubai to ensure the continued success of the operation of the park and the hotel that has been under construction in 2020.
- Consideration of ride suppliers as part of the new themed land at LEGOLAND Windsor. The final choice of supplier was made based on previous experience and ride supply at other LEGOLAND parks.
- Consideration was given to our long term relationships with multiple landlords where detailed negotiations took place.

Guests

We receive constant feedback from our guests through satisfaction surveys and social media. The results of these are monitored by management and reported back to the Board.

In 2020, consideration was given to how customers might feel about returning to our attractions once pandemic restrictions were lifted and the Board approved the management proposal for new propositions throughout the business to encourage customers back. Consumer studies were conducted to assess customer attitudes to our proposed health and safety regimes and the instructive responses helped to shape the implementation of appropriate measures to meet those expectations.

Following extensive consumer research which identified two potentially strong performing concepts, the Board approved the creation of a new land at LEGOLAND Windsor – 'LEGO MYTHICA'. Aimed at the core family market, further research with parents and children was conducted to refine the proposition before development commenced. Accessibility and sustainability were also considered as part of the project to ensure that improvement and maintenance of our accessibility standards were met.

Communities and the environment

Merlin's attractions operate responsibly at the heart of their communities, contributing to the local economy.

Merlin continues to support the work of our partner charities Merlin's Magic Wand, that provides children around the world with memorable experiences, and the SEA LIFE Trust, that works to protect the marine environment. More details are set out on page 26.

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Merlin recognises that our operations impact upon the environment and we are committed to minimising the potentially harmful effects of our activities. We are committed to being an environmentally responsible business and have been a long term advocate for reducing plastic pollution. Further details are set out on pages 24 to 25.

Lenders

The Group maintains ongoing relationships with the institutions that provide financing facilities. More details on our financing arrangements and how these are structured are set out in the financial and operating review on pages 10 to 15.

In 2020, working together with the investor consortium, Merlin's parent companies raised €500 million in senior notes on the public markets to provide extra liquidity.

Board membership

The members of the Board during the year and at the date of this report are set out below.

The Group Chief Executive Officer and the Group Chief Financial Officer are executive roles and these positions do not have voting rights at Board meetings. The other Directors currently serving are the independent Chairman and the members of the investor consortium, who also have the right to appoint observers to Board and Committee meetings. Each Director from the consortium of investors has one vote at the Board.

Nick Varney, Group Chief Executive Officer

Nick has 30 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999.

Nick started his career in FMCG marketing, first with Rowntree and then with Reckitt Colman. He went on to hold senior positions within The Tussauds Group (Pearson PLC), including Marketing Director of Alton Towers and Head of Group Marketing, before becoming Managing Director of Vardon Attractions and a main Board Director of Vardon plc. In 1999 Nick led the management buyout of Vardon Attractions to form Merlin Entertainments and, in 2005, initiated the process which led to its acquisition by Blackstone.

Nick is a Board member of UK Hospitality, the trade body representing the UK's hospitality and tourism industry with a membership of over 45,000 companies.

Alistair Windybank, Group Chief Financial Officer

Alistair was appointed Chief Financial Officer in November 2020, including responsibility for Merlin Group IT and Procurement. He was appointed a Director of the Company on 1 July 2020.

Alistair joined Merlin in 2008 and has held various senior finance roles, including Head of Corporate Finance, Group Investor Relations Director, Senior Finance Director – Capital Projects and most recently, Deputy CFO.

Prior to Merlin, Alistair worked for Deloitte in Audit & Assurance.

Roland Hernandez, Independent Chairman

Roland was appointed as a Director and independent Chairman on 7 April 2020. He is the Founding Principal and Chief Executive Officer of Hernandez Media Ventures, a privately held company engaged in the acquisition and management of media assets. He has served in this capacity since January 2001.

Before founding Hernandez Media Ventures, Roland served as Chairman of Telemundo Group, Inc., a Spanish-language television and entertainment company, from 1998 to 2000 and as President and Chief Executive Officer from 1995 to 2000. He serves as a member of the Boards of US Bancorp, Fox Corporation, MGM Resorts International, and Take-Two Interactive Software, Inc. He serves on the advisory board of Harvard Law School and previously served on the Board of Directors of Belmond Ltd, Sony Corporation, Walmart Inc, and Vail Resorts, Inc.

Roland received an A.B. in economics from Harvard College and a J.D. from Harvard Law School.

Søren Thorup Sørensen, KIRKBI Shareholder Representative

Søren was appointed as a Non-executive Director of Merlin in 2013, prior to Merlin's IPO, representing KIRKBI. Søren has over 25 years' experience in finance and is currently the Chief Executive Officer of KIRKBI A/S and Director of various entities in the KIRKBI Group.

Søren is currently Chairman of the Board of Boston Holding A/S, Deputy Chairman of LEGO A/S and a Non-executive Director of ISS A/S, Landis+Gyr AG, Ole Kirk's Foundation, ATTA Foundation and Koldingvej 2, Billund A/S. Søren was formerly a Partner, Chief Financial Officer of A.P. Møller – Maersk Group and Managing Partner of KPMG Denmark.

Sidsel Marie Kristensen, KIRKBI Shareholder Representative

Sidsel was appointed as a Director on 4 November 2019. Sidsel has almost 20 years' experience as a lawyer. Sidsel joined KIRKBI A/S in 2016 and is currently Executive Vice President and General Counsel at KIRKBI A/S and Director of various entities in the KIRKBI Group.

Sidsel was formerly a Partner of the Danish law firm Bech-Bruun.

Jørgen Vig Knudstorp, KIRKBI Shareholder Representative

Jørgen was appointed as a Director on 4 November 2019, having previously been a Board observer while Merlin was listed. Jørgen has been a member of the LEGO A/S Board since 2017 and has previously served as Chairman from May 2017 to February 2020.

He is the Executive Chairman of LEGO Brand Group and Deputy Chairman of LEGO Foundation. Jørgen is also a member of the Board of Starbucks. Jørgen joined the LEGO Group in 2001, where he served as President and CEO from 2004 to 2016.

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Joseph Baratta, Blackstone Shareholder Representative

Joseph was appointed as a Director on 4 November 2019. Joseph Baratta is Global Head of Private Equity at Blackstone and a member of the firm's Management Committee. He also serves on many of the firm's investment committees.

Mr Baratta joined Blackstone in 1998 and in 2001 he moved to London to help establish Blackstone's corporate private equity business in Europe. Since 2012, Mr Baratta has served as the firm's Global Head of Private Equity and is located in New York.

Mr Baratta has served on the Boards of many past Blackstone portfolio companies and currently serves as a member or observer on the Boards of First Eagle Investment Management, Refinitiv, and SESAC. He is also a member of the Board of Trustees of Georgetown University; is a trustee of the Tate Foundation; serves on the Board of Year Up, an organisation focused on youth employment; and serves on the Board of Trustees of Trinity School in New York City.

Before joining Blackstone, Mr Baratta was with Tinicum Incorporated and McCown De Leeuw & Company. Mr Baratta also worked at Morgan Stanley in its mergers and acquisitions department. Mr Baratta graduated magna cum laude from Georgetown University.

Peter Wallace, Blackstone Shareholder Representative

Peter was appointed as a Director on 4 November 2019. Mr Wallace is a Senior Managing Director and serves as co-head of U.S. Acquisitions for Blackstone's Private Equity Group. Mr Wallace leads Blackstone's private equity investments in the business services, leisure and consumer/retail sectors.

Since joining Blackstone in 1997, Mr Wallace has led or been involved in Blackstone's investments in Alight Solutions, AlliedBarton Security Services, Allied Waste, American Axle & Manufacturing, Centennial Communications, Centerplate (formerly Volume Services America), Michaels Stores, New Skies Satellites, Outerstuff, Ltd., Pinnacle Foods/Birds Eye Foods, PSAV, PSSI, SeaWorld Parks & Entertainment (formerly Busch Entertainment Corporation), Service King, Servpro, Sirius Satellite Radio, Tradesmen International, Universal Orlando, Vivint, Vivint Solar and The Weather Channel Companies. He currently serves on the Board of Directors of Alight Solutions, Merlin Entertainments, PSAV, PSSI Service King, Servpro, Tradesmen International, and Vivint. He is a trustee of Children's Aid Society, one of America's oldest and largest children's non-profit organisations. Mr Wallace received a BA from Harvard College, where he graduated magna cum laude.

Lori Hall-Kimm, CPPIB Shareholder Representative

Lori was appointed as a Director on 4 November 2019. Lori is a Managing Director in Direct Private Equity at CPPIB, and has been leading the Consumer Retail team since 2018. Lori initially joined CPP Investments in 2016 and was previously a Senior Principal leading Co-investments within the Secondaries and Co-Investments group.

Prior to CPPIB, Lori was a Director in Private Capital at Ontario Teachers' Pension Plan from 2005 to 2015, where she established their London office, and lead numerous European fund and co-investments from 2007 to 2015. Lori previously worked in the Consumer Retail Investment Banking team at Goldman Sachs. Lori currently serves on the Board of Nord Anglia Education, and was previously on the Board of 99 Cents Only Stores, Gruppo Coin, and Alexander Forbes Pty. Lori has a BBA from York University (Schulich School of Business) and an MBA from Columbia University.

Anne-Francoise Nesmes, Group Chief Financial Officer

Anne-Francoise resigned on 30 June 2020.

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements for the 52 week period ended 26 December 2020. Comparative figures relate to the 52 weeks ended 28 December 2019.

In order to make our Annual Report and Accounts more accessible, we have set out below where certain required disclosures can be found in other areas of this Annual Report.

Strategic Report

Non-financial reporting

Information regarding Merlin's approach to the five topics required by the Companies Act is set out in the Responsible Business section on pages 22 to 26.

Other information

Other information is set out as follows:

- Business review and future developments – see pages 1 to 26.
- Research and development – details about Merlin Magic Making are located on page 6.
- Directors – details are on pages 30 to 31.
- Employees – details on how we communicate with employees are on page 22.
- Directors' responsibilities statement – see page 34.

Governance

Wates Principles

The Board has adopted the Wates Corporate Governance Principles for Large Private Companies. Details of the Wates Principles framework can be viewed on the website of the Financial Reporting Council (www.frc.org.uk). For more details see pages 27 to 28.

Other information

Other information is set out as follows:

- Corporate governance – see pages 27 to 31.
- Section 172 statement – see pages 29 to 30.

Financial statements

The financial statements contain information in the following areas:

- Capitalised interest – see note 2.3.
- Financial instruments – see note 4.3.
- Financial risk management – see note 4.3.
- Related parties – see note 5.3.
- Subsidiaries and joint ventures – see note 5.7.

Directors' Report

The Directors' Report itself contains the sections detailed below.

Share capital and related matters

The Articles of Association do not contain any restrictions on the transfer of shares in the Company other than customary restrictions applicable where any amount is unpaid on a share (all the issued share capital of the Company as of the date of this Annual Report and Accounts is fully paid). Each ordinary share in the capital of the Company ranks equally in all respects. No shareholder holds shares carrying special rights relating to the control of the Company.

Amendment to the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution of its shareholders passed at a general meeting of its shareholders.

Appointment and removal of Directors

The Company is governed by its Articles of Association and the Companies Act and related legislation, with regard to the appointment and replacement of Directors.

Power of Directors in respect of share capital

The Directors may exercise all the powers of the Company.

Directors' indemnities and insurance

The Articles of Association of the Company permit it to indemnify the Directors of the Company or any Group company against liabilities arising from or in connection with the execution of their duties or powers to the extent permitted by law.

The Company has not given any specific indemnity in favour of the Directors during the year, but the Company has purchased Directors' and Officers' Liability Insurance, which provides cover for liabilities incurred by Directors in the performance of their duties or powers. No amount was paid under any Director's indemnity or the Directors' and Officers' Liability Insurance during the year other than the applicable insurance premiums.

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DIRECTORS' REPORT

Significant contracts

There were no contracts of significance during the year to which the Company, or any of its subsidiary undertakings, is a party and in which a Director is or was materially interested.

Branches outside the UK

Merlin Entertainments Limited has no branches outside the UK.

Dividend

No dividends were paid during the year. A final dividend for the year ended 29 December 2018 of 5.5 pence per share was paid on 16 May 2019.

Going concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

In making this statement the Directors have satisfied themselves that based on its current base case projections, the Group has access to sufficient cash funds and borrowing facilities and can reasonably expect those facilities to be available to meet the Group's foreseeable cash requirements.

This assessment also takes into account an assessment of the impact of the COVID-19 pandemic, which results in a material uncertainty to going concern. For further details see note 1.1 to the financial statements.

Political donations

No political donations were made during the year.

Auditors

As recommended by the Audit Committee, a resolution for the re-appointment of KPMG LLP as auditors to the Company will be proposed. So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

Approval of Annual Report

The Strategic Report, Corporate Governance Report and the Directors' Report were approved by the Board on 15 April 2021.

For and on behalf of the Board

Matthew Jowett

Chief Corporate Officer and Company Secretary
15 April 2021

Merlin Entertainments Limited
Registered number 08700412

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DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, 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 Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent 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 Group or the parent 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

1 Our opinion is unmodified

We have audited the financial statements of Merlin Entertainments Limited (the Company) for the 52 weeks ended 26 December 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity, and the related notes, including the accounting policies in note 1.1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 26 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements 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 Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Material uncertainty related to going concern

We draw attention to note 1.1 to the financial statements which indicates that the challenges posed by the COVID-19 pandemic mean that the Group's and the parent Company's ability to continue as a going concern in a severe but plausible downside scenario may be dependent on cash injections from the consortium of investors in the parent Company's ultimate parent company (Motion JVco Limited), the confirmation (already received) that Motion JVco Limited will not seek the repayment of preference shares held as debt and parent company loans and/or the extension of further bank facilities. These events and conditions, along with the other matters explained in note 1.1, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The risk: disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and parent Company's business model and how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

There is little judgement involved in the Directors' conclusion that risks and circumstances described in note 1.1 to the financial statements represent a material uncertainty over the ability of the Group and parent Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.

However, clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.

Our response:

Our procedures included:

Assessing transparency: assessing the completeness and accuracy of the matters covered in the going concern disclosure by:

- Evaluating the processes and models used by management in its assessment;
- Evaluating whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit;
- Evaluating management's assessment of the entity's compliance with debt covenants; and
- Assessing the reasonableness of management's budgets/forecasts including comparisons to past performance and the evaluation of downside sensitivities.

Our results

We found the going concern disclosure in note 1.1 with a material uncertainty to be appropriate (2019: appropriate).

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in decreasing order of significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings (our results) from those procedures in order that the Group's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Carrying value of goodwill	Forecast based valuation:	Our procedures included:
£816 million (2019: £800 million)	A history of business combinations has resulted in significant goodwill balances. Subjectivity over recoverable amounts has increased since we signed the prior year financial statements given the impact of the COVID-19 pandemic on the estimate of forecast cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the forecast future cash flows used in calculating the value in use of each Operating Group have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.3) disclose the sensitivities estimated by the Group.	Historical comparisons: <ul style="list-style-type: none"> assessing five years' historical accuracy of the Group's forecasting and building comparable variations in forecasting accuracy into our own models that were used to re-perform the valuation; evaluating expected changes in site-level cash flows (from activities such as new promotions, customer experience improvements and trends from previous post-lockdown openings) and the planned cost base, in light of the past results of similar activities carried out by the Group as well as recovery of the sites post-closure;
Refer to pages 63 to 64 (accounting policy) and pages 64 to 65 (financial disclosures)		Sensitivity analysis: assessing the reasonableness of management's sensitivity analysis, including calculating the impact of changes in key assumptions, performing breakeven analysis of the forecast cash flows, and modelling the cash flows of a base case scenario;
Risk vs. 2019: increasing		Comparing valuations: comparing the sum of the discounted cash flows across the Group to an adjusted expected purchase price of the Group, driven by the previous acquisition price of the Group adjusted for changes in market value of industry competitors; and
		Assessing transparency: assessing whether the Group's sensitivity disclosures regarding the impairment testing adequately reflect the risks inherent in the valuation of goodwill.
		Our results We found the resulting estimate of the recoverable amount of goodwill to be acceptable (2019: acceptable).

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

Visitor and accommodation revenue recognition

£593 million (2019: £1,672 million)
Deferred income £189 million (2019: £183 million)

Refer to page 50 (accounting policy) and pages 49 to 50 (financial disclosures).

Risk vs 2019: stable

The risk

Processing error:

Merlin's revenues come from a number of different channels, locations and systems, sometimes featuring manual processes to match past purchases to redemptions or to transfer data to the finance systems.

The low value of individual transactions means individual errors would be insignificant, however the high volume of transactions mean systemic failure could lead to difficulty in detecting errors that, in aggregate, may have a material impact.

