OFFERING MEMORANDUM

NOT FOR DISTRIBUTION IN THE UNITED STATES OF AMERICA OR TO U.S. PERSONS

Merlin Entertainments plc

€200,000,000

2¾% Senior Notes due 2022

Merlin Entertainments plc, a public limited company incorporated under the laws of England and Wales (the "*Issuer*"), is offering €200 million in aggregate principal amount of its 2¾% Senior Notes due 2022 (the "*Additional Notes*"). The Additional Notes are being offered as additional notes under an indenture dated 19 March 2015 (the "*Indenture*") pursuant to which the Issuer issued €500 million in aggregate principal amount of its 2¾% Senior Notes due 2022 (the "*Existing Notes*" and, together with the Additional Notes, the "*Notes*"). The Additional Notes will have the same terms as the Existing Notes and will constitute a single class of debt securities with the Existing Notes for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. Interest on the Additional Notes will be payable semi-annually in arrear on each 15 September and 15 March, beginning on 15 September 2017. Interest on the Additional Notes will be deemed to have accrued from 15 March 2017. The Notes will mature on 15 March 2022.

We will be entitled at our option to redeem all or a portion of the Notes (i) at any time prior to the date that is three months prior to the maturity of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof, plus the applicable "make whole" premium as set forth in this offering memorandum (the "*Offering Memorandum*") and (ii) thereafter at a redemption price equal to 100 per cent. of the principal amount of the Notes, plus in each case accrued and unpaid interest and additional amounts, if any, to the date of redemption. Upon the occurrence of certain events constituting a change of control and a ratings event, the Issuer will be required to offer to repurchase the Notes at 101 per cent. of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. In the event of certain developments affecting taxation, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100 per cent. of their principal amount, plus accrued and unpaid interest and additional amounts, if any.

The Additional Notes will be and the Existing Notes are the Issuer's general, senior unsecured obligations and the Additional Notes will rank and the Existing Notes rank (i) *pari passu* in right of payment with all of the Issuer's existing and future senior unsecured obligations that are not subordinated in right of payment to the Notes, including obligations under the Issuer's Senior Facilities Agreement (as defined herein) and certain hedging obligations and (ii) senior in right of payment to all of the Issuer's existing and future obligations that are expressly subordinated in right of payment to the Notes, if any. The Additional Notes will be and the Existing Notes are (i) effectively subordinated to all existing and future secured obligations of the Issuer to the extent of the value of the property and assets securing such obligations and (ii) structurally subordinated to all obligations of the Issuer's subsidiaries that do not guarantee the Notes.

The Additional Notes will be and the Existing Notes are jointly and severally guaranteed (the "*Note Guarantees*") by certain subsidiaries of the Issuer (the "*Note Guarantors*"). The Note Guarantees will be with respect to the Additional Notes and are with respect to the Existing Notes senior unsecured obligations of the Note Guarantors and the Note Guarantees with respect to the Additional Notes will rank and with respect to the Existing Notes rank (i) *pari passu* in right of payment with all of the existing and future senior unsecured obligations of such Note Guarantor that are not subordinated in right of payment to such Note Guarantor's Note Guarantee, including obligations under the Issuer's Senior Facilities Agreement (as defined herein) and certain hedging obligations and (ii) senior in right of payment to all existing and future obligations of such Note Guarantor that are expressly subordinated in right of payment to such Note Guarantee, if any. The Note Guarantees with respect to the Additional Notes will be and with respect to the Existing Notes are effectively subordinated to all existing and future secured obligations of such Note Guarantor to the extent of the value of the property and assets securing such obligations.

This Offering Memorandum includes information on the terms of the Notes and the Note Guarantees, including redemption and repurchase prices, covenants, events of default and transfer restrictions.

The Existing Notes have been listed on the Official List of the Luxembourg Stock Exchange and have been admitted for trading on the Euro MTF market of the Luxembourg Stock Exchange (the "*Euro MTF*"). Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF. This Offering Memorandum constitutes a prospectus for purposes of Luxembourg law on prospectus securities dated July 10, 2005, as amended.

Investing in the Additional Notes involves a high degree of risk. See "Risk Factors" beginning on page 21.

Issue price for the Additional Notes: 103.50 per cent. plus accrued interest from 15 March 2017.

The Additional Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "*U.S. Securities Act*"), or the securities laws of any other jurisdiction. The Additional Notes are being offered and sold in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act ("*Regulation S*"). The Additional Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. For a description of certain restrictions on transfers of the Notes, see "Plan of Distribution" and "Notice to Investors".

The Additional Notes will initially be issued in the form of global notes in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. We expect delivery of the Additional Notes to be made in book-entry form through a common depositary of Euroclear Bank SA/NV ("*Euroclear*") and Clearstream Banking *société anonyme* ("*Clearstream*") on 17 March 2017 (the "*Issue Date*"). The Additional Notes, which are being offered and sold pursuant to Regulation S, will have a different ISIN and common code from, and will not trade fungibly with, the Existing Notes sold pursuant to Regulation S during the period to and including the 40th day following the later of the Issue Date and the last date on which the Issuer or any affiliate of the Issuer is the owner of the Additional Notes (the "*Distribution Compliance Period*"). Following the Distribution Compliance Period, certain selling restrictions with respect to the Additional Notes will terminate and the Additional Notes will become fully fungible with, and have the same ISIN and common code as, the Existing Notes sold pursuant to Regulation S.

Joint Physical Bookrunners

BNP PARIBAS **HSBC**

Bookrunners

Lloyds Bank **Société Générale Corporate & Investment Banking** **UniCredit Bank**

The date of this Offering Memorandum is 21 March 2017.


MERLIN
ENTERTAINMENTS

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IMPORTANT INFORMATION

You should rely only on, and base your decision to invest in the Additional Notes solely on, the information contained in this Offering Memorandum. None of the Issuer, the Note Guarantors, BNP Paribas, HSBC Bank plc, Lloyds Bank plc, Société Générale or UniCredit Bank AG (the "*Initial Purchasers*") have authorised anyone to provide prospective investors with different information, and you should not rely on any such information. You should assume that the information contained in this Offering Memorandum is accurate only as of the date on the front of this Offering Memorandum.

This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Additional Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Additional Notes may not be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws that apply to you in any place in which you buy, offer or sell any Additional Notes or possess this Offering Memorandum. You must also obtain any consents or approvals that you need in order to purchase any Additional Notes. Neither we nor any of the Initial Purchasers are responsible for your compliance with these legal requirements.

We are offering the Additional Notes outside the United States to persons other than U.S. persons pursuant to Regulation S under the U.S. Securities Act. If you purchase the Additional Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under "Notice to Investors". The Additional Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. You may be required to bear the financial risk of an investment in the Additional Notes for an indefinite period.

The Additional Notes are subject to restrictions on transferability and resale, which are described under the caption "Notice to Investors". By possessing this Offering Memorandum or purchasing any Additional Note, you will be deemed to have represented and agreed to all of the provisions contained in that section of this Offering Memorandum. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. None of the Issuer, the Note Guarantors, or the Initial Purchasers are making an offer to sell the Additional Notes in any jurisdiction where the offer and sale of the Additional Notes is prohibited. Neither the Issuer nor any Note Guarantor makes any representation to you that the Additional Notes are a legal investment for you. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

Neither we nor the Initial Purchasers nor any of our or their respective representatives are providing you with any legal, business, tax or other advice in this Offering Memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase the Additional Notes.

You should base your decision to invest in the Additional Notes solely on information contained in this Offering Memorandum. This Offering Memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of certain of the documents referred to herein will be made available to prospective investors upon request to us or set forth under the caption "Available Information".

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this Offering Memorandum is true and accurate in all material respects and we are not aware of any other facts, the omission of which would make this Offering Memorandum or any statement contained therein misleading in any material respect.

By purchasing the Additional Notes, you will be deemed to have acknowledged that you have reviewed this Offering Memorandum and have had an opportunity to request, and have received all additional information that you need from us. No person is authorized in connection with any offering made pursuant to this Offering Memorandum to give any information or to make any representation not contained in this Offering Memorandum or any pricing term sheet or supplement and, if given or made, any other information or representation must not be relied upon as having been authorized by us or the Initial Purchasers.

The information contained in this Offering Memorandum is accurate as of the date hereof. The Issuer's and the Note Guarantors' business, financial condition or other information contained in this Offering

Memorandum may change after the date hereof. Neither the delivery of this Offering Memorandum at any time after the date of publication nor any subsequent commitment to purchase the Additional Notes shall, under any circumstances, create an implication that there has been no change in the information set out in this Offering Memorandum or in our business since the date of this Offering Memorandum.

The Initial Purchasers, the Trustee (as defined herein) and any other agents acting with respect to the Additional Notes accept no responsibility for and make no representation or warranty, express or implied, as to the accuracy or completeness of the information set out in this Offering Memorandum and nothing contained in this Offering Memorandum is, or should be relied upon as, a promise or representation by the Initial Purchasers, the Trustee, or any other agents acting with respect to the Additional Notes as to the past or the future. By receiving this Offering Memorandum, you acknowledge that you have not relied on the Initial Purchasers or their respective directors, affiliates, advisers and agents in connection with your investigation of the accuracy of this information or your decision whether to invest in the Additional Notes.

By accepting delivery of this Offering Memorandum, you agree to the foregoing and agree not to use any information herein for any purpose other than considering an investment in the Additional Notes. This Offering Memorandum may be used only for the purpose for which it was published.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled "Book-Entry; Delivery and Form", is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. We will not, nor will any of our agents, have responsibility for the performance of the respective obligations of Euroclear and Clearstream or their respective participants under the rules and procedures governing their operations, nor will we or our agents have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to these book-entry interests. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE ADDITIONAL NOTES, HSBC BANK PLC (THE "*STABILIZING MANAGER*") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) MAY OVERALLOT ADDITIONAL NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE ADDITIONAL NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE DATE OF ISSUE OF THE ADDITIONAL NOTES (THE "*ISSUE DATE*") AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE ADDITIONAL NOTES. ANY STABILISATION ACTION OR OVERALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

IMPORTANT INFORMATION ABOUT SELLING AND JURISDICTIONAL RESTRICTIONS

United Kingdom

This Offering Memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments and are investment professionals as defined within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "*Order*"), (iii) high net worth bodies corporate and any other person falling within Article 49(2)(a) to (d) of the Order, or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended), or "*FSMA*"), and any other persons to whom it may otherwise lawfully be made in accordance with the Order or Section 21 of the FSMA (all such persons together being referred to as "*relevant persons*").

Accordingly, by accepting delivery of this Offering Memorandum, the recipient warrants and acknowledges that it is such a relevant person. The Additional Notes are available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Additional Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. No part of this Offering Memorandum should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the prior written consent of the Issuer. The Additional Notes are not being offered or sold to any person in the United Kingdom, except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of the FSMA.

Australia

Neither this Offering Memorandum nor any disclosure document (as defined in the Corporations Act 2001 of the Commonwealth of Australia (the "*Australian Corporations Act*")) in relation to the Additional Notes has been or will be lodged with the Australian Securities and Investments Commission ("*ASIC*") or ASX Limited (ABN 98 008 624 691) (the "*ASX*") and Additional Notes may not be offered for sale, nor may applications for the issue, sale, purchase or subscription of any Additional Notes be invited, in, to or from Australia (including an offer or invitation which is received by a person in Australia) and neither this Offering Memorandum nor any advertisement or other offering material relating to the Additional Notes may be distributed or published in Australia unless:

i. (A) the aggregate consideration payable by each offeree or invitee for the Additional Notes is at least AU$500,000 (or its equivalent in other currencies) (disregarding moneys lent by the offeror or its associates); or (B) the offer otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Australian Corporations Act;

ii. the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Australian Corporations Act;

iii. such action complies with all applicable laws, regulations or directives in Australia; and

iv. such action does not require any document to be lodged with ASIC or any other regulatory authority in Australia.

This Offering Memorandum was prepared for "wholesale clients" only within the meaning of section 761G of the Australian Corporations Act. This Offering Memorandum is not directed at persons who are "retail clients" as defined in the Australian Corporations Act.

Belgium

This Offering Memorandum relates to a private placement of the Additional Notes and does not constitute an offer or solicitation to the public in Belgium to subscribe for or acquire the Additional Notes. The Offering has not been and will not be notified to, and this Offering Memorandum has not been, and will not be, approved by the Belgian Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des Services et Marchés Financiers*) pursuant to the Belgian laws and regulations applicable to the public offering of notes. Accordingly, the Offering, as well as any other materials relating to the Offering may not be advertised, the Additional Notes may not be offered or sold, and this Offering Memorandum or any other information circular, brochure or similar document may not be distributed, directly or indirectly, (i) to any other person located and/or resident in Belgium other than in circumstances which do not constitute an offer to the public in Belgium pursuant to the Belgian Act of 16 June 2006 on the public offering of investment instruments and the admission of investment instruments to trading on a regulated market or pursuant to the Belgian Act of 3 August 2012 on certain forms of collective management of investment portfolios or (ii) to any person qualifying as a consumer within the meaning of the Belgian Act of 6 April 2010 on market practices and consumer protection, unless such sale is made in compliance with the Belgian Act of 6 April 2010 and its implementing regulation. This Offering Memorandum has been issued to the intended recipient for personal use only and exclusively for the purpose of the offer. Therefore it may not be used for any other purpose, nor passed on to any other person in Belgium.

France

This Offering Memorandum has not been prepared in the context of a public offering of financial securities in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Title I of Book II of the *Règlement Général* of the *Autorité des marchés financiers* (the French financial markets authority, or "*AMF*"). Consequently, the Additional Notes may not be, directly or indirectly, offered or sold to the public in France (*offre au public de titres financiers*), and neither this Offering Memorandum nor any offering or marketing materials relating to the Additional Notes must be made available or distributed in any way that would constitute, directly or indirectly, an offer to the public in France.

The Additional Notes may only be offered or sold in France to qualified investors (*investisseurs qualifiés*) and/or to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*), all as defined in and in accordance with Articles L.411-1, L.411-2, D.411-1, D.411-4, D.744- 1, D.754-1 and D.764-1 of the French *Code monétaire et financier*.

Prospective investors are informed that:

(i) this Offering Memorandum has not been and will not be submitted for clearance to the AMF;

(ii) in compliance with Articles L.411-2, D.411-1, D.411- 4, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*, any investors subscribing for the Additional Notes should be acting for their own account; and

(iii) the direct and indirect distribution or sale to the public of the Additional Notes acquired by them may only be made in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

Germany

The Offering of the Additional Notes is not a public offering in the Federal Republic of Germany. The Additional Notes may only be offered, sold and acquired in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (the "*Securities Prospectus Act*", *Wertpapierprospektgesetz*, *WpPG*), as amended, and any other applicable German law. No application has been made under German law to publicly market the Additional Notes in or out of the Federal Republic of Germany. The Additional Notes are not registered or authorized for distribution under the Securities Prospectus Act and accordingly may not be, and are not being, offered or advertised publicly or by public promotion. Therefore, this Offering Memorandum is strictly for private use and the offer is only being made to recipients to whom the document is personally addressed and does not constitute an offer or advertisement to the public. The Additional Notes will only be available to, and this Offering Memorandum and any other offering material in relation to the Additional Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2, No. 6 of the Securities Prospectus Act or who are subject of another exemption in accordance with Section 3 para. 2 of the Securities Prospectus Act. Any resale of the Additional Notes in Germany may be made only in accordance with the Securities Prospectus Act and other applicable laws.

Ireland

This Offering Memorandum has been prepared on the basis that any offer of Additional Notes will be made pursuant to the exemptions in Regulation 9(1)(a), (b) or (d) of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (the "*Irish Prospectus Regulations*") from the requirement to publish a prospectus for offers of notes. Accordingly, any person making or intending to make an offer in Ireland of Additional Notes which are subject of the Offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer or the Initial Purchaser to publish a prospectus pursuant to Regulation 12 of the Irish Prospectus Regulations or supplement a prospectus pursuant to Regulation 51 of the Irish Prospectus Regulations, in each case, in relation to such offer. None of the Issuer or the Initial Purchaser has authorized, nor do they authorize, the making of any offer of Additional Notes in circumstances in which an obligation arises for the Issuer or the Initial Purchaser to publish or supplement a prospectus for such offer.

Italy

No action has been or will be taken that could allow an offering of the Additional Notes to the public in the Republic of Italy ("*Italy*") within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree No. 58 of 24 February 1998, as subsequently integrated and amended ("*Financial Services Act*"). Accordingly, the Additional Notes may not be offered or sold directly or indirectly in Italy, and neither this Offering Memorandum nor any other offering circular, prospectus, form of application, advertisement, other offering material or other information relating to the Issuer, the Note Guarantors, or the Additional Notes may be issued, distributed or published in Italy, either on the primary or on the secondary market, except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of Legislative Decree No. 58 of 24 February 1998, as subsequently integrated and amended from time to time (the "*Financial Services Act*"), as implemented by Article 26, first paragraph, letter d) of Commissione Nazionale per le Società e la Borsa ("*CONSOB*") Regulation No. 16190 of 29 October 2007, as subsequently integrated and amended from time to time ("*Regulation No. 16190*"), and by Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as subsequently integrated and amended from time to time ("*Regulation No. 11971*"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and its implementing CONSOB regulations, including Regulation No. 11971.

Any offer, sale or delivery of the Additional Notes or distribution of copies of this Offering Memorandum or any other document relating to the Additional Notes in Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree No. 385 of 1 September 1933, as amended (the "*Banking Act*"), the Financial Services Act, Regulation No. 16190 (in each case, as amended from time to time) and any other applicable law and regulations;

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offering of securities in Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other Italian authority.

Any investor purchasing the Additional Notes is solely responsible for ensuring that any offer or resale of the Additional Notes by such investor occurs in compliance with applicable laws and regulations.

Japan

The Additional Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "*Financial Instruments and Exchange Law*") and each Initial Purchaser has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Grand Duchy of Luxembourg

The terms and conditions relating to this Offering Memorandum have not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*) for purposes of public offering or sale in the Grand Duchy of Luxembourg ("*Luxembourg*"). Accordingly, the Additional Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other offering circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in, from or published in, Luxembourg, except for the sole purpose of the admission of the Additional Notes for trading on the Euro MTF and listing on the Official List of the Luxembourg Stock Exchange, and except in circumstances which do not constitute an offer of securities to the public requiring the publication of a prospectus in accordance with article 5 paragraph 2 of the Luxembourg law of 10 July 2005 on prospectuses for securities and implementing the Prospectus Directive, as amended from time to time.

The Netherlands

Additional Notes in definitive form on which interest does not become due and payable whatsoever during their term but only at maturity (savings certificates or *spaarbewijzen* as defined in the Netherlands Savings Certificates Act or *Wet inzake spaarbewijzen*, the "*SCA*") may only be transferred and accepted, directly or indirectly, within, from or into the Netherlands through the mediation of either the Issuer or a member firm of Euronext Amsterdam, admitted in a function on one or more markets or systems held or operated by Euronext Amsterdam N.V. with due observance of the provisions of the SCA and its implementing regulations (which include registration requirements). No such mediation is required, however, in respect of (i) the initial issue of such Additional Notes to the first holders thereof, (ii) the transfer and acceptance by individuals who do not act in the conduct of a profession or business, (iii) the transfer and acceptance of such Additional Notes (either in definitive form or as rights representing an interest in such note in global form) of any particular series of tranche issued outside the Netherlands and not distributed in the Netherlands in the course of initial distribution or immediately thereafter, and (iv) the transfer and acceptance of rights representing an interest in a global note or certificate.

Singapore

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Additional Notes may not be circulated or distributed, nor may the Additional Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "*SFA*"); (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional Notes subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Additional Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA.

Spain

This Offering Memorandum has not been approved nor registered with the *Comisión Nacional del Mercado de Valores* and therefore the Additional Notes may not be offered, sold or distributed in Spain except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30 *bis* of the Securities Market Act (*Ley 24/1988, de 28 de Julio, del Mercado de Valores*) as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de Julio, del Mercado de Valores, en material de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*) as amended or restated.

Switzerland

The Additional Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Additional Notes constitutes (i) a prospectus as such term is understood pursuant to Article 652a or 1156 of the Swiss Code of Obligations or (ii) a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Offering Memorandum nor any other marketing material relating to the Additional Notes may be publicly distributed or otherwise made publicly available in Switzerland. In addition, this Offering Memorandum nor any other offering or marketing material relating to the Additional Notes may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Additional Notes are being offered in Switzerland by way of private placement, without any public advertisement and only to investors who do not purchase the Additional Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This Offering Memorandum, as well as any other offering or marketing material relating to the Additional Note does not constitute an offer to any other person. This Offering Memorandum, as well as any other offering or marketing material relating to the Additional Notes, may only be used by those investors to whom it has been handed out in connection with the Offering and may neither directly nor indirectly be distributed or made available to other persons without the relevant Issuer's express consent.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward- looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Offering Memorandum, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things, our future financial conditions and performance, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “project”, “should” or “will” or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Offering Memorandum. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to those relating to:

- terrorist activities, political direct action, natural disasters and significant power outages;
- safety accidents or incidents at the Attractions;
- adverse economic conditions;
- weather conditions;
- the failure to generate desired returns from the roll-out and development of new Attractions and the development of LEGOLAND Parks;
- the failure to recognise the desired results from our planned capital investment strategy;
- the loss of any of our senior management, key managers or employees;
- the loss of, or any adverse change in, any of our important commercial relationships and agreements;
- adverse changes in tourism patterns and visitor volumes;
- adverse changes in interest rates or foreign exchange rates;
- public health concerns, including the outbreak of prolonged pandemic or epidemic disease;
- competition from other attractions;
- changes in consumer tastes and competition from other events and attractions;
- the loss of, inability to obtain, or failure to retain, necessary licenses, permits, planning consents and approvals;
- our failure to comply with laws and regulations and any changes in laws and regulations;
- adverse changes in tax laws;
- increased labour costs, work stoppages and the inability to retain seasonal employees;
- the misappropriation of cash by employees and/or third parties;
- the loss of or inability to renew leases;
- losses or damages beyond the scope of our insurance coverage;
- our failure to maintain effective internal controls over financial reporting;
- the loss, theft or misappropriation of sensitive or private information and data;
- interruption or failure of IT systems upon which our operations are reliant; and
- other factors discussed or referred to in this Offering Memorandum.