Our response

Our procedures included:

Control design and operation: testing the design, implementation and operating effectiveness of manual controls supporting revenue recognition, including reconciliations of till records to cash banked and to revenue journal entries in the accounting records;

IT controls: at certain sites, where we anticipated being able to rely on such systems, testing of the general IT control environment of the systems used to record revenue and evaluating controls over the revenue process including their operating effectiveness;

Expectation vs outcome: forming an expectation for revenue by analysing total cash received per bank statements as adjusted for non-revenue transactions, sales taxes collected and balance sheet movements and comparing this expectation to revenue recognised; and

Tests of detail:

- agreeing a sample of revenue transactions to bank statements or other supporting documentation.
- testing deferred revenue balances through agreement to ticketing system records and re-performing specific manual calculations. The extent of this testing reflected the outcome of our controls testing at each location.

Our results

We found the revenue amounts recognised to be acceptable (2019: acceptable).

Recoverability of the parent Company's investment in and amounts owed by Group undertakings

Investments in subsidiaries £3,160 million (2019: £3,160 million).
Amounts owed by Group undertakings £114 million current, £3.866 million non-current (2019: £46 million current, £3.843 million non-current)

Refer to pages 94 to 96 (accounting policy and financial disclosures).

Risk vs 2019: stable

Low risk, high value:

The carrying amount of the parent Company's investment in and amounts owed by Group undertakings represents 99.9% (2019: 100%) of the parent Company's total assets. Their recoverability does not lead to a high risk of significant misstatement, nor is it subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that has had the greatest effect on our overall parent Company audit.

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described:

Comparing valuations: comparing the carrying amount of the investment with the expected value of the business based on a recently observable sale of the Group, adjusted for market trends.

Assessing component audits: the work performed by the component team on those components and considering the results of that work on those components' profits and net assets.

Our results

We found the Group's assessment of the recoverability of the investment in and amounts owed by Group undertakings to be acceptable (2019: acceptable).

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

4 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £10,400,000 (2019: £12,250,000), determined with reference to a benchmark of Total Group revenues averaged over a four year period, of which it represents 1.7% (2019: 5.2% of Group underlying profit before tax). This is a change in the benchmark from previous years to reflect the business in a private market. Materiality for the parent Company financial statements as a whole was set at £2,000,000 (2019: £2,500,000), determined by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.02% of the parent Company's total assets (2019: 0.04%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements affecting profit exceeding £520,000 (2019: £600,000) or otherwise exceeding £2,000,000 (2019: £2,000,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The components within the scope of our work accounted for the percentages illustrated opposite. Total profits and losses coverage is calculated by considering absolute profits and losses before tax, after eliminating inter-group interest income and expense, foreign exchange movements on inter-group loans and inter-group dividends. This also includes procedures on finance costs and assets established on consolidation; the total of these balances were audited at Group level. Full scope audits for Group reporting purposes were performed at 30 (2019: 31) components in the following countries: Australia, China (including Hong Kong), Denmark, Germany, Italy, Japan, Thailand, UK, South Korea and USA.

The 22 (2019: 21) components for which we performed specified risk-focused audit procedures or analysis at an aggregated Group level were not individually significant but were included in the scope of our Group reporting work to provide further coverage. We select these components on a rotational basis, setting a financial threshold on each of the Group loss before tax, Group revenue and Group property, plant and equipment and using our assessment of risk to select a sample of sites from those that meet at least one of these thresholds.

The remaining 10% (2019: 8%) of total Group loss before tax, 20% (2019: 15%) of Group revenue and 15% (2019: 15%) of Group property, plant and equipment is represented by a large number of smaller reporting components, none of which individually represented more than 0.3% (2019: 2.7%) of any of the total profits or losses that made up Group loss before tax, total Group revenue or total Group property, plant and equipment. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved each component materiality, which ranged from £225,000 to £3,600,000 (2019: £500,000 to £6,000,000), having regard to the mix of size and risk profile of the sub-group across the components. The Group audit team carried out audits for Group reporting purposes of the financial information of components covering 35% (2019: 41%) of the total profits and losses that made up total loss before tax. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, covering a further 1% (2019: 1%) of total profits and losses that made up sub-group loss before tax.

We performed inspection of the work covering the key audit matters at all component audit teams performing audits for Group reporting purposes. Video conference meetings were held with all component auditors. At these meetings, the Group audit team provided further input into audit risk and strategy, and the findings reported to the Group team were discussed in more detail. Any further work required by the Group team was then performed by the component auditor.

The Group audit team had planned to visit component locations; however, these visits were prevented by movement restrictions relating to the COVID-19 pandemic. Instead, the Group audit team conducted remote file reviews by senior members of the audit team to evaluate whether work performed over significant risk areas was sufficient. In addition, the Group audit team attended local final audit closing meetings via conference call. Due to regulatory restrictions, a remote file review was not possible for the Chinese component; therefore, the Group audit team had obtained extended reporting and held an expanded closing meeting with the Chinese component audit team to understand, assess and challenge the audit approach and findings.

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company, or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements (the going concern period). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management, those charged with governance, internal audit and the Audit Committee as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- reading Board/Audit Committee/Health, Safety and Security Committee, Executive Committee, Commercial and Strategic Risk Management Committee and Development Board minutes.
- considering the remuneration incentive schemes and performance targets for management and Directors.
- using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because based on the disaggregated nature of revenue transactions as described in section 3 of our report, we do not consider fraudulent revenue recognition could accumulate into material errors in the Group financial statements.

We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unusual postings to revenue and unusual postings to related cash accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and discussed with management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments Limited

7 We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- 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.

8 We have nothing to report on the other 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the financial statements including 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 Group and parent 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 Group or the parent 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.

10 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 and the terms of our engagement by the Company. 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 the further matters we are required to state them in accordance with the terms agreed with the Company, 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.

Andrew Campbell-Orde (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Gateway House

Tollgate

Chandlers Ford

Southampton

SO53 3TG

15 April 2021

PRIMARY STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

		2020			2019		
	Note	Underlying trading £m	Exceptional items ⁽³⁾ £m	Total £m	Underlying trading £m	Exceptional items ⁽³⁾ £m	Total £m
Continuing operations							
Revenue	2.1	629	-	629	1,740	-	1,740
Cost of sales	2.1	(132)	-	(132)	(317)	-	(317)
Gross profit		497	-	497	1,423	-	1,423
Staff expenses	2.1	(289)	(14)	(303)	(459)	(23)	(482)
Marketing		(30)	-	(30)	(90)	-	(90)
Other operating expenses		(254)	1	(253)	(305)	(50)	(355)
EBITDA ⁽¹⁾	2.1	(76)	(13)	(89)	569	(73)	496
Depreciation, amortisation and impairment	3.1, 3.2, 4.4	(243)	(94)	(337)	(227)	(38)	(265)
Operating (loss)/profit		(319)	(107)	(426)	342	(111)	231
Finance income	2.3	4	-	4	5	47	52
Finance costs	2.3	(226)	-	(226)	(113)	(37)	(150)
(Loss)/profit before tax		(541)	(107)	(648)	234	(101)	133
Taxation	2.4	96	28	124	(67)	14	(53)
(Loss)/profit for the year from continuing operations		(445)	(79)	(524)	167	(87)	80
Discontinued operations							
Profit for the year from discontinued operations	2.5	-	-	-	-	42	42
(Loss)/profit for the year ⁽²⁾		(445)	(79)	(524)	167	(45)	122

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

⁽²⁾ (Loss)/profit for the year for 2020 and 2019 is wholly attributable to the owners of the Company

⁽³⁾ Details of exceptional items are provided in note 2.2

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

	Note	2020 £m	2019 £m
(Loss)/profit for the year		(524)	122
Other comprehensive income			
<i>Items that cannot be reclassified to the consolidated income statement</i>			
Equity investments at FVOCI - net change in fair value	5.1	(42)	3
Defined benefit plan remeasurement losses	5.2	(4)	(2)
Income tax on items relating to components of other comprehensive income	2.4	8	1
		(38)	2
<i>Items that may be reclassified to the consolidated income statement</i>			
Exchange differences on the retranslation of net assets of foreign operations		(5)	(81)
Exchange differences relating to the net investment in foreign operations		-	20
Cash flow hedges - reclassified to profit and loss	2.3	-	(2)
		(5)	(63)
Other comprehensive income for the year net of income tax		(43)	(61)
Total comprehensive income for the year⁽¹⁾		(567)	61
Total comprehensive income attributable to owners of the Company arising from:			
Continuing operations		(567)	18
Discontinued operations		-	43
		(567)	61

⁽¹⁾ Total comprehensive income for the year for 2020 and 2019 is wholly attributable to the owners of the Company

PRIMARY STATEMENTS

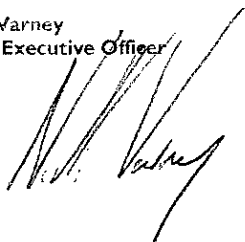
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 26 December 2020 (2019: 28 December 2019)

	Note	2020 £m	2019 £m
Property, plant and equipment	3.1	2,353	2,263
Right-of-use assets	4.4	950	976
Goodwill and intangible assets	3.2	1,038	1,012
Investments	5.1	19	63
Other receivables	3.4	15	12
Deferred tax assets	2.4	103	60
Non-current assets		4,478	4,386
Inventories	3.4	54	54
Trade and other receivables	3.4	84	124
Derivative financial assets		4	2
Tax receivable		26	-
Cash and cash equivalents	4.1	155	160
Current assets		323	340
Total assets		4,801	4,726
Interest-bearing loans and borrowings	4.2	20	2
Lease liabilities	4.4	69	39
Amounts owed to parent undertaking	4.2	73	16
Derivative financial liabilities		1	2
Trade and other payables	3.4	471	443
Tax payable		-	53
Provisions	3.5	9	5
Current liabilities		643	560
Interest-bearing loans and borrowings	4.2	304	310
Lease liabilities	4.4	1,134	1,119
Parent company loans	4.2	1,311	758
Preference shares issued to parent company treated as liabilities	4.2	2,132	2,120
Other payables	3.4	24	24
Provisions	3.5	95	92
Employee benefits	5.2	11	7
Deferred tax liabilities	2.4	135	157
Non-current liabilities		5,146	4,587
Total liabilities		5,789	5,147
Net liabilities		(988)	(421)
Issued capital and reserves attributable to owners of the Company		(992)	(425)
Non-controlling interest		4	4
Total equity	4.5	(988)	(421)

The financial statements were approved by the Board of Directors on 15 April 2021 and were signed on its behalf by:

Nick Varney
Chief Executive Officer



Alicia Winobanks
Chief Financial Officer



PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 30 December 2010		10	16	(12)	2	1,618	1,634	5	1,639
Profit for the year		-	-	-	-	122	122	-	122
Other comprehensive income for the year net of income tax		-	-	(61)	(2)	2	(61)	-	(61)
Total comprehensive income for the year		-	-	(61)	(2)	124	61	-	61
Shares issued		-	30	-	-	-	30	-	30
Bonus issue of preference shares		-	-	-	-	(2,117)	(2,117)	-	(2,117)
Equity dividends	4.5	-	-	-	-	(56)	(56)	-	(56)
Equity-settled share-based payments	4.6	-	-	-	-	23	23	-	23
Dividends to non-controlling interest		-	-	-	-	-	-	(1)	(1)
At 28 December 2019		10	46	(73)	-	(408)	(425)	4	(421)
Loss for the year		-	-	-	-	(524)	(524)	-	(524)
Other comprehensive income for the year net of income tax		-	-	(5)	-	(38)	(43)	-	(43)
Total comprehensive income for the year		-	-	(5)	-	(562)	(567)	-	(567)
At 26 December 2020	4.5	10	46	(78)	-	(970)	(992)	4	(988)

PRIMARY STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

	Note	2020 £m	2019 £m
Cash flows from operating activities			
(Loss)/profit for the year		(524)	122
Adjustments for:			
Depreciation, amortisation and impairment	3.1, 3.2, 4.4	337	265
Finance income	2.3	(4)	(52)
Finance costs	2.3	226	150
Taxation	2.4	(124)	53
Profit for the year from discontinued operations, net of tax	2.5	-	(42)
		(89)	496
Loss on sale of property, plant and equipment		2	-
Movements in working capital		45	22
Changes in provisions and other non-current liabilities		3	15
		(39)	533
Tax paid		(16)	(73)
Net cash (outflow)/inflow from operating activities		(55)	460
Cash flows from investing activities			
Interest received		2	1
Purchase of property, plant and equipment		(306)	(379)
Disposal of discontinued operations, net of cash disposed of	2.5	-	92
Disposal of property, plant and equipment		1	8
Grants received	5.3	-	41
Net cash outflow from investing activities		(303)	(237)
Cash flows from financing activities			
Proceeds from issue of share capital		-	30
Equity dividends paid	4.5	-	(56)
Proceeds from borrowings	4.2	7	-
Repayment of borrowings		-	(791)
Proceeds from parent company loans		519	800
Capital repayment of lease liabilities		(16)	(48)
Interest paid		(165)	(105)
Financing costs		-	(2)
Settlement of interest rate swaps		-	7
Dividends paid to non-controlling interest		-	(1)
Net cash inflow/(outflow) from financing activities		345	(166)
Net (decrease)/increase in cash and cash equivalents		(13)	57
Cash and cash equivalents at beginning of year	4.1	160	110
Effect of movements in foreign exchange		8	(7)
Cash and cash equivalents at end of year	4.1	155	160

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

1.1 BASIS OF PREPARATION

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

The consolidated financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The Company continues to prepare its parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all subsidiaries and joint ventures.

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

The consolidated financial statements are presented in Sterling.

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

Going concern

The Group reported a loss for the year of £524 million (2019: profit of £122 million) and generated operating cash outflows of £55 million (2019: inflows of £460 million). Notwithstanding net liabilities of £988 million as at 26 December 2020, the consolidated financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate for the reasons as set out below.

Coronavirus (COVID-19) pandemic

As at the date of approving these financial statements, the impact of COVID-19 on the Group's trading is continually being assessed and subject to rapid changes outside of our control.

Currently approximately 60% of our attractions are open reflecting the gradual easing of governmental restrictions as vaccine roll outs progress and virus transmission rates reduce. While regional variations are anticipated, our 'base case' forecast is based on what we believe is a balanced approach that anticipates a gradual recovery to more normalised trading conditions.

In this base case, extending up to the end of Q3 2022, we have made certain key assumptions. We have assumed that the roll out of coronavirus vaccines will not eliminate the need for social distancing to remain for a substantial part of the review period, thereby reducing the capacity of some of our attractions during peak periods. While we assume there are no further global lockdowns, we expect the ability of people to travel across borders will remain restricted.

In this situation ongoing Group revenues are projected to recover to approximately 80% of normal levels by the end of 2021, and 85-90% of normal levels by mid 2022. As a result of the restructuring and business re-engineering activities undertaken in 2020, the impact of reduced revenues on Merlin's EBITDA and cash generation is less marked, with a greater ability to adjust the cost base in line with the level of trading. We continue to take appropriate measures to maximise available liquidity, for example by accessing government support where it is available.

Our New Business Development capital expenditure plans include the completion of LEGOLAND New York and LEGOLAND Korea. Capital projects in respect of new Midway attractions and new features at existing attractions had been progressing towards completion when the COVID-19 pandemic caused our attractions to close or not reopen at the start of the 2020 trading season. These projects are now substantially complete and accordingly we expect to see the commercial benefit of these as the attractions open. Essential capital expenditure to ensure the health and safety of our guests and staff at existing attractions will continue.

The Directors have prepared cash flow forecasts for a period from the date of approval of these financial statements up to the end of Q3 2022 which indicate that, under the base case, the Group will have sufficient funds to meet its liabilities as they fall due. The Group continues to have access to a revolving credit facility (RCF) under the Motion JVco Limited Group's financing facilities (see below). We have seen cash outflows since the end of 2020 reflecting the normal seasonality of trading combined with ongoing capital investment and the impact of certain attractions being closed as a result of COVID-19.

In this base case, there would be no breach of lending facilities taking into account the terms of the covenant calculations. There are no significant restrictions on the ability of the Company to move cash around the Group, and no material capital repayments of debt falling due within the forecast period, with the next maturity of facilities being in respect of €500 million of 7.0% senior secured notes (issued by a Motion JVco Limited Group company) due 2025.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

1.1 BASIS OF PREPARATION (CONTINUED)**Downside scenario**

It remains very difficult to assess how the COVID-19 situation will evolve. The Directors believe the base case scenario above is reasonable, assuming as it does the continuation of certain restrictions in the near term, both on the ability of citizens to move freely and also on the capacity of our attractions.

However, it is possible that existing site closures may continue for a longer period, that attractions currently open may be forced to close again, and/or that the recovery profile is slower than in the base case.