The foregoing factors and others described under "Risk Factors" should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We urge you to read this Offering Memorandum, including the sections entitled "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", for a more complete discussion of the factors that could affect our future performance and the industry in which we operate.

Any forward-looking statements are only made as of the date of this Offering Memorandum and, except as required by law or the rules and regulations of any stock exchange on which the Additional Notes are listed, we undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Offering Memorandum, including those set forth under "Risk Factors".

CERTAIN DEFINITIONS

In this Offering Memorandum, unless the context otherwise requires:

"*2012 financial year*"	The 52 weeks ended 29 December 2012
"*2013 financial year*"	The 52 weeks ended 28 December 2013
"*2014 financial year*"	The 52 weeks ended 27 December 2014
"*2015 financial year*"	The 52 weeks ended 26 December 2015
"*2016 financial year*"	The 53 weeks ended 31 December 2016
"*Additional Notes*"	The €200,000,000 million aggregate principal amount of 2¾% Senior Notes due 2022 offered hereby
"*Asia Pacific region*"	The countries in Asia (excluding Turkey), Australia and New Zealand
"*Attractions*"	The Resort Theme Parks, the LEGOLAND Parks and the Midway Attractions
"*Australian dollar*", "*AU$*", or "*A$*"	The currency of Australia
"*BFIP*"	Blackstone Family Investment Partnership (Cayman) IV-A L.P. on behalf of itself and Blackstone Family Investment Partnership (Cayman) IV-A SMD L.P.
"*Blackstone*"	Together, Blackstone Capital Partners (Cayman) IV-A L.P., BFIP, Blackstone Participation Partnership (Cayman) IV L.P. and Blackstone Merlin Holdings Limited of, in each case, c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, KY1-9005 George Town, Grand Cayman, Cayman Islands
"*British Pound*", "*pound sterling*", "*pounds sterling*" or "*£*"	The currency of the United Kingdom
"*CAD*" or "*Canadian dollar*"	The currency of Canada
"*CAGR*"	Compound annual growth rate
"*Company*", "*we*", "*us*", "*our*" or "*Group*"	Merlin Entertainments plc and its subsidiaries, except when used in the context of financial information, in which case we refer to Merlin Entertainments plc and its consolidated subsidiaries, or as the context may otherwise indicate
"*DKK*" or "*Danish Kroner*"	The currency of Denmark
"*EBITDA*"	Profit before finance income and costs, taxation, depreciation, amortisation, impairment and after taking account of profit after tax of joint ventures
"*EU*"	The European Union
"*euro*", "*EUR*" or "*€*"	The currency of the European Union member states participating in the European Monetary Union
"*Existing Estate*"	Our existing attractions and facilities
"*Existing Notes*"	The Issuer's €500 million aggregate principal amount of 2¾% Senior Notes due 2022 offered on the Original Issue Date under the Indenture
"*HK$*" or "*Hong Kong dollar*"	The currency of Hong Kong
"*IFRS*"	International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union

"*Indenture*"	The indenture dated 19 March 2015 governing the Notes (including the Additional Notes), by and among, *inter alios*, the Issuer, the Note Guarantors and the Trustee
"*Initial Purchasers*"	BNP Paribas, HSBC Bank plc, Lloyds Bank plc, Société Générale and UniCredit Bank AG
"*IPO*"	The initial public global offer of 306,110,253 Ordinary Shares of Merlin Entertainments plc on 13 November 2013
"*Issue Date*"	The date on which the Additional Notes offered hereby are issued
"*Issuer*"	Merlin Entertainments plc
"*Key Brands*"	Alton Towers Resort, Chessington World of Adventures, The Dungeons, The Eye Brand, Gardaland, Heide Park, LEGOLAND Parks and LEGOLAND Discovery Centres, Madame Tussauds, SEA LIFE, Thorpe Park and Warwick Castle
"*KIRKBI*"	KIRKBI Invest A/S, whose registered office is at Koldingvej 2, DK- 7190, Billund, Denmark
"*KIRKBI Director*"	The director appointed by KIRKBI as part of its right to appoint and replace one director of the company so long as it holds in aggregate at least 10 per cent. of the Ordinary Shares
"*LCA*"	The licence and co-operation agreement dated 24 August 2005 (as subsequently amended and restated) with KIRKBI (then named LEGO Holding A/S) whereby certain members of the Group (the "*Licensees*") hold rights to use the LEGOLAND and LEGO trademarks in the LEGOLAND business
"*LEGOLAND Parks*"	LEGOLAND Billund, LEGOLAND California, LEGOLAND Deutschland, LEGOLAND Florida, LEGOLAND Malaysia, LEGOLAND Windsor and LEGOLAND Dubai
"*like-for-like*"	A measurement based on the estate of Attractions and other businesses that we owned and operated on the first day of the immediately preceding financial year, on a constant currency basis using the exchange rates applicable for the later of the two years being compared and when calculating like-for-like measures, the results of the 53rd week of the 2016 financial year (a 53-week financial year) are excluded to assist with comparability to the 2014 financial year (a 52-week financial year) and the 2015 financial year (a 52-week financial year)
"*London Stock Exchange*"	London Stock Exchange plc
"*Merlin*"	Merlin Entertainments plc and its subsidiaries, except when used in the context of financial information, in which case we refer to Merlin Entertainments plc and its consolidated subsidiaries, or as the context may otherwise indicate
"*Merlin Annual Pass*"	An annual season ticket allowing entry to a range of Attractions, generally in the United Kingdom or Germany
"*Merlin Studios*"	Our creative studios, located in west London
"*Midway Attractions*"	The Dungeons, LEGOLAND Discovery Centres, The Eye Brand (and other Attractions), Madame Tussauds, SEA LIFE Centres and "DreamWorks Tours' Shrek's Adventure!"
"*MYR*"	The currency of Malaysia
"*New Business Development*"	The development of new Midway Attractions, LEGOLAND Parks, Resort Theme Parks, accommodation and second gates at existing Attractions
"*Note Guarantees*"	The senior guarantees of the Notes by the Note Guarantors

"*Note Guarantors*"	Madame Tussauds Touring Exhibition Limited, Merlin Attractions Operations Limited, Merlin Entertainments (Dungeons) Limited, Merlin Entertainments Group Holdings Limited, Merlin Entertainments (SEA LIFE) Limited, LEGOLAND ApS, Dungeon Deutschland GmbH, Heide-Park Soltau GmbH, LEGOLAND Deutschland Freizeitpark GmbH, LEGOLAND Deutschland GmbH, Madame Tussauds Deutschland GmbH, Sea Life Deutschland GmbH, Gardaland S.r.l., LEGOLAND California, LLC, LEGOLAND Discovery Centre US, LLC, Madame Tussaud Las Vegas LLC, Madame Tussaud's New York LLC, Merlin Entertainments Group Florida LLC, Merlin Entertainments Group U.S. Holdings Inc., Merlin Entertainments North America LLC, SEA LIFE Minnesota LLC, SEA LIFE US LLC
"*Notes*"	The Existing Notes and the Additional Notes
"*NZ$*" or "*New Zealand dollar*"	The currency of New Zealand
"*Offering*"	The offering of the Additional Notes by the Issuer and the application of the proceeds therefrom in the manner set forth herein under the heading "Use of Proceeds"
"*Ordinary Shares*"	Ordinary shares of 1 pence each in the capital of the Issuer
"*Original Issue Date*"	19 March 2015, the date of issuance of the Existing Notes under the Indenture
"*Resort Theme Parks*"	Alton Towers Resort, Chessington World of Adventures Resort, Gardaland Resort, Heide Park Resort, Thorpe Park Resort and Warwick Castle
"*Revolving Credit Facility*"	The £300 million multicurrency revolving credit facility available pursuant to the Senior Facilities Agreement
"*RMB*"	The currency of China
"*SEC*"	The U.S. Securities and Exchange Commission
"*second gates*"	Midway Attractions and visitor attractions that sit next to Theme Parks and for which additional admission is charged
"*Senior Facilities*"	The Term Facilities and the Revolving Credit Facility
"*Senior Facilities Agreement*"	The multicurrency facilities agreement dated 25 February 2015 among, *inter alios*, the Issuer as company, the entities listed therein as original borrowers, the Issuer and the Note Guarantors as original guarantors, The Royal Bank of Scotland plc, Barclays Bank plc, BNP Paribas, London Branch, Lloyds Bank plc, HSBC Bank plc, Societe Generale, London Branch and Unicredit Bank AG, London Branch, as mandated lead arrangers and Unicredit Bank AG, London Branch as agent (the "*Agent*")
"*SGD*" or "*Singapore dollar*"	The currency of Singapore
"*Shareholders*"	Holders of Ordinary Shares
"*Term Facilities*"	The term loan facilities provided under the Senior Facilities Agreement comprised of: (a) facility A1 euro commitments of €50 million (the "*Euro Term Loan Commitments*"), (b) facility A1 pounds sterling commitments of £250 million and (c) facility A1 U.S. dollar commitments of $540 million, provided that on or about the Issue Date, we intend to repay and cancel the Euro Term Loan Commitments, as described in "Use of Proceeds"; "Capitalisation" and "Description of Certain Financing Arrangements—Senior Facilities Agreement"
"*THB*"	The currency of Thailand

"*Theme Parks*"	The Resort Theme Parks and the LEGOLAND Parks
"*Transaction*"	The issuance of the Additional Notes in this Offering and the use of proceeds therefrom as described in "Use of Proceeds"
"*TRY*"	The currency of Turkey
"*U.K.*" or "*United Kingdom*"	The United Kingdom of Great Britain and Northern Ireland
"*U.S.*" or "*United States*"	The United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"*U.S. Exchange Act*"	The U.S. Securities Exchange Act of 1934, as amended
"*US$*", "*$*", "*USD*", "*dollars*" or "*U.S. dollars*"	The currency of the United States
"*Vardon Attractions*"	Vardon Attractions Limited
"*WON*"	The currency of South Korea
"*YEN*" or "*Japanese Yen*"	The currency of Japan

PRESENTATION OF FINANCIAL INFORMATION

Historical Financial Statements

Unless otherwise indicated, the financial information presented in this Offering Memorandum is the historical consolidated financial information of the Issuer and its subsidiaries. This Offering Memorandum presents:

- the audited consolidated financial statements of the Issuer and its subsidiaries as of and for the 53 weeks ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("*IFRS*") issued by the International Accounting Standards Board ("*IASB*") as adopted by the European Union and audited by our statutory auditors, KPMG LLP; and
- the audited consolidated financial statements of the Issuer and its subsidiaries as of and for the 52 weeks ended 26 December 2015 and the 52 weeks ended 27 December 2014, which have been prepared in accordance with IFRS issued by the IASB as adopted by the European Union and audited by our statutory auditors, KPMG LLP.

For the purposes of this Offering Memorandum, we refer to the 52 weeks ended 27 December 2014 as the "*2014 financial year*", the 52 weeks ended 26 December 2015 as the "*2015 financial year*" and the 53 weeks ended 31 December 2016 as the "*2016 financial year*". We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2015 financial year and the 2014 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between periods.