The Directors have therefore prepared a more severe downside scenario that models all attractions in the UK and Europe being closed throughout April and May 2021 and an even slower recovery is experienced in the London division of the Midway Attractions Operating Group. In this situation, although the Group's currently available liquidity would remain positive throughout the review period, the Group's liquidity headroom would be significantly reduced. Were the Group to then require access to further liquidity, this could be sought through cash injections from the consortium of investors in the Company's ultimate parent company Motion JVco Limited, and/or the extension of further lending facilities. Given Merlin's history of cash generation and the successful issue of debt securities during the COVID-19 pandemic, we would expect to be able to raise such funds as were necessary. However, there is no guarantee that such funds will be available.

Consistent with the base case, under this scenario there would be no breach of lending facilities taking into account the terms of the covenant calculations.

As noted above, the situation is constantly changing and subject to unforeseeable developments. Therefore, it remains possible that further significant negative developments may arise, over and above the scenarios that have been modelled.

Access to wider Group facilities

The base case forecasts and downside sensitivities noted above partly depend on the ultimate parent company, Motion JVco Limited, not seeking repayment of the preference shares held as debt and parent company loans, which at 26 December 2020 amounted to £2,132 million and £1,311 million respectively, and making available £150 million of cash currently invested in its name. Motion JVco Limited has indicated its intention not to seek repayment of the amounts due at the balance sheet date for the period covered by the forecasts, and if needed make available £150 million of cash. Motion JVco Limited has also indicated that the £400 million RCF noted above is solely available for the Group and will not be used for any other purpose. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Reflecting the possibility of further significant negative developments as noted above, Motion JVco Limited itself also discloses a material uncertainty in relation to going concern in its consolidated 2020 financial statements.

Based on these indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

However, the circumstances surrounding the COVID-19 pandemic represent a continuing material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainment Limited and its subsidiaries at the end of each reporting period and include its share of its joint ventures' results using the equity method.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns through its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated.

Where subsidiaries enter into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, these are considered to be insurance arrangements and accounted for as such. In this respect, the subsidiary concerned treats the guarantee contract as a contingent liability until such time as it becomes probable that it will be required to make a payment under the guarantee.

Foreign currency

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, except when deferred in equity as qualifying net investment hedges.

The results and financial position of those Group companies that do not have a Sterling functional currency are translated into Sterling as follows:

- Assets and liabilities are translated at the closing rate at the end of the reporting period.
- Income and expenses are translated at average exchange rates during the period.
- All resulting exchange differences are recognised in equity in the translation reserve.

The reporting date foreign exchange rates by major currency are provided in note 4.3.

NOTES TO THE ACCOUNTS

SECTION I

BASIS OF PREPARATION CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

1.1 BASIS OF PREPARATION (CONTINUED)**Classification of financial instruments issued by the Group**

Financial instruments are recognised on the statement of financial position when the Group becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant note.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Group's interest-bearing loans and borrowings and parent company loans and preference shares, are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Group's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are dealt with as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Group after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Where financial instruments consist of a combination of debt and equity, the Group will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

Judgements and estimates

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

Judgements

Management considers the following areas to be the judgements that have the most significant effect on the amounts recognised in the financial statements. They are explained in more detail in the related notes:

- *Useful life of brands (note 3.2)* - where brands have been recognised as part of an acquisition, they have been assessed as having indefinite useful lives and management have considered that this judgement remains appropriate.
- *Goodwill impairment reviews (note 3.3)* - the level at which goodwill is initially allocated and thereafter monitored.
- *Lease obligations (note 4.4)* - IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group makes a judgement as to whether it is reasonably certain that the option will be taken.

Estimates

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

- *Valuation of assets and impairment (note 3.3)* - estimation of discounted cash flows when calculating the value in use of assets.
- *Taxation (note 2.4)* - recognition of deferred tax balances and accounting for tax risks.
- *Provisions (note 3.5)* - estimated outflow to settle the obligation and, where relevant, the appropriate discount and inflation rates to apply.
- *Interest-bearing loans and borrowings (note 4.2)* - expected period of borrowings when calculating the effective interest rate on those borrowings.
- *Lease obligations (note 4.4)* - estimation of the discount rate used in the calculation of certain lease liabilities.
- *Investments (note 5.1)* - earnings multiple when calculating the fair value of investments.
- *Employee benefits (note 5.2)* - assumed discount rate, inflation rate and mortality when valuing defined benefit liabilities.

While these areas do not present a significant risk resulting in a material adjustment, they are areas of focus for management.

New standards and interpretations

A full list of new accounting standards and interpretations that have been implemented in the year, including those which have had no significant impact, can be found in note 5.5.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.1 PROFIT BEFORE TAX

Segmental information

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

	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results	Other items ⁽⁴⁾	Exceptional items ⁽⁵⁾	Total
	£m	£m	£m	£m	£m	£m	£m
<i>Continuing operations ⁽¹⁾</i>							
2020							
Visitor revenue	216	149	128	493	-	-	493
Accommodation revenue	-	62	38	100	-	-	100
Other revenue	12	17	3	32	4	-	36
Revenue ⁽²⁾	228	228	169	625	4	-	629
EBITDA ⁽³⁾	(8)	(21)	8	(21)	(55)	(13)	(89)
Depreciation and amortisation	(112)	(64)	(54)	(230)	(13)	-	(243)
Impairment	-	-	-	-	-	(94)	(94)
Operating loss ⁽³⁾	(120)	(85)	(46)	(251)	(68)	(107)	(426)
2019							
Visitor revenue	652	479	304	1,435	-	-	1,435
Accommodation revenue	-	164	73	237	-	-	237
Other revenue	22	26	11	59	9	-	68
Revenue ⁽²⁾	674	669	388	1,731	9	-	1,740
EBITDA ⁽³⁾	240	243	128	611	(42)	(73)	496
Depreciation and amortisation	(103)	(60)	(52)	(215)	(12)	-	(227)
Impairment	-	-	-	-	-	(38)	(38)
Operating profit ⁽³⁾	137	183	76	396	(54)	(111)	231

⁽¹⁾ The segmental information excludes the activities of the Australian ski resorts which have been classified as discontinued operations (note 2.5)

⁽²⁾ Revenue is disaggregated into the three categories described below

⁽³⁾ Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit/(loss) is included for information purposes.

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

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

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.1 PROFIT BEFORE TAX (CONTINUED)

Geographical areas

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

Geographical information

	Revenues	Non-current assets	Revenues	Non-current assets
	2020	2020	2019	2019
	£m	£m	£m	£m
United Kingdom	222	1,410	560	1,450
Continental Europe	169	1,095	429	1,062
North America	129	1,031	479	974
Asia Pacific	109	820	272	777
	629	4,356	1,740	4,263
Deferred tax (note 2.4)		103		60
Investments (note 5.1)		19		63
		4,478		4,386

Revenue

Revenue represents the amounts received (excluding VAT and similar taxes) in the areas set out below and which have been disaggregated in the segmental information presented above. When accounting for revenue, Merlin makes an assessment, considering the control principles of IFRS 15, as to whether parties involved in providing goods or services to a customer are acting as a principal (if they control delivery to the customer) or, if they are arranging for those goods or services to be provided by the other party, as an agent.

- Visitor revenue - represents admissions tickets, retail, food and beverage sales and other commercial offerings such as photos and games experiences inside a Merlin attraction. Tickets, annual passes and other services can be bought in advance, generally online, in which case these advanced revenues are held in deferred revenue until the visitor uses those tickets or services. Visitor revenue is therefore recognised when the visitor enters the attraction. Revenue from annual passes and other tickets that entitle a customer to continued visits over a period of time is deferred and then recognised over the period that the pass is valid. Retail and food and beverage revenue, along with other similar commercial offerings, is recognised at point of sale.
- Accommodation revenue - represents overnight stay and conference room revenue along with food and beverage revenue earned within our hotels and other accommodation offerings. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation.
- Other revenue - represents sponsorship, function, management and service contract revenue along with other sundry items. Sponsorship revenue is recognised over the relevant contract term. Function revenue is recognised at the time of the event. From time to time, the Group also enters into contracts for attraction development, which is recognised as performance obligations under the contract are met. Service contract revenue in 2020 and 2019 is not material.

Cost of sales

Cost of sales of £132 million (2019: £317 million) represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activities. Retail inventory, food and beverage consumables and costs associated with the delivery of accommodation are the principal expenses included within this category.

Operating expenses

Staff numbers and costs

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

	2020	2019
Continuing operations		
Operations	11,509	19,106
Attraction management and central administration	2,090	2,196
	13,599	21,302

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.1 PROFIT BEFORE TAX (CONTINUED)

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£m	£m
Continuing operations		
Wages and salaries	304	393
Share-based payments (note 4.6)	-	23
Social security costs	37	53
Other pension costs	11	13
Government support	(49)	-
	303	482

The Group has accessed government support measures in the geographies in which it operates, including employee furlough schemes. This funding meets the definition of a government grant and the income recognised in the period in relation to these schemes was £49 million, primarily in the UK, Australia, and Germany. The grants are recognised at fair value when the Group has reasonable assurance that it will comply with any conditions attached to the grant and that the grant will be received. The funding received is included within the cash flows from operating activities in the consolidated statement of cash flows.

Directors' remuneration

In 2020 the employment costs of the Directors of the Company have been borne by Motion Acquisition Limited (the parent company) and Merlin Entertainments Group Limited for their services to the Group as a whole (2019: Merlin Entertainments Group Limited).

	2020	2019
	£m	£m
Directors' remuneration	1.1	2.3
Amounts receivable under long term incentive schemes	-	5.2
Contributions to money purchase pension schemes	0.2	0.2
Compensation for loss of office	-	0.2
	1.3	7.9

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £0.6 million (2019: £4.4 million), and Company pension contributions of £0.1 million (2019: £0.1 million).

	2020	2019
Number of Directors with retirement benefits accruing in respect of money purchase schemes	1	1
Number of Directors who exercised share options	-	2
Number of Directors in respect of whose qualifying services were received or receivable under long term incentive schemes	-	2

Related party transactions with key management personnel

The remuneration of key management, comprising the members of the Executive Committee, was as follows:

	2020	2019
	£m	£m
Key management emoluments including social security costs	5.4	22.6
Contributions to money purchase pension schemes	0.2	0.2
Share-based payments and other related payments	-	6.8
	5.6	29.6

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.1 PROFIT BEFORE TAX (CONTINUED)

Auditor's remuneration

	2020	2019
	£m	£m
Audit of these financial statements	1.7	1.5
Audit of financial statements of subsidiaries	0.4	0.4
Other assurance services	0.1	0.3
Services relating to corporate finance transactions	0.2	0.2
	2.4	2.4

Other operating expenses

In addition to the employee furlough schemes noted above, governments worldwide introduced a number of other support measures that the Group accessed. These totalled £8 million and were offset against other operating expenses in the income statement. The largest of these, totalling £4 million, related to arrangements whereby the government funding provided support for an element of the fixed costs of the relevant business. The funding received is included within the cash flows from operating activities in the consolidated statement of cash flows.

2.2 EXCEPTIONAL ITEMS**Accounting policy**

Due to their nature, certain one-off and non-trading items can be classified separately as exceptional items in order to draw them to the attention of the reader. In the judgement of the Directors this presentation shows the underlying performance of the Group more accurately.

Exceptional items

The following items are exceptional and have been shown separately on the face of the consolidated income statement.

	2020	2019
	£m	£m
<i>Within staff expenses:</i>		
Productivity and efficiency activities ⁽¹⁾	14	-
Transaction costs ⁽²⁾	-	23
<i>Within other operating expenses:</i>		
Productivity and efficiency activities ⁽¹⁾	1	7
Transaction costs ⁽²⁾	(2)	43
Exceptional items included within EBITDA	13	73
<i>Within depreciation, amortisation and impairment:</i>		
Impairment charges ⁽³⁾	94	38
Exceptional items included within operating (loss)/profit	107	111
<i>Within finance income and costs</i>		
Foreign exchange gain ⁽⁴⁾	-	(47)
Charges incurred on the transaction in respect of the €700/\$400 million notes ⁽⁵⁾	-	37
Exceptional items before income tax	107	101
Income tax credit on exceptional items above	(28)	(14)
Exceptional items included within continuing operations	79	87
Exceptional items included within discontinued operations (note 2.5)	-	(42)
Exceptional items for the year	79	45

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.2 EXCEPTIONAL ITEMS (CONTINUED)

- ¹¹ Certain one-off operational costs have been incurred in respect of productivity and efficiency related activities. They mainly relate to changes made to our organisational structures in attractions and support functions, primarily in response to the COVID-19 pandemic in 2020, together with the completion of long term productivity initiatives commenced in previous years. They are separately presented as they are not part of the Group's underlying operating expenses.
- ¹² Transaction costs within staff expenses in 2019 represented share-based payment and bonus costs that were either accelerated or otherwise specifically incurred in connection with the sale of the Company to the investor consortium in November 2019. Within other operating expenses the costs relate to the sale of the MEL Group to the investor consortium in late 2019. In 2020 a net credit of £2 million has been recognised as final costs were calculated.
- ¹³ Impairment charges have been made in the year of £78 million (2019: £32 million) in property, plant and equipment and £16 million (2019: £6 million) in right-of-use assets, in respect of certain of the Group's attractions. The discounted cash flows that underpin our value in use calculations reflect our current business plans which have been updated for factors including the short term impact of COVID-19. In particular, this includes consideration of LEGOLAND New York where the opening has been delayed and where we are expecting shorter term headwinds, limiting our ability to launch the attraction and build momentum in an environment where social distancing may well be in operation and an uncertain economic environment will prevail. They are separately presented as they are not part of the Group's underlying depreciation charge.
- ¹⁴ Exceptional foreign exchange gains in 2019 resulted from foreign exchange exposures on certain financing arrangements with parent companies entered into as a result of the transaction in November 2019, until such foreign exchange exposures could be hedged. Ordinarily the Group's structure is set-up to minimise foreign exchange exposures and therefore there would not be similar exposures in the future that could result in such movements. They were therefore separately presented as they were not part of the Group's underlying finance costs.
- ¹⁵ Charges incurred in 2019 primarily related to a one-off charge of £36 million in order to repay the €700 million seven year notes shortly after the transaction in November 2019. As a result of the transaction the Group was required to repay bonds that were otherwise expected to be long term financing and therefore early settlement of this bond was a one-off matter relating to the transaction. The Group does not have a track record of incurring material costs associated with early settlement of bonds as part of its normal financing arrangements. This charge was therefore separately presented as it was not part of the Group's underlying finance costs.

2.3 FINANCE INCOME AND COSTS**Accounting policies****Income and costs**

Finance income comprises interest income from financial assets and investments, applicable foreign exchange gains and gains on hedging instruments that are recognised in the income statement. Finance costs comprise interest expense, finance charges on finance leases, applicable foreign exchange losses and losses on hedging instruments that are recognised in the income statement. Interest income and interest expense are recognised as they accrue, using the effective interest method.

Capitalisation of borrowing costs

Where assets take a substantial time to complete, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of those assets.

Finance income

	2020 £m	2019 £m
Continuing operations		
Underlying trading		
<i>In respect of assets not held at fair value</i>		
Interest income	4	1
<i>In respect of assets held at fair value</i>		
Cash flow hedges – reclassified to profit and loss ¹¹	-	2
<i>Other</i>		
Net foreign exchange gain	-	2
	4	5
Exceptional items		
<i>Other</i>		
Net foreign exchange gain (note 2.2)	-	47
	4	52

- ¹¹ As part of the refinancing undertaken during 2018, the Group restructured its interest rate swaps and was paid a net £5 million to cash-settle certain swaps. The swaps had previously been hedge accounted through equity and £2 million was recycled through the income statement in the period to 28 December 2019.

NOTES TO THE ACCOUNTS

SECTION 2

RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.3 FINANCE INCOME AND COSTS (CONTINUED)

Finance costs

	2020 £m	2019 £m
<i>Continuing operations</i>		
Underlying trading		
<i>In respect of liabilities not held at fair value</i>		
Interest expense on lease liabilities	61	61
Interest expense on financial liabilities measured at amortised cost	22	42
Interest expense on parent company loans	60	3
Interest expense on preference shares treated as debt	95	13
Capitalised borrowing costs	(18)	(9)
Other interest expense	2	3
<i>Other</i>		
Net foreign exchange loss	4	-
	226	113
Exceptional items		
<i>In respect of liabilities not held at fair value</i>		
Charges incurred on the transaction in respect of the €700/\$400 million notes (note 2.2)	-	37
	226	150

Capitalised borrowing costs amounted to £18 million in 2020 (2019: £9 million), with a capitalisation rate of 4.4% (2019: 3.8%). Tax relief on capitalised borrowing costs amounted to £5 million in 2020 (2019: £2 million).

2.4 TAXATION**Accounting policies**

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 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. This assessment is made after considering a number of factors, including the Group's future trading expectations.