All references to "we", "us", "our", or the "Group" in this Offering Memorandum are to the Issuer and its subsidiaries on a consolidated basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These standards also require management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the financial statements.

The extracted consolidated financial information in this Offering Memorandum is presented in pounds sterling rounded to the nearest million. Therefore, discrepancies between total figures and the sums of the amounts listed may occur due to such rounding.

In making an investment decision, investors must rely upon their own examining of our business, the terms of the offering and the financial information.

Pro Forma Financial Information

This Offering Memorandum includes unaudited *pro forma* financial information, presented on an as adjusted basis to give *pro forma* effect to the issuance of the Additional Notes and the use of proceeds therefrom.

The unaudited *pro forma* financial information is for informational purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position we would have reported had the Transaction been completed as of (i) 26 December 2015 for purposes of the calculation of cash interest and (ii) 31 December 2016 for the purposes of the calculation of net financial indebtedness. The unaudited *pro forma* financial information should not be taken as indicative of our future consolidated results of operations or financial position. Our historical results may not be indicative of our future results following completion of the Transaction. The unaudited *pro forma* financial information has not been prepared in accordance with any generally accepted accounting standards.

The unaudited *pro forma* financial information should be read in conjunction with the information contained in "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements of the Issuer included elsewhere in this Offering Memorandum.

Non-IFRS Financial Information

Certain financial measures and ratios related thereto in this Offering Memorandum, including EBITDA, segment EBITDA, "like-for-like" revenue growth, "like-for-like" EBITDA growth, incremental return on invested capital, operating free cash flow, cash conversion, revenue per capita and admissions revenue per capita (the "*Non-IFRS Metrics*"), are not specifically defined under IFRS. These measures are presented in this Offering Memorandum because they are measures our management use to assess operating performance, and we believe that they and similar measures are widely used in our industry as a means of evaluating a company's operating performance and financing structure, and because we believe they present helpful comparisons of financial performance between periods by excluding the distorting effect of certain non-recurring items. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles.

Our Non-IFRS Metrics measures have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results or any performance measures under IFRS as set forth in our financial statements. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital commitments or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Non-IFRS Metrics do not reflect any cash requirements for such replacements;
- they do not reflect any cash income taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our consolidated income statement;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;
- assets are depreciated or amortised over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, Non-IFRS Metrics should not be considered in isolation or as a substitute for performance measures calculated in accordance with IFRS. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only as a supplement to evaluate our performance. Please see "Summary—Summary Historical Consolidated Financial Data", "Selected Historical Financial & Other Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes included elsewhere.

For a description of how our Non-IFRS Metrics are calculated from our consolidated profit for the year and a reconciliation of our Non-IFRS Metrics to our consolidated profit for the year, please see "Summary—Summary Historical Consolidated Financial Data".

EBITDA and Segment EBITDA

EBITDA, as used in this document, represents profit before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of profit after tax of joint ventures.

Segment EBITDA, as used in this document, represents segment profit before exceptional items, finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of profit after tax of joint ventures. Certain costs are not allocated to individual operating groups and are therefore not included within segment EBITDA. Our segments are the Midway Attractions, LEGOLAND Parks and Resort Theme Parks.

Constant Currency

The financial information presented on a constant currency basis included in this Offering Memorandum is unaudited and reflects an adjustment to eliminate the effect of exchange rate movements on our financial results. Management use financial information, including revenue and EBITDA, on a constant currency basis to eliminate the impact of exchange rate movements and to enhance comparability between periods in evaluating our business performance and like-for-like growth.

In this document, financial information on a like-for-like basis has been prepared using the exchange rates applicable for the later of the two years being compared.

The weighted average exchange rates for our principal currencies in respect of revenue and EBITDA in the 2015 and 2016 financial years were as follows:

	EBITDA weighted FX Rates		Revenue weighted FX Rates	
	2015	2016	2015	2016
€/£	1.40	1.21	1.39	1.23
US$/£	1.54	1.37	1.54	1.37
A$/£	2.06	1.82	2.04	1.83
CAD/£	1.96	1.79	1.95	1.81
DKK/£	10.58	9.09	10.40	9.16
HK$/£	11.93	10.60	11.93	10.58
MYR/£	5.90	5.62	5.88	5.62
NZ$/£	2.15	1.99	2.16	1.97
RMB/£	9.65	9.03	9.64	9.00
SGD/£	2.10	1.88	2.10	1.88
THB/£	51.96	48.13	52.15	48.06
TRY/£	4.23	4.03	4.22	4.10
WON/£	1,720.70	1,593.22	1,724.90	1,585.85
YEN/£	190.88	100.62	186.57	147.26

We believe that constant currency measures have limitations, particularly as the currency effects that are eliminated may constitute a significant element of our revenue and expenses and could materially impact our performance. Management does not evaluate our results and performance on a constant currency basis without also evaluating our financial information prepared in accordance with IFRS. Constant currency measures should be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS.

Like-for-Like Revenue, Like-for-Like EBITDA and Other Operating and Financial Information

Like-for-like revenue, like-for-like EBITDA and other operating and financial information, as used in this Offering Memorandum, represents the revenue, EBITDA and operating and financial information attributable to the estate of Attractions and other businesses owned and operated by us on the first day of the previous financial year. Like-for-like information is unaudited and is presented to enhance the comparability of our results of operations from period to period by disregarding the impact of acquisitions, new Attractions and other businesses, including new hotels and other accommodation and changes in foreign exchange rates. Management use like-for-like data as a key performance indicator of our business and as a tool for assessing the performance of specific operating segments, Attractions and other businesses from period to period.

Unless otherwise stated, like-for-like revenue and like-for- like EBITDA growth in respect of each financial year reflect the growth in revenue and EBITDA, respectively, attributable to the estate of Attractions and other businesses owned and operated by us on the first day of the immediately preceding financial year, on a constant currency basis using the exchange rates applicable for the later of the two years being compared.

Incremental Return on Invested Capital

Incremental Return on Invested Capital ("*Incremental ROIC*"), as used in this Offering Memorandum, is used in conjunction with the roll-out and development of new Attractions or new businesses (such as new hotels and other accommodation) and represents the contribution to our EBITDA from the new Attraction or business on an annual basis over the first five full years of operation of such Attraction or business, divided by the aggregate development costs of the relevant Attraction or business and expressed as a percentage.

Incremental ROIC is unaudited and is presented as a supplemental measure to enhance a prospective investor's understanding of the returns generated by our capital investments and our effectiveness in utilising our capital resources. Management use incremental ROIC in setting hurdles for the approval of, and for measuring the performance of, all revenue generating capital expenditure projects in the Existing Estate.

Operating Free Cash Flow

Operating free cash flow, as used in this Offering Memorandum, represents EBITDA after changes in working capital and capital expenditure.

Operating free cash flow is unaudited and is presented to enhance a prospective investor's understanding of our cash generation and provide prospective investors with a useful supplemental measure for comparing our liquidity in respect of our operations from period to period without the distortions of exceptional and other non-operating items. Our management uses operating free cash flow as a key performance indicator of our business and as an indicator of our ability to make strategic investments, repay our debt and meet other payment obligations.

Cash Conversion

Cash conversion, as used in this Offering Memorandum, is defined as operating free cash flow divided by EBITDA, expressed as a percentage.

The cash conversion information presented herein is unaudited and is presented to enhance a prospective investor's understanding of our cash generation and to provide prospective investors with a useful measure for comparing our liquidity in respect of our operations from period to period and to evaluate the efficiency with which we convert EBITDA into cash.

Revenue Per Capita and Admissions Revenue Per Capita

Revenue per capita, as used in this Offering Memorandum, is calculated by dividing total visitor revenue by the number of visitors, excluding visitors to Attractions operated under management contracts (which includes LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye) and as part of joint ventures (which includes SEA LIFE Helsinki Oy (until the Group acquired the remaining 50 per cent. of shares in 2016) and Pirate Adventure Golf Ltd). Visitor revenue includes both revenue generated from admissions fees and secondary spend, including spend on food and beverages, retail purchases, souvenir photography, participation games, parking and guide books. Revenue generated from our hotel operations, private functions and sponsorships, as well as revenue generated at Attractions operated under management contracts, including LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye, and under joint ventures, is not included in visitor revenue or revenue per capita.

Revenue per capita data is unaudited and is presented to provide prospective investors with a supplemental measure to evaluate our financial performance, enhancing comparison of results from period to period and by operating group or Attraction by highlighting the visitor revenues achieved per visitor, as opposed to aggregate visitor revenues which depend largely upon visitor numbers. Our Management uses revenue per capita as an indicator of profitability and yield and uses revenue per capita to evaluate the performance of operating groups and Attractions from period to period.

Admissions revenue per capita, as used in this Offering Memorandum, represents total revenue from admission fees divided by the number of visitors (excluding visitors to Attractions operated under management contracts and under joint ventures). Unlike "revenue per capita", admissions revenue per capita does not take account of revenue from secondary spend.

Independent Auditors

The audited consolidated financial statements of the Issuer as of and for the 2016 financial year, the 2015 financial year and the 2014 financial year included in this Offering Memorandum have been audited by KPMG LLP, our independent auditors, as stated in their reports appearing herein.

In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, KPMG LLP's independent auditors' reports state that: they were made solely to the Issuer's members as a body and are subject to important explanations and disclaimers regarding KPMG LLP's responsibilities, published on KPMG LLP's website, which are incorporated into the independent auditors' reports as if set out in full and should be read to provide an understanding of the purpose of the reports, the work KPMG LLP has undertaken and the basis of its opinions.

Investors in the Additional Notes should understand that in making these statements, KPMG LLP confirmed that it does not accept or assume any liability to parties (such as the purchasers of the Additional Notes) other than the Issuer's members as a body, with respect to the reports and to the independent auditors' audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Securities Exchange Act of 1934, as amended (the "*U.S. Exchange Act*"). If a U.S. court (or any other court) were to give effect to the language quoted above, the recourse that investors in the Additional Notes may have against the independent auditors based on their reports or the consolidated financial statements to which they relate could be limited.

MARKET AND INDUSTRY DATA

In this Offering Memorandum, we refer to information regarding our business and the markets in which we operate and compete. The market data and economic and industry data and forecasts used in this Offering Memorandum have been derived from:

- TEA/AECOM 2015 Theme Index and Museum Index: The Global Attractions Attendance Report (2016);
- The United National World Tourism Organisation, Tourism Highlights (2016 edition, ©UNWTO, 9789284418145);
- The United National World Tourism Organisation, Tourism Highlights (2015 edition, ©UNWTO, 9789284416899);
- The United National World Tourism Organisation, Sustained growth in international tourism despite challenges (2017, PR 17003);
- VisitBritain Monthly Inbound Update: December 2014 (17 February 2017);
- World Travel and Tourism Council, Travel and Tourism Economic Impact 2016 Europe;
- World Travel and Tourism Council, Travel and Tourism Economic Impact 2016 North America;
- World Travel and Tourism Council, Travel and Tourism Economic Impact 2016 Asia Pacific;
- World Travel and Tourism Council Travel and Tourism Economic Impact 2016 World;
- World Travel and Tourism Council Global Travel and Tourism Economic Impact Update August 2016; and
- Office of National Statistics, Overseas Travel and Tourism: December 2016,

together, the "*data reports*".

The market data and economic and industry data presented in the data reports includes (i) data from independent third party data providers as well as information provided by the Company and (ii) information and statements reflecting the providers' of the data reports knowledge and estimates of the industry and markets in which we operate.

We cannot assure you that any of the assumptions that the providers of the data reports have made in compiling this data are accurate or correctly reflect our position in the relevant markets. In addition, the markets in which we operate and compete may have shifted or changed since the date that each data report was prepared. Therefore, any of the data reports may not accurately reflect certain aspects of the current market and industry. Further, the providers of the data reports do not warrant, represent or guarantee the accuracy and completeness of any information in this Offering Memorandum, and neither do the providers of the data reports accept any responsibility or liability to any party who relies on any information contained in this Offering Memorandum. As we do not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in third party sources, we are unable to verify such information and cannot guarantee its accuracy or completeness. We also do not have access to the facts and assumptions underlying the projections made in the market data obtained from the data reports, or the other third party reports that contributed to any of the data reports. Various economic and other factors may cause actual results to differ from these projections.

In certain instances, the market data and economic and industry data and forecasts used in this Offering Memorandum have been based solely on our experience, internal studies and estimates, and our own investigation of market conditions. We believe that the sources of such information in this Offering Memorandum are reliable, but there can be no assurance that these assumptions are accurate or correctly reflect our position in these industries, and none of our internal surveys or information has been verified by any independent sources. Such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" in this Offering Memorandum. As a result, neither we nor the Initial Purchasers make any representation as to the accuracy of such information.

In considering the industry and market data included in this Offering Memorandum, you should note that this information may be subject to significant uncertainty due to differing definitions of the relevant markets and market segments described. All estimates involve risks and uncertainties and are subject to change based on various factors. The projections and forward-looking statements in this section are not guarantees of future performance, and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Forward- Looking Statements", "Risk Factors", "Industry Overview" and "Business" for further discussion.

TRADEMARKS AND TRADE NAMES

We own or have rights to certain trademarks or trade names that we use in conjunction with the operation of our businesses. Each trademark, trade name or service mark of any other company appearing in this Offering Memorandum is the property of its respective holder. In particular, we have the right to use the LEGOLAND and LEGO trademarks in the LEGOLAND Parks and LEGOLAND Discovery Centres on an exclusive, perpetual and worldwide basis pursuant to the terms of the LEGOLAND Licence and Co-operation Agreement with KIRKBI, one of our significant shareholders. See “Business—Intellectual Property”. In addition, we have the right to use certain brands associated with CBeebies Land at Alton Towers Resort pursuant to a license agreement with BBC Worldwide.

Solely for convenience, the trademarks, trade names and copyrights referred to in this Offering Memorandum are listed without the TM, ® and © symbols.

EXCHANGE RATE AND CURRENCY INFORMATION

Unless otherwise indicated, references in this Offering Memorandum to "*sterling*", "*pounds sterling*", "*GBP*" or "*£*" are to the lawful currency of the United Kingdom, references to "*US$*", "*$*", "*USD*", "*dollars*" or "*U.S. dollars*" mean the lawful currency of the United States and references to "*euro*", "*EUR*" and "*€*" mean the lawful currency of the European Union.

The following tables set forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as U.S. dollars per £1.00 and euros per £1.00. The Bloomberg Composite Rate (London) is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate (London) is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and operating and financial information appearing in this Offering Memorandum. None of the Issuer, the Note Guarantors or the Initial Purchasers represent that the U.S. dollars or euro amounts referred to below could be or could have been converted into pounds sterling at any particular rate indicated or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates (London) on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates (London) during that month, or shorter period, as the case may be.

The Bloomberg Composite Rate of the U.S. dollar on 8 March 2017 was $1.216 per £1.00.

	U.S. dollar per £1.00			
Year	**High**	**Low**	**Average(1)**	**Period end**
2012	1.628	1.530	1.585	1.624
2013	1.657	1.486	1.565	1.657
2014	1.717	1.552	1.647	1.558
2015	1.587	1.465	1.528	1.473
2016	1.487	1.212	1.350	1.235
2017 (through 8 March 2017)	1.264	1.217	1.240	1.216
Month	**High**	**Low**	**Average(2)**	**Period end**
September 2016	1.342	1.297	1.315	1.297
October 2016	1.285	1.216	1.234	1.222
November 2016	1.260	1.223	1.244	1.249
December 2016	1.272	1.222	1.248	1.235
January 2016	1.261	1.207	1.235	1.257
February 2017	1.264	1.242	1.249	1.242
March 2017 (through 8 March 2017)	1.232	1.216	1.224	1.216

(1) The average of the exchange rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

The Bloomberg Composite Rate of euros on 8 March 2017 was €1.152 per £1.00.

	euros per £1.00			
Year	**High**	**Low**	**Average[(1)]**	**Period end**
2012	1.205	1.109	1.161	1.199
2013	1.290	1.135	1.228	1.186
2014	1.223	1.143	1.186	1.211
2015	1.424	1.331	1.382	1.356
2016	1.312	1.115	1.218	1.170
2017 (through 8 March 2017)	1.187	1.138	1.166	1.152
Month	**High**	**Low**	**Average[(2)]**	**Period end**
September 2016	1.194	1.153	1.173	1.155
October 2016	1.146	1.098	1.119	1.112
November 2016	1.181	1.107	1.153	1.179
December 2016	1.196	1.167	1.183	1.171
January 2017	1.178	1.138	1.162	1.166
February 2017	1.187	1.160	1.174	1.171
March 2017 (through 8 March 2017)	1.167	1.152	1.159	1.152

(1) The average of the exchange rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

SUMMARY

This summary highlights selected information about us and about the Offering contained elsewhere in this Offering Memorandum. The following summary is not complete and does not contain all the information you should consider before investing in the Additional Notes. The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Memorandum. Before making an investment decision, you should read this entire Offering Memorandum carefully, including the consolidated financial statements and the notes thereto and the operating and financial information contained in this Offering Memorandum, the risks described under "Risk Factors", the terms of the Additional Notes and the tax and other considerations, which are important to your decision to invest in the Additional Notes. Certain defined terms used herein are defined elsewhere in this Offering Memorandum.

Overview

Listed on the London Stock Exchange with a market capitalisation of approximately £5.0 billion as of 1 March 2017, we are a global leader in branded, location based family entertainment. As of 31 December 2016, we operated 117 Attractions in 24 countries across four continents, which attracted over 65 million visitors in the 2016 financial year. We are the largest operator of visitor attractions and theme parks in Europe, by number of visitors in 2015 and the second largest globally, by number of visitors in 2015. We are also a market leader in the U.K., Germany and Italy by total visitor numbers, with a growing presence in the U.S. and the Asia Pacific region. We own and/or operate a unique portfolio of brands which possess a strong heritage within their original markets and which are supported by our extensive technical and creative expertise.

We have established a portfolio of nationally and internationally recognised premium brands focused on delivering memorable experiences to millions of visitors. Our portfolio of brands is intended to appeal to a diverse demographic and generated total revenue of £1,457 million and EBITDA of £451 million in the 2016 financial year. See "Presentation of Financial Information—Non-IFRS Financial Information".

We are organised into three operating groups:

FY2016	Midway Attractions	LEGOLAND Parks	Resort Theme Parks
Description	• Branded indoor visitor attractions with up to two hour visitor duration	• Interactive outdoor theme parks offering multi-day visits targeted at families with children aged two–12 • Increasingly with on-site accommodation	• National destination outdoor theme parks offering multi-day visits in densely populated European markets • With on-site accommodation across all our parks.
Attractions/Parks (as of 31 December 2016)	104 attractions(1)	7 parks(2)	6 parks
Hotels/Holiday Villages	—	5 hotels/2 holiday villages	8 hotels/3 holiday village
Visitors (m)(3)	41.7	12.9	10.5
Revenue (£m)	638	495	322
EBITDA (£m)(4)	236	193	70

(1) Includes four "second gates", which are accounted for with the Theme Parks where they are located, and the Orlando Eye, which we manage but do not own.

(2) Includes LEGOLAND Malaysia, LEGOLAND Dubai, which we manage but do not own.

(3) Visitor numbers include visitors to Attractions operated under management contracts (which, during the periods under review, included LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye) and visitors to Attractions operated as joint ventures.

(4) See "Presentation of Financial Information—Non-IFRS Financial Information".

Our three operating groups are supported by our extensive in-house business development, creative, project management and production group, Merlin Magic Making, which employs more than 300 people across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for: identifying locations and finding new business opportunities ("Finding the Magic"); driving innovation across the Group and creating high-class, compelling propositions for our attractions ("Creating the Magic"); taking creative ideas, producing content such as LEGO models, wax figures, and ensuring our animal care is of the highest standard ("Producing the Magic"); and delivering new Attractions and investment projects, including new hotels and rides ("Delivering the Magic").

Merlin Magic Making has been at the heart of our major projects. In 2017, Merlin Magic Making will open "Little Big City", Berlin, which is a new Midway Attraction, a new concept Madame Tussauds in Nashville, which will be our first fully musically themed Madame Tussauds, the LEGOLAND Windsor "Castle Hotel", the CBeebies Land Hotel at Alton Towers Resort and a new "Ghostbusters" dark ride at Heide Park.

Our senior management team is also supported by a New Openings team, which was established in 2015 to oversee the opening and integration of all new Attractions. This team includes seven senior executives and is led by a Chief New Openings Officer.

Our strategy and performance is underpinned by our commitment to operational excellence. This entails an integrated approach to quality management, capital investment, marketing and pricing, together with a focus on health and safety. Our strong financial returns are also the result of our efficient, calculated deployment of capital expenditure across the Existing Estate and new attractions.

We have demonstrated the strength of our diversified business model through our historical financial track record. The drivers of this performance are:

- continued investment in our Existing Estate in order to drive like-for-like revenue growth; and
- continued roll-out of Midway Attraction brands and the development of new LEGOLAND Parks, each of which has a target of achieving an average annual 20 per cent. incremental return on invested capital over its first five full years of operation. See "Presentation of Financial Information—Non-IFRS Financial Information".

We have diversified our businesses and revenues internationally with significant growth in revenue in North America and broadly stable revenue in Asia. As a result, revenues in North America have increased as a proportion of total revenues from 22 per cent. in the 2014 financial year to 28 per cent. in the 2016 financial year.

The following table presents a summary of our revenue attributable to each geographic area in which we operate:

Revenue	2014	Per cent. of revenue	2015	Per cent. of revenue	2016	Per cent. of revenue
	(£m)		(£m)		(£m)	
U.K.	490	39%	467	37%	486	33%
Continental Europe	318	26%	300	23%	367	25%
North America	274	22%	336	26%	404	28%
Asia Pacific	167	13%	175	14%	200	14%
Total	**1,249**	**100%**	**1,278**	**100%**	**1,457**	**100%**

Our Competitive Strengths

Unique Portfolio of Family Entertainment Brands and Iconic Assets

We own and/or operate a unique global portfolio of brands and assets which are widely recognised by consumers and have a strong heritage. Examples include Madame Tussauds, SEA LIFE and the London Eye in our Midway Attraction operating group, LEGOLAND California and LEGOLAND Windsor in our LEGOLAND Parks operating group and Gardaland and Alton Towers Resort in our Resort Theme Parks operating group. The strength and breadth of our iconic brand portfolio enable us to offer compelling entertainment propositions through a wide variety of activities and visitor experiences across a broad range of geographies and all key target demographic groups. Our portfolio, and the LEGOLAND Parks in particular, focuses on delivering high quality family entertainment with an emphasis on "playful learning".