Provisions for uncertain tax positions are recognised when the Group has a present obligation as a result of a past event and management judge that it is probable that there will be a future outflow of economic benefits to settle that obligation. Uncertain tax positions are assessed and measured on an issue by issue basis within the jurisdictions that we operate using management's estimate of the most likely outcome. A combination of in-house tax experts, previous experience and professional firms is used when assessing uncertain tax positions.

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.4 TAXATION (CONTINUED)

Recognised in the income statement

	2020 £m	2019 £m
<i>Continuing operations</i>		
<i>Current tax</i>		
Current year	(56)	62
Adjustment for prior periods	(10)	2
Total current income tax	(66)	64
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(56)	(10)
Changes in tax rate	(2)	(2)
Adjustment for prior periods	-	1
Total deferred tax	(58)	(11)
Total tax (credit)/expense in income statement	(124)	53

Reconciliation of effective tax rate

	2020 %	2020 £m	2019 %	2019 £m
<i>Continuing operations</i>				
(Loss)/profit before tax		(648)		133
Income tax using the UK domestic corporation tax rate	19.0%	(123)	19.0%	25
Effect of tax rates in foreign jurisdictions		(30)		4
Non-deductible expenses		6		21
Income not subject to tax		(2)		(12)
Effect of changes in tax rate		(2)		(2)
Unrecognised temporary differences		37		14
Adjustment for prior periods		(10)		3
Total tax (credit)/expense in income statement	19.1%	(124)	39.8%	53

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

The difference between the reported ETR of 19.1% and the UK standard tax rate of 19.0% is largely attributable to the Group's geographic mix of profits and the benefit derived from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the USA, offset by the Group's inability to obtain relief for interest expenses and the impact of non-deductible preference share dividends. The Group's geographic mix of profits includes the effect of the exceptional impairment of assets held by overseas Group companies. When the effect of the exceptional items is removed the underlying ETR is 17.7%.

The Group has benefited from certain reliefs available in the CARES Act in the US. This allows operating losses generated in 2020 to be carried back five years. As the corporate tax rate was higher in the earlier years the Group has obtained a permanent benefit from the carry back.

Significant factors impacting the Group's future ETR include the Group's geographic mix of profits, the ability to obtain effective relief for the interest expense and changes to local or international tax laws. Revisions to the allocation of taxing rights, as envisaged in the OECD's proposals in relation to Pillar One and Pillar Two could have a material impact on the Group's ETR.

The impact of the European Commission's finding relating to the UK's Controlled Foreign Company rules is further detailed in note 5.4.

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RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.4 TAXATION (CONTINUED)

Recognised directly in equity through the statement of other comprehensive income

	2020 £m	2019 £m
Equity investments at FVOCI - net change in fair value	(7)	-
Remeasurement losses on defined benefit plans	(1)	(1)
Total tax credit in statement of other comprehensive income	(8)	(1)

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment	45	24	(133)	(131)	(88)	(107)
Right-of-use assets / lease liabilities	31	31	(3)	(3)	28	28
Other short term temporary differences	34	27	(2)	(2)	32	25
Intangible assets	-	-	(49)	(46)	(49)	(46)
Tax value of loss carry-forwards	45	3	-	-	45	3
Tax assets/(liabilities)	155	85	(187)	(182)	(32)	(97)
Set-off tax	(52)	(25)	52	25	-	-
Net tax assets/(liabilities)	103	60	(135)	(157)	(32)	(97)

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

Set-off tax is separately presented to show deferred tax assets and liabilities by category before the effect of offsetting these amounts in the statement of financial position where the Group has the right and intention to offset these amounts.

Movement in deferred tax during the current year

	29 December 2019 £m	Disposal of subsidiary undertakings £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	26 December 2020 £m
Property, plant and equipment	(107)	-	19	-	-	(88)
Right-of-use assets / lease liabilities	28	-	-	-	-	28
Other short term temporary differences	25	-	7	-	-	32
Intangible assets	(46)	-	(2)	-	(1)	(49)
Tax value of loss carry-forwards	3	-	34	8	-	45
Net tax assets/(liabilities)	(97)	-	58	8	(1)	(32)

In 2020 movements recognised in the income statement were principally due to the exceptional impairment of assets held by overseas group companies and an increase in losses recognised for deferred tax.

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RESULTS FOR THE YEAR CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.4 TAXATION (CONTINUED)

Movement in deferred tax during the previous year

	30 December 2018 £m	Disposal of subsidiary undertakings £m	Recognised in income £m	Recognised in other comprehensive income £m	Effect of movements in foreign exchange £m	28 December 2019 £m
Property, plant and equipment	(131)	1	18	-	5	(107)
Right-of-use assets / lease liabilities	41	-	(13)	-	-	28
Other short term temporary differences	23	-	4	1	(3)	25
Intangible assets	(49)	-	1	-	2	(46)
Tax value of loss carry-forwards	2	-	1	-	-	3
Net tax assets/(liabilities)	(114)	1	11	1	4	(97)

In 2019 movements recognised in the income statement were principally due to depreciation in the UK and the USA exceeding tax allowances utilised. This was partially offset by a reduction in the lease liabilities recognised for deferred tax.

Unrecognised deferred tax assets

	2020 £m	2019 £m
Property, plant and equipment	2	2
Right-of-use assets / lease liabilities	19	-
Other short term temporary differences	40	31
Tax value of loss carry-forwards	82	66
Net unrecognised tax assets	143	99

The unrecognised deferred tax assets relating to loss carry-forwards include £5 million (2019: £2 million) expiring in 0-5 years and £20 million (2019: £9 million) expiring in 6-10 years. The remaining losses and other timing differences do not expire under current tax legislation.

The nature and location of the tax losses carried forward are such that there is currently no expectation that the majority of the losses will be utilised.

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

2.5 DISCONTINUED OPERATIONS

At the start of 2019 the Company progressed negotiations to sell its Australian ski resorts at Mount Hotham and Falls Creek to Vail Resorts Inc. (Vail). On 21 February 2019 the Company entered into an agreement to sell the resorts to Vail for a cash consideration of A\$174 million. The transaction was subject to the completion of relevant regulatory filings and completed on 5 April 2019.

The tables below show the results of the discontinued operations which are included in the Group income statement and Group cash flow statement respectively.

Income statement

	2019
	£m
Costs to sell	(1)
Profit after tax on disposal of Australian ski resorts	43
Total profit after tax of discontinued operations	42

The profit after tax on disposal of the Group's Australian ski resorts is made up as follows:

	£m
Net book value of assets disposed	(29)
Consideration received in cash	93
Taxation	(21)
Profit after tax on disposal of Australian ski resorts	43

Cash flow statement

	2019
	£m
Net cash flow from investing activities	92
	92

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OPERATING ASSETS

AND LIABILITIES

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

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.

Assets acquired through business combinations

At the time of a business combination PPE is separately recognised and valued. Given the specialised nature of the PPE acquired, fair values are calculated on a depreciated replacement cost basis. The key estimates are the replacement cost, where industry specific indices are used to restate original historic cost; and depreciation, where the total and remaining economic useful lives are considered, together with the residual value of each asset. The total estimated lives applied are consistent with those set out below. Residual values are based on industry specific indices.

New sites

Capital expenditure on new attractions includes all the costs of bringing the items of PPE within that attraction into use ready for the opening of the attraction. Pre-opening costs are only capitalised to the extent they are required to bring PPE into its working condition. Other pre-opening costs are expensed as incurred.

Existing sites

Subsequent expenditure on items of PPE in our existing estate can be broadly split into two categories:

- Capital expenditure which adds new items of PPE to an attraction or which extends the operational life, or enhances existing items, of PPE is accounted for as an addition to PPE. Examples of such expenditure include new rides or displays and enhancements to rides or displays, which increase the appeal of our attractions to visitors.
- Expenditure which is incurred to maintain the items of PPE in a safe and useable state and to maintain the useful life of items of PPE is charged to the income statement as incurred. Examples of such expenditure include regular servicing and maintenance of buildings, rides and displays and ongoing repairs to items of PPE.

Depreciation

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. Depreciation is then charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Asset lives for plant and equipment vary depending on the nature of the asset, from short life assets such as IT assets, up to long term infrastructure assets. No residual values are typically considered.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold/long leasehold buildings	50 years
Leasehold buildings	20 – 50 years (dependent on life of lease)
Plant and equipment	5 – 30 years

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Cost				
At 30 December 2018	1,421	1,611	225	3,257
Disposal of subsidiary undertakings	(16)	(35)	(1)	(52)
Additions	25	24	362	411
Disposals	(11)	(43)	(1)	(55)
Transfers	71	106	(177)	-
Effect of movements in foreign exchange	(48)	(43)	(13)	(104)
Balance at 28 December 2019	1,442	1,620	395	3,457
Additions	-	13	328	341
Disposals	(17)	(75)	(2)	(94)
Transfers	31	44	(75)	-
Effect of movements in foreign exchange	13	14	(12)	15
Balance at 26 December 2020	1,469	1,616	634	3,719
Depreciation				
At 30 December 2018	334	754	-	1,088
Disposal of subsidiary undertakings	(3)	(14)	-	(17)
Depreciation for the year	48	121	-	169
Impairment	13	13	6	32
Disposals	(11)	(36)	-	(47)
Effect of movements in foreign exchange	(10)	(21)	-	(31)
Balance at 28 December 2019	371	817	6	1,194
Depreciation for the year	49	129	-	178
Impairment	12	11	55	78
Disposals	(16)	(75)	-	(91)
Effect of movements in foreign exchange	-	7	-	7
Balance at 26 December 2020	416	889	61	1,366
Carrying amounts				
At 29 December 2018	1,087	857	225	2,169
At 28 December 2019	1,071	803	389	2,263
At 26 December 2020	1,053	727	573	2,353

Substantially all of the disposals in 2020 relate to the original cost of property, plant and equipment that was no longer in use.

Depreciation is calculated in line with the policy stated previously.

During the year the Group reviews useful economic lives and tests PPE for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. Impairment charges have been made in the year of £78 million (2019: £32 million). The discounted cash flows that underpin our value in use calculations reflect our current business plans which have been updated for factors including the short term impact of COVID-19. In particular, this includes consideration of LEGOLAND New York where the opening has been delayed and where we are expecting shorter term headwinds, limiting our ability to launch the attraction and build momentum in an environment where social distancing may well be in operation and an uncertain economic environment will prevail.

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital commitments

At the year end the Group has a number of outstanding capital commitments in respect of capital expenditure at its existing attractions (including accommodation), as well as for Midway attractions and LEGOLAND parks that are under construction. These commitments are expected to be settled within two financial years of the reporting date. These amount to £143 million (2019: £220 million) for which no provision has been made.

3.2 GOODWILL AND INTANGIBLE ASSETS

Accounting policies

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 allocated to groups of cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Where they arise on acquisition, brands have been valued based on discounted future cash flows using the relief from royalty method, including amounts into perpetuity. Currently all such brands held are assessed as having indefinite useful economic lives. This assessment is based upon the strong historical performance of the brands over a number of economic cycles, the ability to roll out our brands, and the Directors' intentions regarding the future use of brands. The Directors feel this is a suitable policy for a brands business which invests in and maintains the brands, and foresee no technological developments or competitor actions which would put a finite life on the brands. The brands are tested annually for impairment.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets comprise software licences, sponsorship rights and other contract based intangible assets. They are amortised on a straight-line basis from the date they are available for use. They are stated at cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets are as follows:

Asset class	Estimated useful life
Licences	Life of licence (up to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

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OPERATING ASSETS AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Goodwill and intangible assets

	Goodwill £m	Intangible assets		Total £m
		Brands £m	Other £m	
<i>Cost</i>				
At 30 December 2018	1,002	200	37	1,239
Disposal of subsidiary undertakings	(1)	-	-	(1)
Additions	-	-	14	14
Disposals	-	-	(1)	(1)
Effect of movements in foreign exchange	(25)	(5)	(1)	(31)
Balance at 28 December 2019	976	195	49	1,220
Additions	-	-	9	9
Effect of movements in foreign exchange	18	4	-	22
Balance at 26 December 2020	994	199	58	1,251
<i>Amortisation</i>				
At 30 December 2018	179	13	19	211
Amortisation for the year	-	-	2	2
Disposals	-	-	(1)	(1)
Effects of movements in foreign exchange	(3)	-	(1)	(4)
Balance at 28 December 2019	176	13	19	208
Amortisation for the year	-	-	4	4
Effect of movements in foreign exchange	2	-	(1)	1
Balance at 26 December 2020	178	13	22	213
<i>Carrying amounts</i>				
At 29 December 2018	823	187	18	1,028
At 28 December 2019	800	182	30	1,012
At 26 December 2020	816	186	36	1,038

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result of these tests, no impairment charges have been made in the year (2019: £nil).

Goodwill

Goodwill is allocated to the Group's operating segments which represent the lowest level at which it is monitored and tested for impairment. It is denominated in the relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2020 £m	2019 £m
Midway Attractions	562	557
LEGOLAND Parks	42	41
Resort Theme Parks	212	202
	816	800

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.2 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)**Brands**

The Group has valued the following brands at the time of those brands being acquired. They all have indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in foreign exchange rates.

	2020 £m	2019 £m
<i>Midway Attractions</i>		
Madame Tussauds	28	28
SEA LIFE	17	16
London Eye	10	10
Other	8	8
	63	62
<i>Resort Theme Parks</i>		
Gardaland Resort	52	49
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	12	12
Other	12	12
	123	120
	186	182

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the other Madame Tussauds attractions that existed when the brand was acquired. Similarly the SEA LIFE brand relates to the portfolio of SEA LIFE attractions that existed when the brand was acquired. The London Eye, Gardaland Resort, Alton Towers Resort, THORPE PARK and Heide Park brands all arise from those specific visitor attractions.

3.3 IMPAIRMENT TESTING**Accounting policies**

The carrying amounts of the Group's goodwill, intangible assets, PPE and right-of-use (ROU) assets are reviewed at the end of each reporting period 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 testing is performed first at the individual CGU level without goodwill, with any impairment loss recognised as required. Impairment testing for goodwill is then applied to the collection of CGUs to which the goodwill relates.

The level at which the assets concerned are reviewed varies as follows:

Asset

Goodwill	Goodwill is reviewed at an Operating Group level, being the relevant grouping of cash-generating units (CGUs) at which the benefit of such goodwill arises. A CGU is the smallest identifiable group of assets that generates largely independent cash inflows, being the Group's individual attractions.
Brands	Brands are reviewed at an individual CGU level.
PPE	PPE is reviewed at an individual CGU level, being the Group's individual attractions.
ROU assets	ROU assets are reviewed at an individual CGU level, being the Group's individual attractions. In doing so, the associated lease liability is considered against the value of the ROU asset as a sale of a CGU would necessitate that a buyer takes on the lease liability.

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.3 IMPAIRMENT TESTING (CONTINUED)

For assets that are in continuing use but do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the assets belong.

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.

Calculation of recoverable amount

In accordance with accounting standards the recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. To assess value in use, estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate, derived from a post-tax weighted average cost of capital. The Group uses a multiple of EBITDA to estimate fair value which is based on the Group's average market capitalisation as a multiple of the Group's underlying EBITDA. The Group's internally approved five year business plans, being the current year and four future years, are used as the basis for these calculations, with cash flows beyond the four year outlook period then extrapolated using a long term growth rate.

Common assumptions have been adopted for the purpose of testing goodwill across the business and for testing brand values where their risk profiles are similar. The key assumptions and estimates used when calculating the net present value of future cash flows from the Group's businesses are as follows:

Estimate

Future cash flows	Assumed to be equivalent to the operating cash flows of the businesses less the cash flows in respect of capital expenditure and repayments of lease liabilities. The Group uses EBITDA less an allocation of central costs, in line with other recharges which occur in the business, as a proxy for the operating cash flows of its attractions as they are not significantly impacted by movements in working capital.
Growth in EBITDA	EBITDA is forecast by an analysis of both projected revenues and costs. Visitor numbers and revenue projections are based on market analysis, including the total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions as well as marketing activity. Projections of operating costs are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities as well as general market conditions.
Timing and quantum of future capital and maintenance expenditure	Projections are based on the attractions' long term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the attractions' assets.
Long term growth rate	A growth rate of 2.5% (2019: 2.5%) was determined based on management's long term expectations, taking account of historical averages and future expected trends in both market development and market share growth.
Discount rates to reflect the risks involved	Based on the estimated weighted average cost of capital of a 'market participant' within the main geographical regions where the Group operates, these are drawn from market data and businesses in similar sectors, and adjusted for asset specific risks. The key assumptions of the 'market participant' include the ratio of debt to equity financing, risk free rates and the medium term risks associated with equity investments. Net present values are calculated using pre-tax discount rates derived from this post-tax weighted average cost of capital. When considering the impact of IFRS 16, there was insufficient observable market data to determine a market participant discount rate that included leases. Therefore the Group used discount rates and cash flows on an unadjusted pre-IFRS 16 basis, then adjusting for the market movement in lease discount rates since inception by adjusting for the difference in the carrying value and fair value of the lease liability.