Midway Attractions

Our Midway Attractions benefit from high quality brands with broad international appeal and recognition which are distributed across geographies, markets and target demographics ensuring a diversified portfolio. The strength of our brands allows us to maximise economies of scale and synergies. As of 31 December 2016 these included:

- Madame Tussauds, the world's premier wax figures exhibition for over 200 years, with a strong relevance to today's celebrity culture in both more mature and emerging markets, comprising 21 Attractions in 11 countries;
- The Eye brand and observation attractions, with iconic, and often internationally recognised landmarks comprising four Attractions in the U.K, the U.S. and Australia;
- SEA LIFE, the world's largest aquarium brand, with strong name recognition and a track record of providing high quality and informative family entertainment for over 30 years, comprising 47 Attractions in 17 countries;
- The Dungeons, with a strong "cult" reputation amongst the teen and young adult market for fun, irreverent horror entertainment and, at the same time, providing informative, historical context and references, comprising nine Attractions in four countries;
- LEGOLAND Discovery Centres, an extension of the LEGOLAND brand to the Midway Attractions format, successfully developed in recent years and offering the same values of interactivity and family fun in a smaller, more accessible format, comprising 16 Attractions in seven countries; and
- Other attractions such as our two ski fields in Victoria, Australia and two Treetop Walk experiences in Victoria and New South Wales, Australia, which we acquired as part of the Living and Leisure Australia acquisition in February 2012, two WILD LIFE Australian animal adventure attractions in Sydney and Hamilton Island, "DreamWorks Tours' Shrek's Adventure!" Midway Attraction in London and a "Little Big City" Midway Attraction scheduled to open in Berlin during 2017.

LEGOLAND Resorts and Parks

The LEGO brand has global recognition and is associated with playful and interactive learning. We own and/or operate LEGOLAND Parks in Denmark, Germany, Malaysia, the U.K., Dubai, California and Florida, all of which build on the strength of the LEGO brand and are themed and interactive parks, which are attractive to families (particularly with children aged two to 12 years) looking for a fun and engaging day out. The LEGOLAND brand attracts all social groups, has particularly high recognition and appeal amongst higher income visitors and has demonstrated high levels of repeat visits.

We have expanded our LEGOLAND offering in recent years with the opening of LEGOLAND Florida in 2011, LEGOLAND Malaysia in 2012 and LEGOLAND Dubai in the United Arab Emirates in 2016. We operate the Parks in Malaysia and Dubai under management contracts. LEGOLAND Japan in Nagoya, Japan and LEGOLAND Korea in Chuncheon, Gangwon province South Korea, are scheduled to open in 2017 and 2019, respectively. LEGOLAND Japan and LEGOLAND Korea will be "operated and leased", meaning the acquisition of the park site, the development of the infrastructure and the basic construction will be funded by a third-party partner while we will fund and build the rides, provide the necessary theming, lease the site on a long-term basis and operate the Park. We have also identified sites for potential LEGOLAND Parks in the United States and China in the medium and long-term.

The LEGOLAND Parks in the U.K., California, Florida, Denmark and Malaysia have themed on-site hotels ranging from 150 to 250 rooms. LEGOLAND Deutschland and LEGOLAND Billund each include a holiday village, both of which have recently been expanded. We plan to open a second 59-room hotel at LEGOLAND Windsor, a 166-room holiday village at LEGOLAND Florida, both planned for 2017, and a 252-room hotel at LEGOLAND Japan in 2018. We also plan to open a 250-room hotel at LEGOLAND Dubai in 2019, which we will operate pursuant to a management contract and in which we will have a 40 per cent. stake. We also have plans for additional accommodation at our other parks in future years. These hotels and villages provide an integral contribution to the overall customer experience and help drive increases in multi-day ticket sales.

Resort Theme Parks

Each of our six Resort Theme Parks benefits from strong brand and customer awareness and is positioned to target specific market segments. For example, Thorpe Park focuses especially on the teen and young adult markets whereas Chessington World of Adventures Resort is orientated more towards families.

The Resort Theme Parks all offer a compelling, coherent proposition and strong theming, with few or no local competitors that can offer the same quality or scale of visitor experience. Supported by effective marketing and promotions, we believe this ensures that each brand is the strongest in its relevant market. Our Resort Theme Parks are increasingly being recognised as destination resorts, attracting short break visits from national and, in certain cases, international visitors, supported by short break marketing campaigns. Each of Alton Towers Resort, Chessington World of Adventures Resort, Gardaland, Heide Park, Warwick Castle and Thorpe Park has one or more hotels or holiday villages. In 2016, we opened a second hotel at Gardaland and a holiday village at Warwick Castle. We plan to open a 76-room CBeebies Land Hotel at Alton Towers Resort in 2017.

Each of our Resort Theme Parks is strongly positioned in its national/regional market, often representing the pre-eminent visitor attraction in its respective region and benefiting from being situated in a prominent location with good transport links to areas of substantial populations. In particular, we have a market-leading position in the U.K., where we own the top four theme parks, as classified by the Themed Entertainment Association, by number of visitors in 2015: LEGOLAND Windsor (part of our LEGOLAND Parks operating group), Alton Towers Resort, Thorpe Park Resort and Chessington World of Adventures Resort. We also hold strong market positions in Italy and Northern Germany, in each case by number of visitors in 2015.

Our scale and portfolio of strong brands has allowed us to leverage a number of strategic synergies. We have developed “cluster cities” of Midway Attractions in Amsterdam, Bangkok, Berlin, Blackpool, Dallas, Kansas City, London, Manchester, Michigan, Oberhausen, Orlando, San Francisco, Shanghai, Sydney and Tokyo, where multiple Attractions are situated in one city to capitalise on strong cross promotional and operational synergies, including multi-Attraction tickets. The scale of our Resort Theme Parks and available undeveloped land at certain locations has also provided opportunities for second gates. For example, there is a SEA LIFE centre located close to Gardaland and a Dungeons Warwick Castle within the Warwick Castle site. We have also been able to capitalise on our marketing leverage through ticketing promotions with partners such as Kellogg’s, News International and Tesco, among others, as well as the sale of annual passes, which are purchased online or at our parks for a one-off price that enables customers to visit all Attractions within a particular country for one year for no additional admission fee. In the 2016 financial year, approximately 55 per cent. of our revenue from admissions was pre-booked, including online sales, annual passes and call-centre bookings. Approximately 23 per cent. of our revenue from admissions was derived from online bookings.

Existing and Sustainable Competitive Advantages

We are the leading operator of visitor attractions and theme parks in Europe and second globally, in each case, by number of visitors in 2015. Each of our operating groups commands a strong market share within its market and benefits from established competitive advantages. This is underpinned by consistently high visitor satisfaction levels.

We believe that the strong market position and breadth of the operations of our Resort Theme Parks, LEGOLAND Parks and Midway Attractions are also supported by significant barriers to entry in each category. In particular, our existing portfolio of strong brands and use of the LEGO brand offer a compelling proposition that distinguishes our business.

In the Resort Theme Park and LEGOLAND Park segments, multiple obstacles to new market entrants include the lack of in-house technical and creative capacity, scarcity of suitable sites in attractive markets (for example, sites close to major population centres), the significant initial capital investment required to develop greenfield theme parks, difficultly of obtaining planning permission for new sites, which in some cases cannot be achieved for up to four years, and the length of time from conception to opening (typically between four and six years).

While sites for new Midway Attractions are generally more readily available and can be developed with lower initial capital expenditure than new Theme Parks, we also retain a number of competitive advantages in the Midway Attractions segment. These advantages include strong brand recognition in connection with our existing brands such as Madame Tussauds, SEA LIFE, the Eye and LEGOLAND/LEGO, our own in-house Merlin Magic Making team which includes wax sculptors, LEGO model builders and SEA LIFE marine biologists, and our ability to operate our Midway Attractions as part of “cluster cities”, where multiple Attractions are situated in one city to capitalise on cross-selling, including through our multi-Attraction pass opportunities.

In addition, our scale also allows us to capitalise operating cost efficiencies, including marketing costs, central management, site development expertise and application of visitor management experience across our portfolio.

Well-Diversified Portfolio Offering

Through our broad portfolio of Attractions, our overall business is diversified across a range of categories and geographies. This diversification helps us deliver strong financial results across a variety of different market conditions and to minimise the impact of localised external factors such as regional economic performance, extreme weather and other external factors.

We operate in 24 countries globally, including 15 countries in Europe and North America and nine countries in the Asia Pacific region, drawing both national and international visitors in each location. In the 2016 financial year, the U.K., continental Europe, North America and the Asia Pacific region accounted for 33 per cent., 25 per cent., 28 per cent. and 14 per cent. of our revenues, respectively. Furthermore, our business is not reliant upon the "fly-in" market of international tourism. We estimate that in 2015, 65 per cent. of our revenues were generated from domestic visitors and only 34 per cent. were generated from visiting international tourists, based on a survey of a sample of our visitors.

Our Attractions range in format from destination resorts to city centre and coastal attractions to winter attractions, capturing both the urban and resort-based tourist market and appealing to visitors ranging from families with young children to teenagers and adults. Our Attractions are also partially insulated against extreme weather or seasonal changes through a mixture of formats with approximately 42 per cent. of our revenue in the 2016 financial year generated from indoor formats and approximately 58 per cent. generated from outdoor Attractions. Most of our Attractions are open year-round except our European Theme Parks and our two ski sites in Australia.

Pre-booked revenues, which are continuing to increase, also lead to reduced volatility in Attraction revenues with 55 per cent. of total admissions revenue in the 2016 financial year generated from pre-bookings and annual passes and 45 per cent. generated from purchases made by customers on the same day of visit.

Consistent Financial Track Record with Flexible Cost Base

We have a strong financial track record, with revenue growth between 2012 and 2016 (a 53 week financial year) reflecting a CAGR of approximately seven per cent. and like-for-like revenue growth reflecting a CAGR of three per cent, over the same period. We have also demonstrated an ability to improve EBITDA during periods of macroeconomic volatility, geo-political uncertainty and challenging trading conditions within our operating groups, with EBITDA growing at a CAGR of approximately six per cent. between 2012 and 2016 (a 53 week financial year). However, EBITDA fell in the 2015 financial year due primarily to the impact of an accident at our Alton Towers Resort in June 2015. See "Risk Factors—Risks Related to Our Market and Our Business—We are exposed to the risk of serious accidents and other safety incidents" and "Business—Health and Safety—The Alton Towers Accident."