	Pre-tax discount rates		Post-tax discount rates	
	2020	2019	2020	2019
Midway Attractions	8.8%	8.5%	7.4%	7.0%
LEGOLAND Parks	8.9%	8.6%	7.1%	6.9%
Resort Theme Parks	9.4%	9.1%	7.7%	7.4%

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AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.3 IMPAIRMENT TESTING (CONTINUED)**Sensitivity analysis**

Impairment reviews are often sensitive to changes in key assumptions. At the reporting date the Directors consider that the forecasts used reflect the best estimate of future trading. It is noted, however, that the calculations are inherently sensitive to the level of growth as the business recovers from the impact of the COVID-19 pandemic. As set out in note 1.1, this can depend on a number of factors. These can include when attractions can open, the level of any social distancing or other governmental restrictions, customer demand, people's ability to travel across borders, the pace and coverage of vaccine roll outs, and the wider economic trading environment. Other more normal factors such as weather patterns can also affect trading. While in the short term slower growth would be highly unlikely to affect valuations by a substantial amount, longer term shortfalls that affect the outlook for the fourth year of the plan (which drives the terminal value) would have a more significant impact.

The goodwill attributed to the Midway Attractions, LEGOLAND Parks and Resort Theme Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

Individual site assets could have different outcomes for their impairment reviews in future periods, though the only site with impairment triggers identified this year where this could be material to the Group would be LEGOLAND New York. While the current environment with COVID-19 places greater uncertainty over the short term trading performance of LEGOLAND New York with regard to consumer confidence, the wider economic environment, and the potential impact of social distancing measures, the Directors do not envisage these having an impact on the longer term prospects for the park, which would be the only factor that could give rise to material future impairment.

3.4 WORKING CAPITAL**Accounting policies****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 and carried at the original invoice amount less a loss allowance calculated using the simplified expected credit loss (ECL) model approach. Trade receivables are written off when there is no reasonable expectation of recovery. Other receivables are stated at their amortised cost less any impairment losses. Estimated ECLs are calculated using both actual credit loss experience and forward looking projections.

Inventories

	2020	2019
	£m	£m
Maintenance inventory	13	14
Goods for resale	41	40
	54	54

Trade and other receivables

	Current assets		Non-current assets	
	2020	2019	2020	2019
	£m	£m	£m	£m
Trade receivables	20	37	-	-
Other receivables	38	42	5	2
Prepayments and contract assets	26	45	10	10
	84	124	15	12

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OPERATING ASSETS

AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.4 WORKING CAPITAL (CONTINUED)

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for non-recoverable amounts, is as follows:

	2020	2019
	£m	£m
Neither past due nor impaired	11	20
Up to 30 days overdue	2	5
Between 30 and 60 days overdue	1	4
Between 60 and 90 days overdue	1	2
Over 90 days overdue	5	6
	20	37

Information about the Group's exposure to credit risk is included in note 4.3.

Trade and other payables

	Current liabilities		Non-current liabilities	
	2020	2019	2020	2019
	£m	£m	£m	£m
Trade payables	111	73	-	-
Accruals	151	164	-	-
Deferred income	189	183	-	-
Other payables	20	23	24	24
	471	443	24	24

Accruals

Accruals comprise balances in relation to both operating and capital costs incurred at the reporting date but for which an invoice has not been received and payment has not yet been made.

Deferred income

Deferred income comprises revenues received or invoiced at the reporting date which relate to future periods. The main components of deferred income relate to advanced ticket revenues in respect of online bookings and annual pass purchases; pre-booked accommodation; and certain sponsorship and similar arrangements. In 2020, at year end exchange rates, this also includes £54 million (2019: £52 million) received in respect of the development of LEGOLAND Korea, which is described further in note 5.3.

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AND LIABILITIES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

3.5 PROVISIONS**Accounting policy**

Provisions are recognised when the Group has legal or constructive obligations as a result of past events and it is probable that expenditure will be required to settle those obligations. They are measured at the Directors' best estimates, after taking account of information available and different possible outcomes.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions

	Asset retirement provisions	Other	Total
	£m	£m	£m
Balance at 29 December 2019	79	18	97
Provisions made during the year	2	18	20
Utilised during the year	-	(11)	(11)
Unused amounts reversed	-	(4)	(4)
Unwinding of discount	2	-	2
Balance at 26 December 2020	83	21	104
2020			
Current	-	9	9
Non-current	83	12	95
	83	21	104
2019			
Current	-	5	5
Non-current	79	13	92
	79	18	97

Asset retirement provisions

Certain attractions operate on leasehold sites and these provisions relate to the anticipated costs of removing assets and restoring the sites concerned at the end of the lease term. These leases are typically of a duration of between 10 and 60 years.

They are established on inception and reviewed annually. The provisions are discounted back to present value with the discount then being unwound through the income statement as part of finance costs. The cost of establishing these provisions together with the impact of any changes in the discount rate is capitalised within the cost of the related asset.

Other

Other provisions largely relate to the estimated cost arising from open insurance claims, tax matters and legal issues.

There are no anticipated future events that would be expected to cause a material change in the timing or amount of outflows associated with the provisions.

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4.1 NET DEBT**Analysis of net debt**

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

	29 December 2019 £m	Net cash flows ⁽¹⁾ £m	Non-cash movements ⁽²⁾ £m	Effect of movements in foreign exchange ⁽³⁾ £m	26 December 2020 £m
Cash and cash equivalents	160	(13)	-	8	155
Interest-bearing loans and borrowings	(312)	15	(37)	10	(324)
Lease liabilities	(1,158)	57	(93)	(9)	(1,203)
Net debt (excluding amounts owed to parent company)	(1,310)	59	(130)	9	(1,372)
Amounts owed to parent company	(2,894)	(417)	(157)	(48)	(3,516)
Net debt (including amounts owed to parent company)	(4,204)	(358)	(287)	(39)	(4,888)

¹ Net cash flows include the drawdown and repayment of loans and borrowings, interest paid relating to loans and borrowings and interest paid and capital repayments relating to leases

² Non-cash movements include the finance costs relating to loans and borrowings and leases from the income statement, together with lease additions and disposals.

³ A substantial proportion of the Group's net debt is denominated in non Sterling currencies

4.2 INTEREST-BEARING LOANS AND BORROWINGS**Accounting policy**

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 Group's estimate of the expected life based on repayment subsequently changes, 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 IFRS 9.

Interest-bearing loans and borrowings

	Current liabilities		Non-current liabilities		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
\$400 million fixed rate notes due 2026	-	-	299	310	299	310
Other loans	17	-	5	-	22	-
Interest payable	3	2	-	-	3	2
	20	2	304	310	324	312
Parent company loans	-	-	1,311	758	1,311	758
Preference shares treated as liabilities	-	-	2,132	2,120	2,132	2,120
Interest payable to parent company	73	16	-	-	73	16
	73	16	3,443	2,878	3,516	2,894
	93	18	3,747	3,188	3,840	3,206

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.2 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The Group's facilities are:

- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.
- Access to a £400 million revolving credit facility to mature in May 2026.
- Loans from the Company's parent company, being Motion Acquisition Limited.
- Preference shares issued to the Company's parent company, being Motion Acquisition Limited.

Other loans include £15 million relating to funding from KIRKBI Invest A/S for the deferral of certain payments which is being repaid during 2021, together with £7 million of other borrowings taken out in respect of specific capital projects.

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

The \$400 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries. The Group is required to comply with certain non-financial covenants in these notes. All covenant requirements were satisfied throughout the year.

4.3 FINANCIAL RISK MANAGEMENT**Liquidity risk**

Liquidity risk is the risk that the Group would not have sufficient funds to meet its financial obligations as they fall due. The Group's Treasury department produces short term and long term cash forecasts to identify liquidity requirements and headroom, which are reviewed by the Group's Chief Financial Officer. Surplus cash is actively managed across Group bank accounts to cover local shortfalls or invested in bank deposits or other short term liquid investments such as money market funds. In some countries bank cash pooling arrangements are in place to optimise the use of cash.

As at the reporting date the Group had £155 million of cash and cash equivalents (2019: £160 million), access to a £400 million revolving credit facility, of which £nil was drawn down (2019: £nil) in order to meet its obligations and commitments that will fall due.

The following table sets out the contractual maturities of financial liabilities, including interest payments. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2020					
\$400 million fixed rate notes due 2026	(17)	(17)	(52)	(304)	(390)
Other loans	(19)	(2)	(1)	-	(22)
Lease liabilities	(128)	(101)	(291)	(1,519)	(2,039)
Parent company loans	(59)	(59)	(611)	(895)	(1,624)
Preference shares treated as liabilities	(85)	(85)	(255)	(2,257)	(2,682)
Trade payables	(111)	-	-	-	(111)
	(419)	(264)	(1,210)	(4,975)	(6,868)

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	0 to <1 year £m	1 to <2 years £m	2 to <5 years £m	5 years and over £m	Contractual cash flows £m
2019					
\$400 million fixed rate notes due 2026	(18)	(18)	(54)	(332)	(422)
Lease liabilities	(98)	(101)	(267)	(1,573)	(2,039)
Parent company loans	(27)	(27)	(80)	(812)	(946)
Preference shares treated as liabilities	(100)	(99)	(296)	(2,352)	(2,847)
Trade payables	(73)	-	-	-	(73)
	(316)	(245)	(697)	(5,069)	(6,327)

Interest rate risk

The Group is exposed to interest rate risk on both interest-bearing assets and liabilities. The Group has a policy of actively managing its interest rate risk exposure using a combination of fixed rate debt and interest rate swaps.

At 26 December 2020 the Group had £1,379 million of fixed rate debt comprising:

- \$400 million of 5.75% notes to mature in 2026;
- \$410 million and €370 million of preference shares;
- €500 million of parent company loans;

In aggregate 37% (2019: 48%) of the year-end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 6 years (2019: 7 years). To achieve the desired balance of fixed and floating interest rates across currencies, the Group uses both floating to fixed interest rate swaps (which are part of cash flow hedging relationships) and fixed to floating interest rate swaps (which are part of fair value hedging relationships).

Interest rate swaps are recognised at fair value which is determined by reference to market rates. The fair value is the estimated amount that the Group would receive or pay to exit the swap, taking into account current interest rates, credit risks and bid/ask spreads. Following initial recognition, changes in fair value are recognised immediately in profit or loss, except where the Group adopts hedge accounting.

When hedge accounting, the Group formally documents the relationship between the hedging instruments and hedged items. It makes an assessment, at inception and on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the life of the hedge.

Changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in fair value is recognised immediately in profit or loss. Cumulative gains and losses would remain in equity until either the hedged transaction is no longer expected to occur, or until the hedged transaction occurs, at which point they will be reclassified to profit or loss.

Changes in the fair value of interest rate swaps that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value adjustment to the carrying value of the hedged item arising from the hedged risk is amortised to profit and loss from that date.

At 26 December 2020 the Group had no fair value interest rates swaps (2019: nil).

Sensitivity analysis

Based on the net debt position as at 26 December 2020 a 100 basis points rise in market interest rates would result in an increase in net interest paid of £22 million (2019: £15 million) and a 100 basis points fall in market interest rates would result in a decrease in net interest paid of £1 million (2019: £12 million). This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk

As the Group operates internationally the performance of the business is sensitive to movements in foreign exchange rates. The Group's potential currency exposures comprise transaction and translation exposures.

The Group ensures that its net exposure to foreign currency balances is kept to a minimal level by using foreign currency swaps to exchange balances back into Sterling or by buying and selling foreign currencies at spot rates when necessary. The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates.

At 26 December 2020 the fair value of foreign currency swap assets was £4 million (2019: £2 million) and of foreign currency swap liabilities was £1 million (2019: £2 million), none of which are hedge accounted.

Transaction exposures

The revenue and costs of the Group's operations are denominated primarily in the currencies of the relevant local territories. Any significant cross-border trading exposures would be hedged by the use of forward foreign exchange contracts.

Translation exposures

The Group's results, as presented in Sterling, are subject to fluctuations as a result of exchange rate movements. The Group does not hedge this translation exposure to its earnings but, where material, may carry out net asset hedging by borrowing in the same currencies as the currencies of its operating units or by using forward foreign exchange contracts. The Group's debt (excluding lease liabilities) is therefore denominated in Euros, US Dollars and Sterling and at 26 December 2020 consisted of €2,360 million and \$2,193 million and there are forward foreign exchange contracts in place in respect of JPY 15,835 million.

Gains or losses arise on the retranslation of the net assets of foreign operations at different reporting dates and are recognised within the consolidated statement of comprehensive income. They will predominantly relate to the retranslation of opening net assets at closing foreign exchange rates, together with the retranslation of retained foreign profits for the year (that have been accounted for in the consolidated income statement at average rates) at closing rates. Exchange rates for major currencies are set out below.

Gains or losses also arise on the retranslation of foreign currency denominated borrowings designated as effective net investment hedges of overseas net assets. These are offset in equity by corresponding gains or losses arising on the retranslation of the related hedged foreign currency net assets. The Group also treats specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. In the event of a foreign entity being sold or a hedging item being extinguished, such exchange differences would be recognised in the income statement as part of the gain or loss on sale.

The following exchange rates have been used in the translation of the results of foreign operations:

	Closing rate for	Weighted average rate for	Closing rate for	Weighted average rate for	Closing rate for
	2018	2019	2019	2020	2020
US Dollar	1.27	1.28	1.31	1.29	1.36
Euro	1.11	1.13	1.17	1.11	1.11

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies were:

	Carrying value				Total £m
	Sterling £m	Euro £m	US Dollar £m	Other £m	
2020					
Cash and cash equivalents	90	8	17	40	155
\$400 million fixed rate notes due 2026	-	-	(299)	-	(299)
Other loans	-	(22)	-	-	(22)
Lease liabilities	(693)	(127)	(79)	(304)	(1,203)
Parent company loans	-	(1,080)	(231)	-	(1,311)
Preference shares treated as liabilities	-	(1,041)	(1,091)	-	(2,132)
	(603)	(2,262)	(1,683)	(264)	(4,812)
2019					
Cash and cash equivalents	49	12	13	86	160
\$400 million fixed rate notes due 2026	-	-	(310)	-	(310)
Lease liabilities	(671)	(113)	(82)	(292)	(1,158)
Parent company loans	(49)	(601)	(108)	-	(758)
Preference shares treated as liabilities	-	(989)	(1,131)	-	(2,120)
	(671)	(1,691)	(1,618)	(206)	(4,186)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £379 million (2019: £313 million). As described above, gains or losses in the income statement and equity are offset by the retranslation of the related foreign currency net assets or specific intercompany loan balances.

A 10% strengthening of all currencies against Sterling would reduce the fair value of foreign exchange contracts and result in a charge to the income statement of £21 million (2019: £9 million).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is limited to the carrying value of the Group's monetary assets. The Group has limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit. There are credit policies in place with regard to its trade receivables with credit evaluations performed on customers requiring credit over a certain amount.

The Group manages credit exposures in connection with financing and treasury activities including exposures arising from bank deposits, cash held at banks and derivative transactions, by appraisal, formal approval and ongoing monitoring of the credit position of counterparties. Counterparty exposures are measured against a formal transaction limit appropriate to that counterparty's credit position.

The Group robustly appraises investments before they are made to ensure the associated credit risk is acceptable. Performance of investments are closely monitored, in some cases through Board participation, to ensure returns are in line with expectations and credit risk remains acceptable. There were no overdue amounts in respect of investments and no impairments have been recorded (2019: £nil).

Fair values**Fair value hierarchy**

The Group analyses financial instruments in the following ways:

- Level 1: uses unadjusted quoted prices in active markets.
- Level 2: uses inputs that are derived directly or indirectly from observable prices (other than quoted prices).
- Level 3: uses inputs that are not based on observable market data.

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4.3 FINANCIAL RISK MANAGEMENT (CONTINUED)**Fair value versus carrying amounts**

The fair values of financial assets and liabilities are presented in the table below, together with the carrying amounts shown in the statement of financial position. Short term receivables, payables and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

		2020		2019	
	Fair value hierarchy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Held at amortised cost</i>					
\$400 million fixed rate notes due 2026	Level 1	(299)	(309)	(310)	(336)
Other loans	Level 3	(22)	(22)	-	-
Lease liabilities	Level 3	(1,203)	(1,375)	(1,158)	(1,332)
Parent company loans	Level 3	(1,311)	(1,297)	(758)	(758)
Preference shares treated as liabilities	Level 3	(2,132)	(2,043)	(2,120)	(2,120)
<i>Held at fair value</i>					
Derivative financial instruments	Level 2	3	3	-	-
Investments	Level 3	19	19	63	63
		(4,945)	(5,024)	(4,283)	(4,483)

The fair values shown above for the bank facilities and fixed rate notes have been calculated using market values. The fair value of leases are determined by reference to similar lease agreements. There is no difference between the carrying value and the fair value of investments that are estimated by reference to EBITDA multiples or discounted cash flows. There have been no transfers between levels in 2020 or 2019.