We also have a flexible cost base, with an ability to effectively increase and decrease the number of employee hours and scheduling of shifts at our attractions depending on customer demand levels. There is a lead time required to reduce our costs and our ability to achieve these reductions is greater ahead of peak season. For the year ended 31 December 2016, approximately 20 per cent. of our costs varied directly with sales, comprising, among other things, retail inventory, food and beverage consumables and rent (of which approximately 30 per cent. relates to sites with a turnover component). Furthermore, we maintain flexibility to reduce other discretionary expenses such as marketing spend with approximately 40 per cent. of costs capable of being varied in the short to medium term in order to protect profitability.

Prudent and Successful Strategic Capital Allocation Policies and Flexible Capital Expenditure Spend

Our track record of delivering attractive returns from efficient investment is a result of a disciplined internal focus on investment criteria, return thresholds and hurdles; in-house expertise in capital expenditure efficiency, project delivery, yield and variable cost management; and extensive experience in maximising the returns from marketing spend. Development capital expenditure for new Attractions is targeted to achieve an average annual incremental ROIC of 20 per cent. at an Attraction and an average annual incremental ROIC of 15 per cent. at new accommodation over the first five full years of operation. See "Presentation of Financial Information—Non-IFRS Financial Information". Over the last three financial years, we have not had any material overspends of our annual capital expenditure budget. Further, our own in-house Merlin Magic Making team delivers innovative new product ideas including ride concept and design, wax figure manufacture, animal and fish husbandry and LEGO modelling, and therefore yields synergies and cost-savings over third-parties that would otherwise be engaged to develop our Attractions. We also maximise our marketing spend through targeted campaigns focused on educating prospective customers about new Attractions and rides. Throughout this process, we take advantage of our market leverage and harness cost-efficiencies such as shared marketing costs, central management, site development expertise and application of visitor management experience across the portfolio. In addition to the benefits we derive from our core competencies, we believe our estate is well maintained through regular planned maintenance capital expenditure, which means that incremental capital expenditure can be targeted at driving incremental revenue opportunities.

LEGOLAND Parks typically require lower capital expenditure than Resort Theme Parks because they are geared towards families with young children and do not require expensive, large format coasters. Capital expenditure programmes for the LEGOLAND Parks are planned over four year cycles with a peak spend of up to approximately £10 million in the "peak" year of the cycle and no more than one to two parks having a peak spending year at any one time. Our Resort Theme Parks tend to be nationally pre-eminent in their respective markets and therefore lack the significant competitive intensity of the theme park operators in the United States. As a result, we do not need to compete solely on the basis of the latest and largest coasters but can open significant new coasters in accordance with our planned four year capital expenditure cycle for that operating group, with peak spend of approximately £10 million in the "peak" year of the cycle and no more than two parks having a peak spending year at any one time. In addition, although not directly comparable to other theme park operators, the Midway Attractions operating group does not require substantial ongoing capital expenditure due to the lack of large scale coasters, or rides, and the low overall degree of capital employed in each site. Capital expenditure programmes for the Midway Attractions operating group vary between attractions depending on the size and anticipated growth of the attraction, with the longest capital expenditure cycle being five years with a peak spend of up to approximately £5 million. The peak spend for the majority of our Midway Attractions, however, is below £1 million.

These cycles are managed to smooth as best as possible capital expenditure across the portfolio of Attractions, meaning the investment is primarily funded out of our operating free cash flow and to provide each Attraction, or cluster of Attractions, with the visibility and autonomy to plan effectively. Our high degree of planning for future development also allows us to form and integrate our marketing strategy in advance and facilitate optimum utilisation of our Merlin Magic Making group. Between the 2014 financial year and the 2016 financial year, we invested, on average, nine to 10 per cent. of our revenue in capital expenditure for our Existing Estate.

Strong and Recurring Cash Flow Generation

Our successful and flexible capital expenditure programme, in combination with our continued focus on working capital optimization, has translated into consistently positive cash conversion over the past five financial years with five year average cash conversion (before New Business Development capital expenditure) of greater than 70 per cent. and seven year average cash conversion (after New Business Development capital expenditure) of greater than 50 per cent.

Highly Experienced Management Team

Our senior management team is highly experienced within both the attractions industry and our businesses, with a combined tenure of over 100 years, supplemented with relevant experience from outside the attractions industry. See "Management". Nick Varney, our Group Chief Executive Officer, has been with us or our predecessors for 27 years. Anne-Françoise Nesmes was appointed Chief Financial Officer in August 2016, replacing Andrew Carr, who retired in July 2016. The senior management team has driven the development and execution of our strategy to deliver growth both organically and through acquisitions. Our senior management team has delivered revenue growth for the last 17 years and EBITDA growth for 16 out of the last 17 years despite difficult trading conditions as a result of a poor global economic environment, occasionally challenging weather conditions and other external events.

Senior management's objectives are strongly aligned with our objectives through senior management bonuses and share performance plans.

Our senior management team is supported by local management teams, which run each of our operational groups and Attractions. Each Resort Theme Park, LEGOLAND Park and regional or functional division of the Midway Attractions operating group has a divisional director, who is supported by a management team and who reports directly to the relevant operating group managing director. This decentralised management structure empowers site management to make commercial and operational decisions locally, enabling real-time reaction to local market conditions. Our senior management team is also supported by the New Openings team and the Merlin Magic Making team, which develop and manage the opening of new Attractions and major capital projects. Our strong local management teams are often a result of our culture of training and development, with central and local programmes to develop people at all levels of the organisation. As part of our succession planning and people development programmes, we have instituted a successful graduate scheme recruiting approximately 18 graduates each year. In addition, we operate a profit-related bonus scheme which is linked to various financial metrics and the achievement of personal objectives set at the beginning of the financial year, among other things.

The commitment of our employees is best demonstrated by the results of the 2016 annual staff survey. Out of 21,700 surveys completed in the 2016 financial year, 95 per cent. agreed with the statement "they enjoy working here" and our engagement score, which measures whether our teams think we are a "great place to perform", "a great place for customers" and a "great place to work", was 89 per cent. In 2017, we were named twenthieth in the U.K.'s "Sunday Times Best Big Companies To Work for 2017".

Our Strategy

Existing Estate Growth via the Application of Planned Investment Cycles

We continue to invest in our existing Attractions to improve the visitor experience, which we believe is a key driver for increased visitor numbers and revenue growth. To improve our product appeal, maintain our high levels of customer satisfaction and drive organic growth, we have developed planned investment cycles for each of our three operating groups. Investments are planned well in advance and made across our business according to the forecast potential returns and the capital requirements of the respective operating groups. Investment in the Existing Estate is divided between adding new rides and attractions, replacing old features with newer, more compelling ones and general maintenance, including ensuring health and safety standards are met or exceeded. Our capital expenditure cycles are designed to develop the product portfolio over time so as to increase visitor numbers and visitors' length of stay and to support value added increases in admissions fee prices and secondary spend, thereby delivering growth in revenue and profitability.

In addition to major rides and developments, we also make smaller investments at most Attractions each year that support a continually refreshed marketing message and sustained level of visitor satisfaction. For Midway Attractions, we have developed the concept of a "black box", or area within each site in which themed, mobile features can be displayed, for example the "Octopus Hideout" and "Jurassic Seas" displays at SEA LIFE Centres. After approximately one year at a SEA LIFE Centre, these exhibitions can be transferred around the estate on a rotating basis to help grow new and repeat visitor numbers. We have also developed touring displays of wax work figures which can be rotated around our Madame Tussauds visitor attractions.

Leveraging Strategic Synergies

We aim to leverage our scale in key markets to maximize our marketing, product and cost synergies. Strategic initiatives we have taken include:

The Merlin Annual Pass

We offer customers a Merlin Annual Pass that is purchased for a one-off price that enables them to visit all Attractions within a particular country for one year for an up-front fee. Merlin Annual Passes are available in the U.K., Germany, United States, Australia and Malaysia. The key benefits include: driving customer loyalty and brand-awareness, increasing revenue visibility and securing cash flows in advance, and potentially increasing the level of secondary spend.

Increase Direct Sales Through Online and E-commerce Platforms

We are currently focused on online sales and bookings with increasing numbers of visitors booking through our brand websites and in many cases booking visits more than seven days in advance, thereby reducing visitor volatility. Online advance bookings are increasingly made directly through our Attractions' websites, which offer a lower cost of sale than bookings made through third party intermediaries. Online advance bookings help provide a short-term hedge against the impact of poor weather. They also offer opportunities to cross sell secondary spend items, such as overnight accommodation and priority ride passes. In the 2016 financial year, approximately 55 per cent. of our revenue from admissions was pre-booked and approximately 23 per cent. of our revenue from admissions was derived from online bookings. The use of online advanced booking information is also a valuable source of customer data, which we use to communicate upcoming events, help drive visitor numbers and incremental revenue and extend our Customer Relationship Management databases. Our U.K. database currently stands at three million records and our German database launched in 2014 has seen good initial results.

Group Promotions and Marketing

We apply flexible pricing and promotional strategy to manage visitor numbers through peaks and troughs of attendance, to extend the length of stay and to encourage repeat visits and to enhance overall revenue from each Attraction. Such pricing strategies include promotional discounts, such as selling admission through a retailer's loyalty card programme, and wider national marketing campaigns, such as one part of a newspaper advertising promotions and "on pack" promotions of major consumer brands. We have conducted successful national promotions in the U.K., including promotions with Tesco, News International and Kellogg's, as well as abroad. We use these methods to strategically drive demand for the Attractions at times when visitors numbers are typically lower, to drive secondary spend and to achieve "low cost" advertising to build Attraction and brand awareness.

Accesso "Passport" ticketing

We are currently implementing the accesso "Passport" ticketing system across our estate. We began rolling out the accesso system, which is a standardized point-of-sale and online ticketing platform, in 2015 and plan to have it implemented at most attractions by the end of 2017. Previously, customers had to purchase tickets for our various Attractions separately using a fragmented ticketing system. Accesso will help standardize ticketing across our estate, giving us greater opportunities to up-sell and cross-sell tickets, which we believe will be of particular benefit for cluster attractions. Accesso will give us benefits in mobile sales and ticketing, Annual Pass management and Queue-busting ticket sales.

Procurement Synergies

Our scale allows us to exploit procurement cost efficiencies within a country or region and across clusters. We expect further benefits from such savings as we continue to increase our global scale by opening and acquiring new Attractions.

Transformation of Theme Parks to Short Break Destinations

While our Theme Parks are currently well positioned to capture local market share with the four most visited theme parks in the U.K., and strong positions for our European parks, we are pursuing a strategy to position our Theme Parks as short break destinations that will benefit from the growing short break tourism market. In particular, we aim to position our Theme Parks as "national destination" parks with the goal that all of the Theme Parks should generate an increasing part of their business from visitors taking short breaks, to complement the business generated by our day visit market. In February 2016, we announced a new "Milestone" involving the development of 2,000 new rooms at our Attractions by the end of 2020. Of these, over 1,500 rooms are now opened, under development or approved, with 210 rooms added in 2016, including the opening of the 100-room Gardaland "Adventure Hotel".