4.4 LEASE OBLIGATIONS**Accounting policy**

Where a contract provides the right to control the use of an asset for a period of time in exchange for consideration, the contract is accounted for as a lease. In order for lease accounting to apply, an assessment is made at the inception of the contract that considers whether:

- the Group has the use of an identified asset, which entitles it to the right to obtain substantially all of the economic benefits that arise from the use of the asset; and
- the right to direct the use of the asset, either through the right to operate the asset or by predetermining how the asset is used.

Measurement at lease inception

At the lease commencement date the Group, as the lessee, will recognise:

- a lease liability representing its obligation to make lease payments; and
- an asset representing its right to use the underlying leased asset (ROU asset).

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease, or if not available an incremental borrowing rate. Future lease payments will include fixed payments, variable lease payments that depend on an index or rate (initially measured at the rate at the commencement date) and amounts expected to be payable by the lessee under residual value guarantees.

The ROU asset is initially measured at cost, which comprises the amount initially recognised as the lease liability, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and the estimated costs to be incurred at the end of the lease to restore the site to the required condition stipulated in the lease. On inception of a lease for a new site, where required, the estimated cost of decommissioning any additions is included within ROU assets and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

Depreciation (and any subsequent impairment) on the ROU asset, interest on the lease liability and any variable lease payments are all recognised in the income statement.

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4.4 LEASE OBLIGATIONS (CONTINUED)

Ongoing measurement

The lease liability is adjusted for interest on the liability, adjustments to the lease payments and any reassessment of the lease as a result of a contract modification.

After the commencement date the Group measures the ROU asset using a cost model, reducing the cost through depreciation and any impairment losses. Adjustments will be made to the ROU asset to reflect the changes in the lease liability as a result of changes to lease payments or modifications to the lease.

Short term and low-value leases

The Group has taken the recognition exemptions for short term leases and leases of low-value items. Leases which fall within the Group's defined parameters for these exemptions are excluded from the IFRS 16 lease accounting requirements and are accounted for on a straight-line basis over the lease term.

Rent reductions and deferrals

In response to the COVID-19 pandemic, the International Accounting Standards Board issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. As a lessee we have applied the practical expedient and are not required to assess whether eligible rent concessions are lease modifications. Accordingly, where the Group has agreed concessions in the form of a one-off reduction in rent, they have been accounted for as a variable lease payment and have been recognised in profit or loss.

Lease arrangements

The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the PPE of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. Historically the leases were 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 was split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. This led to differing treatments on the adoption of IFRS 16. 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 and fixed increases in Continental Europe. The Group 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.

LEGOLAND Japan was opened during 2017. The park was developed under the Group's 'operated and leased' model whereby the Group's local operating company leases the site and park infrastructure from a development partner. The development partners are related parties, being KIRKBI Invest A/S and LLJ Investco K.K., a subsidiary of KIRKBI Invest A/S (note 5.3). KIRKBI Invest A/S is a shareholder of Motion JVCo Limited, the ultimate parent company. The lease is for a period of 50 years and previously was accounted for partly as a finance lease and partly as an operating lease depending on the nature of the underlying assets concerned. Land and longer life assets, for example core elements of the park's infrastructure, were accounted for as operating leases. Finance lease assets were those elements that will be substantially or entirely consumed over the lease term. This accounting judgement was underpinned by a review of the cost of construction by asset type together with estimates of the lives of the assets concerned.

The Group also enters into leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between 10 and 60 years, with rent increases determined based on local market practice. In addition to a fixed rental element, rents within the Midway Attractions Operating Group can also contain a performance related element, typically based on turnover at the site concerned. Options to renew leases exist at these sites in line with local market practice in the territories concerned.

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 Group as a result of its lease arrangements.

Judgements and estimates

Discount rates used to calculate the lease liability are calculated on a lease by lease basis. For the property leases that make up substantially all of the Group's lease portfolio this results in two approaches. For the majority of leases the rate used is based on estimates of incremental borrowing costs. These will depend on the territory of the relevant lease and hence the currency used; the date of lease inception; and the lease term. As a result, reflecting the breadth of the Group's lease portfolio; the transition approach adopted which has required estimation of historic discount rates; and estimations as to lease lives, there are a large number of discount rates used within a wide range. For a small volume of high value leases, the rate implicit in the lease can be calculated and is therefore adopted.

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of time remaining before the option is exercisable; current trading; future trading forecasts as to the ongoing profitability of the attraction; and the level and type of planned future capital investment. A small number of large leases held by the Group came into effect as part of a sale and leaseback transaction that occurred in 2007. These leases have an initial lease period of 35 years, with an option to extend for two further periods of 35 years, subject to an adjustment to market rates at that time. At this point it is not reasonably certain that these leases will be renewed, taking into account the factors noted above. This judgement is reassessed at each reporting period. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

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4.4 LEASE OBLIGATIONS (CONTINUED)

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Total £m
<i>Cost</i>			
At 30 December 2018	1,338	81	1,419
Disposal of subsidiary undertakings	(8)	-	(8)
Additions	47	2	49
Movements in asset retirement provisions	8	9	17
Disposals	(2)	(3)	(5)
Effect of movements in foreign exchange	(22)	-	(22)
Balance at 28 December 2019	1,361	89	1,450
Additions	43	2	45
Movements in asset retirement provisions (note 3.5)	2	-	2
Disposals	(3)	(2)	(5)
Effect of movements in foreign exchange	9	1	10
Balance at 26 December 2020	1,412	90	1,502
<i>Depreciation</i>			
At 30 December 2018	392	34	426
Disposal of subsidiary undertakings	(2)	-	(2)
Depreciation for the year	51	5	56
Impairment	6	-	6
Disposals	(2)	(3)	(5)
Effect of movements in foreign exchange	(8)	1	(7)
Balance at 28 December 2019	437	37	474
Depreciation for the year	56	5	61
Impairment	16	-	16
Disposals	(1)	(2)	(3)
Effect of movements in foreign exchange	3	1	4
Balance at 26 December 2020	511	41	552
<i>Carrying amounts</i>			
At 29 December 2018	946	47	993
At 28 December 2019	924	52	976
At 26 December 2020	901	49	950

During the year the Group reviews useful economic lives and tests ROU assets for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. Impairment charges have been made in the year of £16 million (2019: £6 million), primarily in respect of certain of the Group's Midway attractions, arising from a review of market and economic conditions at those locations.

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4.4 LEASE OBLIGATIONS (CONTINUED)

Lease liabilities

	2020	2019
	£m	£m
Current	69	39
Non-current	1,134	1,119
	1,203	1,158

The maturity analysis of lease liabilities is disclosed within note 4.3. The cash outflow for leases is disclosed within note 4.1.

Amounts recognised in the income statement

	2020	2019
	£m	£m
Expense relating to variable lease payments	6	22
Depreciation expense of right-of-use assets	61	56
Interest expense on lease liabilities	61	61
	128	139

4.5 EQUITY AND CAPITAL MANAGEMENT

Capital management

The capital structure of the Group consists of debt and equity. The Group's objective when managing capital is to maintain a strong capital base so as to ensure shareholder and creditor confidence and to sustain future development of the business; to provide returns for shareholders; and to optimise the capital structure to reduce the cost of capital. There are no externally imposed capital requirements on the Group.

To enable the Group to meet its objective, the Directors monitor returns on capital through constant review of earnings generated from the Group's capital investment programme and through regular budgeting and planning processes, manage capital in a manner so as to ensure that sufficient funds for capital investment and working capital are available, and ensure that the requirements of the Group's debt covenants are met.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance to fund significant acquisitions or developments intended to increase the overall value of the Group.

Share plans were created to allow employees of the Group to participate in the ownership of the Group's equity instruments, when the Company was listed on the London Stock Exchange, in order to ensure employees' focus on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans were settled either by the issue of shares by Merlin Entertainment plc or by the purchase of shares in the market. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

Share capital and reserves

Share capital

	2020	2020	2019	2019
	Number	£m	Number	£m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,036,594,358	10	1,022,072,449	10
Issued in the year	-	-	14,521,909	-
On issue and fully paid at end of year	1,036,594,358	10	1,036,594,358	10

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CAPITAL STRUCTURE

AND FINANCING CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.5 EQUITY AND CAPITAL MANAGEMENT (CONTINUED)

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Preference shares

The preference shares earn interest in the form of dividends and will be redeemed as follows:

- A preference shares - at the rate of default interest payable pursuant to the €370,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities denominated in Euros. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the A preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- B preference shares - at the rate of default interest payable pursuant to the \$410,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the B preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- C preference shares - at the rate of default interest payable pursuant to the Euro Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities denominated in Euros. They will be redeemed on any date on which all or part of the Euro Senior Debt becomes repayable, or any earlier date as the holder of the C preference shares or the Company may notify to the other in the event that the Euro Senior Debt is repaid early (in full or in part); and
- D preference shares - at the rate of default interest payable pursuant to the USD Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the USD Senior Debt becomes repayable, or any earlier date as the holder of the D preference shares or the Company may notify to the other in the event that the USD Senior Debt is repaid early (in full or in part).

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital shall be paid on the ordinary shares whilst there are any unpaid amounts of preference dividends which constitute a debt from and payable by the Company. The preference shares carry no voting rights.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

	2020	2019
	£m	£m
Final dividend for the 52 weeks ended 29 December 2018 of 5.5 pence per share	-	56
Total dividends paid	-	56

The Directors of the Company have declared their intention not to pay a dividend for the year ended 26 December 2020 (2019: £nil).

Translation reserve

The translation reserve of £(78) million (2019: £(73) million) comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, primarily relating to the statement of position at reporting dates. The reporting date foreign exchange rates by major currency are provided in note 4.3.

Hedging reserve

The hedging reserve of £nil (2019: £nil) comprises the effective portion of the cumulative net change in interest rate swaps related to hedged transactions that have not yet occurred.

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CAPITAL STRUCTURE

AND FINANCING CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.6 SHARE-BASED PAYMENT TRANSACTIONS**Accounting policy**

The fair value of the share plans is recognised as an expense over the expected vesting period with a corresponding entry to retained earnings, net of deferred tax. 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, which 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.

The Group operated cash-settled versions of the employee incentive plans for employees in certain territories. The issues and resulting charges of these plans were not material to the financial statements.

Equity-settled plans

Until the acquisition of the Company in November 2019 and its subsequent de-listing from the London Stock Exchange, the Group operated four employee share incentive plans: the Performance Share Plan (PSP), the Deferred Bonus Plan (DBP), the Company Share Option Plan (CSOP) and the All Employee Sharesave Plan (AESP), as set out in the tables below. Awards under the PSP vested 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 vested three years after grant date subject to continued employment. All awards under the PSP and DBP were granted for nil consideration. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

Analysis of share-based payment charge

	2020 £m	2019 £m
PSP	-	18
CSOP	-	3
AESP	-	2
	-	23

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2020	Number of shares 2019
AESP	April 2017 - April 2019	2.83 - 3.96	2020 - 2022	-	-	49,603
Total					-	49,603

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CAPITAL STRUCTURE

AND FINANCING CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

4.6 SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The weighted average exercise prices (WAEF) over the year were as follows:

	PSP ⁽¹⁾	DBP ⁽¹⁾	CSOP		AESP	
	Number	Number	Number	WAEF (£)	Number	WAEF (£)
At 30 December 2018	8,152,506	34,296	5,808,839	4.00	6,615,393	3.10
Granted during the year	4,037,436	51,781	2,038,750	3.43	2,939,071	2.88
Forfeited during the year	(488,632)	(804)	(790,627)	3.91	(1,275,406)	3.19
Exercised during the year	(6,554,271)	(85,273)	(5,110,475)	3.53	(3,918,026)	3.10
Lapsed during the year	(5,147,039)	-	(1,912,567)	4.68	(4,232,927)	2.89
Expired during the year	-	-	(33,920)	4.61	(78,502)	3.85
At 28 December 2019	-	-	-	-	49,603	3.38
Exercised during the year	-	-	-	-	(16,783)	2.83
Lapsed during the year	-	-	-	-	(32,820)	3.66
At 26 December 2020	-	-	-	-	-	-
<i>Exercisable at end of year</i>						
At 28 December 2019	-	-	-	-	49,603	3.38
At 26 December 2020	-	-	-	-	-	-

⁽¹⁾ Nil-cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2019 were as follows:

Scheme	Date of grant	Exercise price	Share price at grant date	Fair value per award	Expected dividend yield	Expected volatility	Award life (years)	Risk free rate
		(£)	(£)	(£)				
PSP	9 April 2019	-	3.41	3.41	n/a	n/a	3.0	n/a
CSOP	9 April 2019	3.43	3.41	0.66	2.3%	24%	4.4	0.8%
AESP	9 April 2019	2.88	3.41	0.71	2.3%	24%	3.2	0.8%
AESP	9 April 2019	3.07	3.41	0.59	2.3%	26%	2.1	0.7%

The key assumptions used in calculating the share-based payments were as follows:

- The binomial valuation methodology is used for the PSP, CSOP and DBP. The Black-Scholes model is used to value the AESP.
- The expected volatility is based on the historical volatility of the Company's shares.
- The risk free rate is equal to the prevailing UK Gilts rate at grant date, which is commensurate with the expected term.
- Expected forfeiture rates are based on recent experience of staff turnover levels.
- Behavioural expectations have been taken into account in estimating the award life of the CSOP.
- The charge is spread over the vesting period on a straight-line basis.

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.1 INVESTMENTS

Accounting policy

The Group holds investments in two forms. Minority equity investments are accounted for as 'fair value through other comprehensive income' (FVOCI), having taken the election available under IFRS 9. This applies to the investments in IDR Resorts Sdn. Bhd., LL Developments and Big Bus Tours Group Holdings Limited.

Associates and joint ventures are those entities over whose activities the Group has joint control or significant influence, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses on an equity accounted basis, from the date that joint control or influence commences until the date that it ceases.

	IDR Resorts	LL Developments	Big Bus Tours	LL Dubai Hotel	Total
	£m	£m	£m	£m	£m
Balance at 29 December 2019	8	3	40	12	63
Net change in fair value - included in OCI	(3)	-	(39)	-	(42)
Share of reserves in joint ventures	-	-	-	(1)	(1)
Effects of movement in foreign exchange	-	-	(1)	-	(1)
At 26 December 2020	5	3	-	11	19

Minority equity investments

IDR Resorts

The Group has a minority equity investment in IDR Resorts Sdn. Bhd. (IDR). IDR and its subsidiaries are deemed to be related parties as together they own LEGOLAND Malaysia (see note 5.3).

LL Developments

The Group has a minority equity investment in LL Developments, the local company providing funding and infrastructure support to the development of LEGOLAND Korea (see note 5.3).

Big Bus Tours

The Group has an investment in Big Bus Tours Group Holdings Limited (BIG BUS), the leading global owner-operator of Hop On Hop Off City Tours, held substantially all in the form of loan notes. The investment is valued adopting a market-based approach (based on EBITDA multiples). The BIG BUS business is heavily reliant on international tourists visiting city centre locations, and therefore has been severely impacted by the COVID-19 pandemic. As a result, BIG BUS raised further funding and completed a capital restructuring exercise during the period whereby the priority of Merlin's investment reduced compared to other investors. Accordingly a negative adjustment of £39 million to the fair value has been reflected in the year (2019: increase of £3 million). Should the business prove successful in its planned recovery, positive value adjustments could occur in the future.

Merlin also holds a minority equity investment valued at £nil (2019: £nil).

Investments in associates and joint ventures

LL Dubai Hotel

The Group holds a 40% equity interest in LL Dubai Hotel LLC, which is the company developing the hotel at LEGOLAND Dubai. The negative share of reserves reflects pre-opening costs for the hotel.

5.2 EMPLOYEE BENEFITS

Accounting policies

Defined contribution pension schemes

In the case of defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to them. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

Defined benefit pension schemes

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Group's net obligation is calculated for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and offset by the fair value of any scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method. All actuarial gains and losses are recognised in the period they occur directly in equity through other comprehensive income.

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OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.2 EMPLOYEE BENEFITS (CONTINUED)**Defined contribution pension schemes**

The Group operates a number of defined contribution pension schemes and the total expense relating to those schemes in the current year was £11 million (2019: £13 million).

Defined benefit pension schemes

The principal scheme that the Group operates is a closed scheme for certain former UK employees of The Tussauds Group, which was acquired in 2007. The scheme entitles retired employees to receive an annual payment based on a percentage of final salary for each year of service that the employee provided. The pension schemes have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

The most recent full actuarial valuation of the scheme was carried out as at 31 December 2018. As a result, the Group agreed to pay annual deficit reduction contributions of £497,800, increasing at 3% per annum, payable monthly for a period of 4 years and 8 months from 1 January 2020 to 31 August 2024.

The Group expects £1 million in ongoing contributions to be paid to its defined benefit schemes in 2021. The weighted average duration of the defined benefit obligation at 26 December 2020 was 17 years (2019: 17 years).

The assets and liabilities of the schemes are:

	2020	2019
	£m	£m
Equities	17	20
Corporate bonds and cash	13	10
Pooled investment funds (property)	5	5
Fair value of scheme assets	35	35
Present value of defined benefit obligations	(46)	(42)
Net pension liability	(11)	(7)

Movement in the net pension liability

	Present value of scheme assets	Present value of defined benefit obligations	Net pension liability
	£m	£m	£m
At 30 December 2018	32	(38)	(6)
Net interest	1	(1)	-
Contributions by employer	1	-	1
Benefits paid	(1)	1	-
Remeasurement loss	3	(5)	(2)
Assets distributed on settlement	(1)	-	(1)
Liabilities extinguished on settlement	-	1	1
At 28 December 2019	35	(42)	(7)
Net interest	1	(1)	-
Benefits paid	(1)	1	-
Remeasurement loss	-	(4)	(4)
At 26 December 2020	35	(46)	(11)

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OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.2 EMPLOYEE BENEFITS (CONTINUED)

The amount recognised in the income statement was £nil (2019: £nil). The amount recognised in the statement of other comprehensive income was a loss of £4 million (2019: loss of £2 million).

During 2017 certain members were given the option to transfer their benefits out of the scheme by way of either a Flexibility at Retirement exercise or an Enhanced Transfer Value exercise. The settlement loss arising from this was £nil (2019: £nil).

Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were:

	2020	2019
Discount rate	1.5%	2.0%
Rate of price inflation	3.1%	2.9%

The scheme closed to future accrual for active members on 31 May 2018, therefore the link to future salary increases has been severed.

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is S2PxA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 87 and a female would have a life expectancy to age 89.

5.3 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with its parent company; its ultimate parent company; the investor consortium (and connected parties) that together control the ultimate parent company; key management personnel; joint ventures; and other co-investors.

The defined benefit pension scheme for certain former UK employees of The Tussauds Group is also a related party (see note 5.2).

All dealings with related parties are conducted on an arm's length basis.

Transactions with parent company

Details of interest paid on loans from the parent company and the period end loan balances are given in notes 2.3 and 4.2 respectively.

Transactions with shareholders

Transactions entered into with the consortium and connected parties, including the purchase and sale of goods, payment of fees, royalties and rent, and trading balances outstanding at 26 December 2020 and 28 December 2019, were as follows:

	Goods and services			
	Sales £m	Amount owed by related party £m	Purchases, royalties and rent £m	Amount owed to related party £m
2020				
KIRKBI Invest A/S	1	-	6	2
LEGO Group	-	1	40	3
LLJ Investco K.K.	-	-	6	2
	1	1	52	7
2019				
KIRKBI Invest A/S	1	-	14	2
LEGO Group	1	1	66	4
LLJ Investco K.K.	-	1	9	-
	2	2	89	6

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OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.3 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in interest-bearing loans and borrowings are loans of £15 million relating to funding from KIRKBI Invest A/S for the deferral of certain payments which are being repaid during 2021.

Included in deferred income is £10 million received from a KIRKBI Group company (LEGO Juris A/S) to support certain development activities being undertaken in future periods.

The Group leases land and buildings from KIRKBI Invest A/S (a shareholder in the Group's ultimate parent company). The term of this lease is 25 years, with 19 years remaining at the reporting date. The Group's obligations come in the form of fixed rental payments of less than £1 million per year in addition to turnover rent, service charges and ongoing repair obligations. The amount in the table above includes the rental payment incurred during the period. The total commitment relating to fixed rental payments is £5 million over the remaining lease term (2019: £5 million).

As set out in note 4.4 the Group has entered into a 50 year lease with LLJ Investco K.K. (a subsidiary of KIRKBI Invest A/S). There are 46 years remaining at the reporting date. The Group's obligations come in the form of fixed rental payments of £6 million per year in addition to turnover rent and ongoing repair obligations under the terms of the lease. The amount in the table above represents the rental payment incurred during the period. The total commitment relating to fixed rental payments is £203 million over the remaining lease term (2019: £202 million).

The Group leases land and buildings from Koldingvej 2 Billund A/S (which has a 25% shareholding in the LEGO Group). The term of this lease is 29 years, with 21 years remaining at the reporting date. The total commitment is £5 million over the remaining lease term (2019: £5 million).

The Group has also entered into lease agreements with parties that are related parties of the Blackstone Investment Funds that are shareholders in the ultimate parent company. The parties are Multi Corporation B.V. in relation to SEA LIFE and LEGOLAND Discovery Centre Istanbul, Network Rail Infrastructure Limited for an area associated with the London Eye site, Shopcore in relation to LEGOLAND Discovery Centre Chicago and NEC Group Ltd, relating to The Bear Grylls Adventure and LEGOLAND Discovery Centre attractions in Birmingham. In aggregate the total rent paid in 2020 was £1 million (2019: £nil for the period following the acquisition of the Group). Total commitments in respect of these leases are £20 million over the remaining lease term (2019: £16 million).

The Group also has lease agreements with CPPIB, who purchased the Trafford Centre in Manchester in December 2020, with whom we have leases relating to SEA LIFE and LEGOLAND Discovery Centre Manchester. In aggregate, the total rent paid in 2020 following this acquisition was £nil. Total commitments in respect of these leases are £6 million over the remaining lease terms.

Transactions with key management personnel

Key management of the Group, being the Directors of the Board, the members of the Executive Committee and their immediate relatives control nil% (2019: nil%) of the voting shares of the Company. The remuneration of key management is disclosed in note 2.1.

Transactions with other related parties**LEGOLAND Malaysia**

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park (see note 5.1). On this basis, IDR and its subsidiaries are deemed to be related parties.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 26 December 2020 and 28 December 2019, are as follows:

	2020	2019
	£m	£m
Sales to related party	2	4
Amounts owed by related party	2	4

LEGOLAND Korea

The Group has a minority equity investment in and has entered into transactions with LL Developments, a Korean company which acts under the direction of the Gangwon Province and is providing funding and infrastructure support of KRW 80 billion to the development of LEGOLAND Korea, which the Group has committed to spend on costs associated with the project. All of these funds had been received by 26 December 2020 and are recorded within deferred income. Upon the opening of the park, the funding and infrastructure support will be accounted for as a capital grant and offset against the total project costs within property, plant and equipment. The conditions of the funding require that Merlin completes the park's construction and operates the park for a period of time post-opening.

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OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.4 CONTINGENT LIABILITIES

In April 2019 the European Commission (EC) announced its final decision that certain elements of the UK's Controlled Foreign Company rules partially represent State Aid. The UK Government has made an annulment application against this decision. Separately, Merlin has made its own application. If the applications are ultimately unsuccessful then this could result in an increase in the Group's future effective tax rate. The Group considers the maximum potential liability, not separately provided for and excluding interest, to be up to £36 million, depending on the basis of calculation. In February 2021, the Group received charging notices from HMRC for £28 million.

5.5 NEW STANDARDS AND INTERPRETATIONS

Amendments to IFRS 16 'COVID-19 - related rent concessions' was implemented in the year, the impact of which is covered in note 4.4.

The following amendments to standards and interpretations have been implemented in the year with no significant impact to the Group:

- Amendments to 'References to the Conceptual Framework in IFRS Standards'
- Amendments to IFRS 3 'Definition of a business'
- Amendments to IAS 1 and IAS 8 'Definition of material'
- Amendments to IFRS 9, IAS 39 and IFRS 7 'Interest rate benchmark reform'

The IASB has also issued the following amendments to standards that will be effective for the Group as from 1 January 2021. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest rate benchmark reform – Phase 2'

5.6 ULTIMATE PARENT COMPANY INFORMATION

The ultimate parent company is Motion JVco Limited, a company incorporated in the United Kingdom. This company prepares group financial statements. The parent company is Motion Acquisition Limited.

The consolidated financial statements of Motion JVco Limited and its subsidiaries are available to the public and may be obtained from Link House, 25 West Street, Poole, Dorset BH15 1LD.

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OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
AAE Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
AQDEV Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Illawarra Tree Topps Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Living and Leisure Australia Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Living and Leisure Finance Trust	Australia ⁽¹⁾	-	100.0%	100.0%
LLA Aquariums Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia ⁽¹⁾	-	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia ⁽²⁾	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Oceanis NB Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Oceanis Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia ⁽¹⁾	-	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia ⁽¹⁾	Ordinary	100.0%	100.0%
US Fly Trust	Australia ⁽¹⁾	-	100.0%	100.0%
Madame Tussauds Austria GmbH	Austria ⁽³⁾	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria ⁽³⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium ⁽⁴⁾	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	British Virgin Islands ⁽⁵⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada ⁽⁶⁾	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China ⁽⁷⁾	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China ⁽⁸⁾	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China ⁽⁹⁾	Ordinary	100.0%	100.0%

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52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
Merlin Entertainments Hong Kong Limited	China ⁽¹⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Shanghai) Company Limited	China ⁽¹¹⁾	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China ⁽¹²⁾	Ordinary	100.0%	100.0%
Merlin Exhibition (Shenyang) Company Limited	China ⁽¹³⁾	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China ⁽¹⁴⁾	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd	China ⁽¹⁵⁾	Ordinary	100.0%	100.0%
LEGOLAND ApS	Denmark ⁽¹⁶⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark ⁽¹⁶⁾	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy	Finland ⁽¹⁷⁾	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France ⁽¹⁸⁾	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany ⁽²⁰⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany ⁽²¹⁾	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany ⁽¹⁹⁾	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany ⁽²⁰⁾	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany ⁽²⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited	India ⁽²²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 1 Limited	Ireland ⁽²³⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 2 Limited	Ireland ⁽²³⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland ⁽²³⁾	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy ⁽²⁴⁾	Ordinary	99.9%	99.9%
Gardaland Holidays S.r.l.	Italy ⁽²⁵⁾	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy ⁽²⁴⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy ⁽²⁴⁾	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy ⁽²⁴⁾	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy ⁽²⁶⁾	Ordinary	^(a) 49.4%	^(a) 49.4%
Ronchi S.p.A.	Italy ⁽²⁴⁾	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan ⁽²⁷⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan ⁽²⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l. ^(b)	Luxembourg ⁽²⁹⁾	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg ⁽²⁹⁾	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg ⁽²⁹⁾	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd	Malaysia ⁽³⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia ⁽³¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia ⁽³²⁾	Ordinary	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
Amsterdam Dungeon B.V.	Netherlands ⁽³³⁾	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Scheveningen B.V.	Netherlands ⁽³⁴⁾	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands ⁽³⁵⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands ⁽³³⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands ⁽³⁶⁾	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand ⁽³⁷⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand ⁽³⁷⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal ⁽³⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore ⁽³⁹⁾	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea ⁽⁴⁰⁾	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea ⁽⁴¹⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea ⁽⁴⁰⁾	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain ⁽⁴²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand ⁽⁴³⁾	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand ⁽⁴⁴⁾	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S	Turkey ⁽⁴⁵⁾	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE ⁽⁴⁶⁾	-	^(c) 48.0%	^(c) 48.0%
Merlin Holdings Limited	UAE ⁽⁴⁷⁾	Ordinary	^(c) 1.0%	^(c) 1.0%
Alton Towers Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited (company limited by guarantee)	UK ⁽⁴⁸⁾	-	100.0%	100.0%
Charcoal CLG 2 Limited (company limited by guarantee)	UK ⁽⁴⁸⁾	-	100.0%	100.0%
Charcoal Holdco Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
London Dungeon Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Magic Making Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
Merlin Entertainments (Dungeons) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited ^(d)	UK ⁽⁵²⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 1A Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin UK Finance 2A Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Tussauds Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK ⁽⁴⁸⁾	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA ⁽⁴⁹⁾	-	100.0%	100.0%
LEGOLAND California LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Columbus LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center San Antonio LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Center San Jose LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
LEGOLAND New York LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
Madame Tussauds Nashville LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussaud's New York LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussauds Orlando LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Madame Tussauds Washington LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments Chicago LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA ⁽⁵⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA ⁽⁵⁰⁾	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments North America LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
San Francisco Dungeon LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Center San Antonio LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Charlotte LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Michigan LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Minnesota LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE Orlando LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
SEA LIFE US LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
The Tussauds Group LLC	USA ⁽⁵⁰⁾	-	100.0%	100.0%
<hr/>				
Joint venture undertaking	Country of incorporation	Class of share held	Ownership 2020	Ownership 2019
LL Dubai Hotel LLC	UAE ⁽⁵¹⁾	Ordinary	40.0%	40.0%

⁽⁵⁰⁾ Merlin Entertainments Limited has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity

⁽⁵¹⁾ Merlin Entertainments Group Luxembourg 3 S.à r.l. is held by the Company. All other subsidiaries are held by intermediate subsidiaries

⁽⁵²⁾ Merlin Entertainments Limited has 100% of the beneficial ownership of these entities

⁽⁵³⁾ Merlin Entertainments Developments Limited is in the process of being liquidated

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)**Registered offices**

11	Level 16, 201 Elizabeth Street, Sydney, NSW 2160, Australia
12	Unit 501, 3/0 St Kilda Road, Melbourne, Victoria, Australia
13	Riesenradplatz 5-6, 1020 Wien, Vienna, Austria
14	Koning Albert I Laan 116, 8370, Blankenberge, Belgium
15	P.O. Box 3340, Road Town, Tortola, British Virgin Islands
16	Suite 5300 Commerce Court West, 199 Bay Street, Toronto, ON, M5L 1B9, Canada
17	No. 4, 6, 8, 10, 12, 14, 16, 18 Qianmen Avenue, Dongcheng District, Beijing, China
18	10/F New World Building, No 2-68 Nanjing Xi Road, Shanghai 200003, China
19	21, Han Street, Wuchang District, (Shops 40/41/42) Building 5, Lot J2, Wuhan, China
20	Shops B131, B132 & B133 of Level B1, K11 MUSEA, Victoria Dockside, 12 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong
21	Room No.3F-01b&32&K1, L3 Floor, Zhihuixuhui Plaza, No.1-2 of 2389 Alley, Zhangyang Road, Shanghai Pilot Free Trade Zone, China
22	4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China
23	No. 2 Jia-1, Bolan Road, Heping District, Shenyang, China
24	L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China
25	189, Daduhe Road, Pu Tuo District, Shanghai, 200062, China
26	Aastvej 10, 7190 Billund, Denmark
27	Tivolitie 10, Helsinki 00510, Finland
28	Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 77111 Marne-La-Vallée, France
29	Kehrwieder 5, 20457 Hamburg, Germany
30	Heidenhof 1, 29614 Soltau, Germany
31	Legoland Allee, 89312, Gunzburg, Germany
32	No. 46, Aradhana, R. K. Puram, Sector -13, New Delhi- 110066, India
33	6 th Floor, 2 Grand Canal Square, Dublin 2, Ireland
34	Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy
35	Via Vivaldi n.7, Castelnuovo del Garda Verona, 37014, Verona, Italy
36	Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy
37	2-2-1, Kinjofutou Minato-ku, Nagoya-shi, Japan
38	Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan
39	20, Rue Eugène Ruppert, L-2453, Luxembourg
40	Suite 19-1 Level 19, Tower Block, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Kuala Lumpur, 50490, Malaysia
41	No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor, Malaysia
42	Suite 2-4, Level 2, Tower Block, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia
43	Rokin 78, 1012 KW Amsterdam, Netherlands
44	Gevers Deynootweg 970, 2586 BW Den Haag, Netherlands
45	Dam 20 GEBOUW P&C, 1012 NP Amsterdam, Netherlands
46	Strandweg 13, 2586 JK Den Haag, Netherlands
47	Level 11, 41 Shortland Street, Auckland 1010, New Zealand
48	No. 1 Rua Particular do Castelo de Queijo, 4100-379, Porto, Portugal
49	10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore
50	266 Haeundaehaebyun-ro, Haenudee-Gu, Busan, Republic of Korea
51	Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea
52	Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain
53	989 Siam Discovery, #401 4 Flr., #501 5 Flr., #601 6 Flr., #701 7 Flr., Rama I Road, Pathumwan, Bangkok 10330, Thailand
54	B1-B2 Floor Siam Paragon, 991 Rama I Road, Khweng Patumwan, Bangkok 10330, Thailand
55	Kocatepe Mah. Pasa Cad. Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey
56	Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates
57	Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates
58	Link House, 25 West Street, Poole, Dorset, BH15 1LD, United Kingdom
59	80 State Street, Albany, New York 12207-2543, United States
60	1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States
61	201-01 Emaar Square, PO Box 123311, Dubai, United Arab Emirates
62	30 Finsbury Square, London, EC2A 1AG, United Kingdom

NOTES TO THE ACCOUNTS

SECTION 5

OTHER NOTES CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

5.7 SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONTINUED)**UK registered subsidiaries exempt from audit**

The following subsidiaries are taking advantage of an exemption from audit under section 479A of the Companies Act 2006. Merlin Entertainments Limited is providing a statutory guarantee for any outstanding liabilities of these subsidiaries. All subsidiary undertakings have been included in the consolidated financial statements of Merlin Entertainments Limited as at 26 December 2020.

Subsidiary undertaking	Company number	Subsidiary undertaking	Company number
Alton Towers Resort Operations Limited	06127441	Merlin Entertainments (Blackpool) Limited	02429776
Charcoal CLG 1 Limited	06128422	Merlin Entertainments (NBD) Limited	05010879
Charcoal Midco 1 Limited	06125930	Merlin Entertainments Crown (UK) Limited	09679586
Charcoal Newco 1 Limited	06128686	Merlin Entertainments Group Limited	05022287
Charcoal Newco 1a Limited	06130062	Merlin Entertainments Group Operations Limited	03671093
Chessington Hotel Limited	05686193	Merlin UK Finance 1A Limited	11094850
Chessington World of Adventures Operations Limited	06128521	Merlin UK Finance 2A Limited	11094942
LEGOLAND US Holdings Limited	06273037	Merlin UK Finco 1 Limited	08753258
LEGOLAND Windsor Park Limited	02721728	Merlin UK Finco 2 Limited	08753263
London Aquarium (South Bank) Limited	06553877	Merlin US Holdings Limited	06273035
London Eye Holdings Limited	05686179	SEA LIFE Centre (Blackpool) Limited	02407713
London Eye Management Services Limited	02896849	Thorpe Park Operations Limited	06127478
Merlin Entertainments (Asia Pacific) Limited	03767102		

MERLIN ENTERTAINMENTS LIMITED

COMPANY FINANCIAL STATEMENTS

Company statement of financial position at 26 December 2020 (2019: 28 December 2019)

	Note	2020 £m	2019 £m
Non-current assets			
Investments	iii	3,160	3,160
Amounts owed by Group undertakings	iv	3,866	3,843
Deferred tax assets		5	-
		7,031	7,003
Current assets			
Amounts owed by Group undertakings	iv	114	46
Total assets		7,145	7,049
Current liabilities			
Interest-bearing loans and borrowings	vi	3	2
Amounts owed to parent company	vi	46	15
Amounts owed to Group undertakings	v	154	6
Accruals		1	1
		204	24
Non-current liabilities			
Interest-bearing loans and borrowings	vi	293	303
Parent company loans	vi	636	604
Preference shares treated as liabilities	vi	2,132	2,120
Amounts owed to Group undertakings	v	2,902	2,881
		5,963	5,908
Total liabilities		6,167	5,932
Net assets		978	1,117
Issued capital and reserves attributable to owners of the Company	vii	978	1,117
Total equity		978	1,117

The notes on pages 94 to 98 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 15 April 2021 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Alistair Windybank
Chief Financial Officer




MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS

Company statement of changes in equity at 26 December 2020 (2019: 28 December 2019)

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 30 December 2018		10	16	3,217	3,243
Loss for the year		-	-	(6)	(6)
Total comprehensive income for the year		-	-	(6)	(6)
Shares issued		-	30	-	30
Bonus issue		-	-	(2,117)	(2,117)
Equity dividends	vii	-	-	(56)	(56)
Share incentive schemes:					
- movement in reserves for employee share schemes	iii	-	-	23	23
At 28 December 2019		10	46	1,061	1,117
Loss for the year		-	-	(139)	(139)
Total comprehensive income for the year		-	-	(139)	(139)
At 26 December 2020	vii	10	46	922	978

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

i ACCOUNTING POLICIES

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 accounting standards in conformity with the requirements of the Companies Act 2006, 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.

The consolidated financial statements of Merlin Entertainment Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Link House, 25 West Street, Poole, Dorset, BH15 1LD. Company financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Merlin Entertainment Limited 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 payment' in respect of Group settled share-based payments;
- 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.

These financial statements have been prepared for the 52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019).

The Directors have taken advantage of the exemption available under s408 of the Companies Act 2006 and have not presented a profit and loss account of the Company.

A summary of the Company's significant accounting policies is set out below.

Investments in subsidiaries

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.

Foreign currency

Foreign currency transactions are translated into the functional currency 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.

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.

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

i ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The fair value of equity-settled share-based payments is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and charged as the employees become unconditionally entitled to the rights.

The Group's equity-settled share plans were settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. These share plans all vested at the time of the acquisition of the Company in November 2019 when the Group de-listed from the London Stock Exchange.

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 retained earnings. 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.

The Group operated cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes were not material to the financial statements.

Loans to Group undertakings

Loans to Group undertakings are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Classification of financial instruments issued by the Company

Financial instruments are recognised on the statement of financial position when the Company becomes party to the contractual provisions of the instrument. The accounting policy for each type of financial instrument is included within the relevant note.

Financial assets are initially measured at fair value, unless otherwise noted, and are subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are initially measured at fair value, plus, in the case of other financial liabilities, directly attributable transaction costs. Other financial liabilities, primarily the Company's interest-bearing loans and borrowings, are measured at amortised cost. Financial liabilities are measured at fair value through profit or loss and are held on the statement of financial position at fair value. A financial liability is derecognised when the Company's obligations are discharged, expire or are cancelled. Finance payments associated with financial liabilities are dealt with as part of finance costs.

An equity instrument is any contract that has a residual interest in the assets of the Company after deducting all of its liabilities. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Where financial instruments consist of a combination of debt and equity, the Company will assess the substance of the arrangement in place and decide how to attribute values to each taking into consideration the policy definitions above.

Interest-bearing loans and borrowings

These are initially recognised at the principal value of the loan concerned, less any related 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's estimate of the expected life based on repayment subsequently changes, 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.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

ii OPERATING EXPENSES

Staff numbers and costs

The average number of persons employed by the Company during the year was nine (2019: nine). All employees were Directors of the Company. The employment costs of the Directors of the Company have been borne by Motion Acquisition Limited and Merlin Entertainments Group Limited for their services to the Group as a whole (2019: Merlin Entertainments Group Limited). One Director accrued benefits under defined contribution schemes during the year (2019: one).

Auditor's remuneration

Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis (note 2.1 of the consolidated financial statements).

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

iii INVESTMENT IN SUBSIDIARY UNDERTAKING

	Shares in subsidiary undertaking £m
Cost and carrying value	
At 30 December 2018	3,137
Capital contributions to subsidiaries	23
At 28 December 2019	3,160
Capital contributions to subsidiaries	-
At 26 December 2020	3,160

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution of the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the year end is as follows:

Company	Activity	Country of incorporation	Shareholding	Description of shares held
Merlin Entertainments Group Luxembourg 3 S.à r.l.	Holding company	Luxembourg	100.0%	Ordinary

A full list of Group companies is included in note 5.7 of the consolidated financial statements on pages 85 to 91.

iv AMOUNTS OWED BY GROUP UNDERTAKINGS

	Current assets		Non-current assets	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts owed by Group undertakings	114	46	3,866	3,843

Amounts owed by Group undertakings comprise funds loaned by the Company to fellow Group undertakings. The non-current loans carry interest rates that are based on the costs of servicing equivalent external bank facilities and loan notes. Most of these loans have maturities of 2026 and 2027.

v AMOUNTS OWED TO GROUP UNDERTAKINGS

	Current liabilities		Non-current liabilities	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts owed to Group undertakings	154	6	2,902	2,881

Amounts owed to Group undertakings comprise funds loaned to the Company by fellow Group undertakings. The non-current loans carry interest rates that are based on the costs of servicing equivalent external bank facilities and loan notes. Most of these loans have maturities of 2026 and 2027.

NOTES TO MERLIN ENTERTAINMENTS LIMITED

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FINANCIAL STATEMENTS CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

vi INTEREST-BEARING LOANS AND BORROWINGS

	Current liabilities		Non-current liabilities		Total	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
\$400 million fixed rate notes due 2026	-	-	293	303	293	303
Interest payable	3	2	-	-	3	2
	3	2	293	303	296	305
Parent company loans		-	636	604	636	604
Preference shares treated as liabilities		-	2,132	2,120	2,132	2,120
Interest payable to parent company	46	15	-	-	46	15
	46	15	2,768	2,724	2,814	2,739
	49	17	3,061	3,027	3,110	3,044

The Group's facilities are:

- A bond in the form of \$400 million eight year notes with a coupon rate of 5.75% to mature in June 2026.
- Access to a £400 million revolving credit facility to mature in May 2026.
- Loans from the Company's parent company, being Motion Acquisition Limited.
- Preference shares issued to the Company's parent company, being Motion Acquisition Limited.

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

The \$400 million notes are unsecured but guaranteed by the Company and certain of its subsidiaries. The Group is required to comply with certain non-financial covenants in these notes. All covenant requirements were satisfied throughout the year.

vii EQUITY**Share capital**

	2020	2020	2019	2019
	Number	£m	Number	£m
Ordinary shares of £0.01 each				
At beginning of the year	1,036,594,358	10	1,022,072,449	10
Shares issued	-	-	14,521,909	-
At end of the year	1,036,594,358	10	1,036,594,358	10

NOTES TO MERLIN ENTERTAINMENTS LIMITED

COMPANY

FINANCIAL STATEMENTS

CONTINUED

52 weeks ended 26 December 2020 (2019: 52 weeks ended 28 December 2019)

vii EQUITY (CONTINUED)**Ordinary shares**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Each ordinary share in the capital of the Company ranks equally in all respects and no shareholder holds shares carrying special rights relating to the control of the Company.

The nominal value of shares in issue is shown in share capital, with any additional consideration for those shares shown in share premium.

Preference shares

The preference shares earn interest in the form of dividends and will be redeemed as follows:

- A preference shares - at the rate of default interest payable pursuant to the €370,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities denominated in Euros. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the A preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- B preference shares - at the rate of default interest payable pursuant to the \$410,000,000 senior notes due 15 November 2027 issued by Motion Bondco DAC and any other Senior Parent Liabilities denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the notes become repayable, or any earlier date as the holder of the B preference shares or the Company may notify to the other in the event that the notes are repaid early (in full or in part);
- C preference shares - at the rate of default interest payable pursuant to the Euro Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities denominated in Euros. They will be redeemed on any date on which all or part of the Euro Senior Debt becomes repayable, or any earlier date as the holder of the C preference shares or the Company may notify to the other in the event that the Euro Senior Debt is repaid early (in full or in part); and
- D preference shares - at the rate of default interest payable pursuant to the USD Senior Debt under and as defined in the Senior Facilities Agreement and any other Senior Secured Liabilities denominated in USD. They will be redeemed on any date on which all or part of the principal amount of the USD Senior Debt becomes repayable, or any earlier date as the holder of the D preference shares or the Company may notify to the other in the event that the USD Senior Debt is repaid early (in full or in part).

The preference shares rank ahead of the ordinary shares for all purposes and no dividend, distribution, return of capital and/or reduction of capital shall be paid on the ordinary shares whilst there are any unpaid amounts of preference dividends which constitute a debt from and payable by the Company. The preference shares carry no voting rights.

Retained earnings

The loss after tax for the year in the accounts of Merlin Entertainments Limited is £139 million (2019: loss after tax of £6 million). All of the Company's retained earnings are distributable (with the exception of those movements in reserves for employee share schemes).

Dividends

	2020	2019
	£m	£m
Final dividend for the 52 weeks ended 29 December 2018 of 5.5 pence per share	-	56
Total dividends paid	-	56

When making dividend proposals the Directors consider the resources available to the Company and its subsidiaries. Specifically they take account of the Company's significant distributable profits, as noted above, as well as the position and liquidity of the Group disclosed in the consolidated statement of financial position.

The Directors of the Company have declared their intention not to pay a dividend for the year ended 26 December 2020 (2019: £nil).

viii RELATED PARTY TRANSACTIONS

Transactions with subsidiary undertakings, which principally relate to the provision of funding within the Group, are carried out on an arm's length basis. Outstanding balances are placed on intercompany accounts (notes iv, v and vi).

For full details of transactions and arrangements with the Company's ultimate shareholders, see note 5.3 of the consolidated financial statements.

GLOSSARY

Capex	Capital expenditure.
Cluster	A group of attractions located in a city close to one another.
CWE	Conservation, Welfare and Engagement. The SEA LIFE team that focuses on delivering world class animal welfare throughout our animal care network and developing new guest experiences.
DreamWorks Tours – Shrek's Adventure!	This attraction is part of the Midway Attractions Operating Group.
EBITDA	Profit before finance income and costs, taxation, depreciation, amortisation and impairment and after taking account of attributable profit after tax of joint ventures.
Exceptional items	Due to their nature, certain one-off and non-trading items can be classified as exceptional in order to draw them to the attention of the reader and to show the underlying business performance more accurately.
Existing estate (EE)	EE comprises all attractions other than new openings.
GDPR	General Data Protection Regulation.
IP	Intellectual Property.
IPO	Initial Public Offering.
KPI	Key Performance Indicator.
LBC	Little BIG City attractions. These are part of the Midway Attractions Operating Group.
LCA	Licence and Co-operation agreement. This agreement sets out the rights granted to the Group to use the LEGO and LEGOLAND brands.
LDC	LEGOLAND Discovery Centre attractions. These are part of the Midway Attractions Operating Group.
Like for like (LFL)	2020 LFL growth refers to the growth between 2019 and 2020 on a constant currency basis using 2019 exchange rates and includes all businesses owned and operated before the start of 2019.
Listing	Listing on the London Stock Exchange.
LLP	LEGOLAND Parks Operating Group.
Merlin Magic Making (MMM)	MMM is the unique resource that sits at the heart of everything Merlin does. It is our specialist in-house site-search and business development; creative design; production; and project management team. MMM also pursues acquisition and investment opportunities.
Merlin's Magic Wand (MMW)	MMW forms a key element of Merlin's Corporate Social Responsibility commitment. Our partner children's charity delivers magical experiences around the world to children who are facing challenges of serious illness, disability or adversity.
Midway or Midway attractions	The Midway Attractions Operating Group and/or the Midway attractions within it. Midway attractions are typically smaller, indoor attractions located in city centres, resorts or shopping malls.
MT	Madame Tussauds attractions. These are part of the Midway Attractions Operating Group.
'Net Promoter' score	How we measure the propensity of our customers to recommend our attractions.
New Business Development (NBD)	NBD relates to attractions that are newly opened or under development for future opening, together with the addition of new accommodation at existing sites. New openings can include both Midway attractions and new theme parks. NBD combines with the existing estate to give the full estate of attractions.
Non-core	Attractions which Merlin has ceased the operation of during the period.

GLOSSARY

Operating free cash flow	Underlying EBITDA less existing estate capex.
Rooms	A single accommodation unit at one of our theme parks, for example a hotel room, lodge or glamping tent.
RPC	Revenue per capita, defined as visitor revenue divided by number of visitors.
RTP	Resort Theme Parks Operating Group.
Second gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged.
SLC	SEA LIFE Centre aquarium attractions. These are part of the Midway Attractions Operating Group.
The Code	UK Corporate Governance Code.
The Merlin Way	The culture of the Group which encompasses our vision and values.
Top Box	The highest level of customer satisfaction that we record in our customer surveys.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements.
Visitors	Represents all individual visits to Merlin owned or operated attractions.
Wizard Wants to Know (WWTK)	WWTK is our annual online employee survey.

Terms used

Unless otherwise stated, the terms 'Merlin', 'Merlin Entertainments', 'the Group', 'We' and 'Us' refer to the Company (Merlin Entertainments Limited) and, as applicable, its subsidiaries and/or interests in joint ventures.

Percentages are calculated based on figures before rounding and are then rounded to one decimal place.

OTHER FINANCIAL INFORMATION

Foreign exchange rate sensitivity

The Group's income statement is exposed to fluctuations in foreign currency exchange rates principally on the translation of our non Sterling earnings. The tables below show the impact on 2020 revenues and EBITDA of re-translating them at 2019 foreign exchange (FX) rates. The weighted average exchange rates are calculated by reference to the foreign currency revenue and EBITDA for the period as a whole, compared to the Sterling balance that results following their translation each month within the Group consolidation. The calculated EBITDA FX rates may therefore be affected where foreign currency earnings move between months from being positive or negative.

Currency	2019 average FX rates	2020 average FX rates	%age movement in FX rates	Revenue impact £m
USD	1.28	1.29	1.3%	1
EUR	1.13	1.11	(1.3)%	-
AUD	1.83	1.87	1.8%	1
Other				-
Increase in 2020 revenues at 2019 FX rates				2

Currency	2019 average FX rates	2020 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.28	1.26	(1.7)%	1
EUR	1.12	0.91	(18.9)%	-
AUD	1.84	1.83	(0.3)%	-
Other				1
Increase in 2020 EBITDA at 2019 FX rates				2