The LEGOLAND Parks in the U.K., California, Florida, Denmark and Malaysia have themed on-site hotels ranging from 150 to 250 rooms. LEGOLAND Deutschland and LEGOLAND Billund each include a holiday village, both of which have recently been expanded. Chessington World of Adventures Resort, Gardaland and Alton Towers Resort have two hotels and Thorpe Park and Heide Park have one hotel at each site. These hotels and villages provide an integral contribution to the overall customer experience and help drive increases in multi-day ticket sales. We believe that this destination positioning has already extended visitor market reach to over five hours drive time and has enhanced revenues from both primary admissions, including multi-day tickets and second gate admission fees, and secondary spend. The latter is typically comprised of the sale of food and beverages, merchandise and souvenirs as a result of longer average lengths of stay. In 2017, we plan to open a further 381 rooms towards our 2020 Milestone, including a 59-room hotel at LEGOLAND Windsor, a 76-room CBeebies Land hotel at Alton Towers Resort, a 166-room holiday village at LEGOLAND Florida and an 80-room expansion of our holiday village at LEGOLAND Billund. In 2018, we plan to open a 252-room hotel at LEGOLAND Japan a 250-room hotel at LEGOLAND Dubai, which will be operated pursuant to a management contract and in which we will hold a 40 per cent. interest.

We are also continuing our strategy of investing in second gate and up-sell attractions, where appropriate, to lengthen overall visitor times and enhance revenues. Second gates are visitor attractions situated alongside Theme Parks with a separate entrance and for which additional admission fees are charged. We have opened four second gate attractions at our Theme Parks in Europe and the United States.

Roll-out of Midway Attractions

We have developed a disciplined programme, focused on strict investment criteria, to roll-out additional Midway Attractions in suitable locations across the globe. In February 2016, we announced another "Milestone" pursuant to which we intend to open 40 new Midway Attractions by 2020. By the end of 2016, 20 of these additional Midway Attractions have been opened or are under development. Historically, we have a track record of expanding our Midway Attractions brands into new locations with 18 new Midway Attractions opened from the beginning of the 2014 financial year to the end of the 2016 financial year in six different countries.

Due to the comparatively small size, self-contained, simple layout and standardised indoor format of most Midway Attractions, relatively limited investment is typically required to open a new site and deliver a high quality visitor experience. New Midway Attractions are often profitable within the first full year of operation. In addition, there is a relatively low requirement for ongoing investment in marketing due to our strong brands, which need a relatively lower budget for promotions. Midway Attractions are capable of being located in most major cities in the world, as well as smaller urban locations, creating a significant opportunity for future growth.

Destination shopping malls are also an important opportunity for Midway Attractions, providing high traffic destinations in large residential catchment areas where the Midway Attractions can act as the key leisure anchor tenant and consequently we may benefit from low rent deals. We currently have Midway Attractions in 20 mall locations. Through building relationships with major mall developers, particularly in the United States and Asia, we are able to identify and develop additional opportunities to roll-out Midway Attractions.

An integral and expanding part of our Midway Attractions strategy includes the clustering of Midway Attractions to exploit our marketing leverage. We aim to continue to build clusters of Midway Attractions within cities, resorts or malls where appropriate in order to benefit from strong cross-promotional and operational synergies. In particular, clusters give us the ability to sell tickets to visitors for multiple Midway Attractions thereby increasing visitor numbers within the resulting cluster and enhancing revenue. Clustered sites also benefit from economies of scale and reduced management and operating costs. See "Presentation of Financial Information—Non-IFRS Financial Information".

LEGOLAND Park Developments

We have a proven track record of developing and operating LEGOLAND Parks globally. We opened a new LEGOLAND Park in Florida in 2011 and in Malaysia in 2012, pursuant to a management contract. In February 2016, we announced another "Milestone" pursuant to which we intend to open four new LEGOLAND Parks by 2020. LEGOLAND Dubai was the first of these parks to be opened in 2016, which we operate under a management contract. We also plan to open a LEGOLAND Park in Japan in 2017 and in South Korea in 2019. We have further development plans in the United States and China. Given the strength of the LEGO and LEGOLAND brands and the success of our existing LEGOLAND Parks, we see significant scope for new LEGOLAND Parks, particularly in Asia, and we are committed to ensuring that future expansion is carefully planned and executed in order to maintain core brand values. The success of LEGOLAND Parks may also be beneficial to KIRKBI, raising the profile of the LEGO brand as well as contributing to increased sales of LEGO products in the relevant locations.

We have three operating and investment models with respect to the development of LEGOLAND Parks.

Firstly, in more proven locations, we follow an "operated and owned" model. Under this approach, we make the necessary capital investment to acquire the land and develop the infrastructure ourselves. We have used this model in our European and North American LEGOLAND parks.

Second, in new and unproven locations, we use a low capital commitment model, whereby the capital investment is provided by a third party and we operate the park pursuant to a management agreement arrangement and are paid annual operating fees. We operate LEGOLAND Malaysia under this model. We do not own the park but instead operate it pursuant to a development and management contract with our partners. The Malaysian government provided the funds to develop LEGOLAND Malaysia. We own a 20 per cent. interest in the company that owns LEGOLAND Malaysia. LEGOLAND Dubai is operated under a similar management contract model, whereby LL Dubai Theme Park LLC, a wholly owned subsidiary of DXB Entertainments, owns the assets and we operate the park. We do not have an equity interest in LEGOLAND Dubai.

Third, we plan to operate certain parks under an "operated and leased" model. Under this approach, the acquisition of the park site, the development of the infrastructure and the basic construction will be funded by a third party partner. We will fund and build the rides and the necessary theming, lease the site on a long term basis, and operate the LEGOLAND Park. Our planned LEGOLAND Parks in Japan and South Korea will be developed using this approach.

Strategic Acquisitions

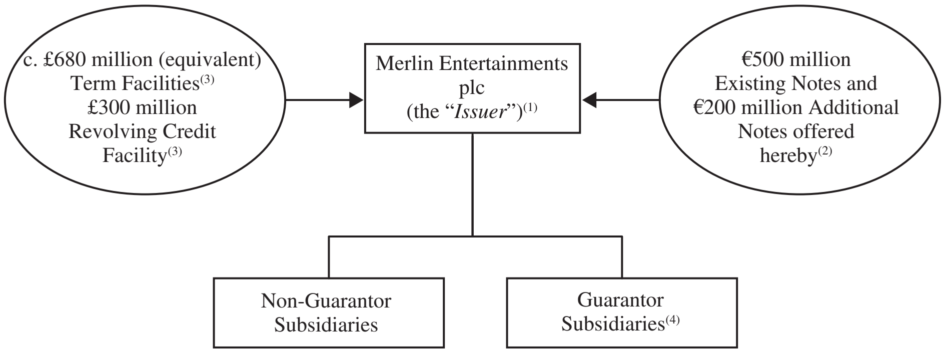
We continue to actively consider acquisitions of, or investments in, visitor attractions, sites and brands that could strategically enhance our portfolio and enable us to grow into new geographies. We have demonstrated a track record of identifying, implementing and integrating both large and small acquisitions and delivering significant value uplift through improving the acquired operations. Examples of this strategy include the original acquisition of LEGOLAND Billund, LEGOLAND California, LEGOLAND Deutschland and LEGOLAND Windsor as well as the more recent acquisitions of Gardaland, the Tussauds Group, the Sydney Attractions Group and Living and Leisure Australia. In 2016, we acquired a minority interest in BIG BUS Tours and entered into co-promotion agreements with them in certain city centre locations. We believe that there remain further attractive acquisition opportunities that would meet our investment criteria in the future.

The Issuer

The Issuer was incorporated as a public limited company under the laws of England and Wales on 20 September 2013, with registration number 08700412. The registered address of the Issuer is 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Summary Corporate and Financing Structure

The following diagram gives a simplified summary of our corporate structure and principal indebtedness, on a *pro forma* basis giving effect to the Transaction. Please see “Use of Proceeds”. The diagram does not include all entities within the Group, or all of the debt obligations thereof. For additional information, see “Use of Proceeds” and “Capitalisation”. For a summary of the debt obligations referred to in this chart, see “Capitalisation”, “Description of Certain Financing Arrangements” and “Description of Notes”.



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(1) The Issuer is publicly listed on the London Stock Exchange. For further information on our shareholders, please see “Principal Shareholders”.

(2) On 19 March 2015 the Issuer issued €500 million aggregate principal amount of 2¾% Senior Notes due 2022 under the Indenture. See “Description of Certain Financing Arrangements—Existing Notes”. The Additional Notes will be and the Existing Notes are the Issuer’s general, senior unsecured obligations and the Additional Notes will rank and the Existing Notes rank (i) *pari passu* in right of payment with all of the Issuer’s existing and future senior unsecured obligations that are not subordinated in right of payment to the Notes, including obligations under the Issuer’s Senior Facilities Agreement (as defined herein) and certain hedging obligations and (ii) senior in right of payment to all of the Issuer’s existing and future obligations that are expressly subordinated in right of payment to the Notes, if any. The Additional Notes will be and the Existing Notes are (i) effectively subordinated to all existing and future secured obligations of the Issuer to the extent of the value of the property and assets securing such obligations and (ii) structurally subordinated to all obligations of the Issuer’s subsidiaries that do not guarantee the Notes.

(3) The Senior Facilities were entered into on 25 February 2015. The Senior Facilities include (a) the approximately £680 million (equivalent) Term Facilities and (b) the Revolving Credit Facility. The Term Facility comprises (a) facility A1 pounds sterling commitments of £250 million and (b) facility A1 U.S. dollar commitments of $540 million, each of which will be fully drawn as of the Issue Date. As of the Issue Date, we expect to have approximately £297 million in available cash drawings under the Revolving Credit Facility. See “Use of Proceeds”, “Capitalisation” and “Description of Certain Financing Arrangements—Senior Facilities”. The Issuer and the Note Guarantors are each obligors under the Senior Facilities. Subsidiaries of the Issuer will be able to accede as borrowers subject to certain conditions contained in the Senior Facilities Agreement. For additional information on the Note Guarantors, see “Listing and General Information—The Note Guarantors”.

(4) The Additional Notes will be and the Existing Notes are guaranteed on a senior basis by the Note Guarantors. For a list of the Note Guarantors and additional information related thereto, see “Listing and General Information—The Note Guarantors”. The Note Guarantees will be with respect to the Additional Notes and are with respect to the Existing Notes senior unsecured obligations of the Note Guarantors and the Note Guarantees with respect to the Additional Notes will rank and with respect to the Existing Notes rank (i) *pari passu* in right of payment with all of the existing and future senior unsecured obligations of the Note Guarantors that are not subordinated in right of payment to such Note Guarantors’ Note Guarantee, including obligations under the Issuer’s Senior Facilities Agreement and certain hedging obligations and (ii) senior in right of payment to all existing and future obligations of such Note Guarantor that are expressly subordinated in right of payment to such Note Guarantee, if any. The Note Guarantees with respect to the Additional Notes will be and with respect to the Existing Notes are effectively subordinated to all existing and future secured obligations of such Note Guarantor to the extent of the value of the property and assets securing such obligations. During the 53 week period ended 31 December 2016, the Issuer and the Note Guarantors accounted for 77 per cent. of the consolidated revenue and 87 per cent. of the consolidated EBITDA of the Issuer and its subsidiaries, and as of 31 December 2016, the Issuer and the Note Guarantors accounted for 65 per cent. of the consolidated assets (excluding goodwill) of the Issuer and its subsidiaries. See “Description of Notes—The Note Guarantees”.

THE OFFERING

The following is a brief summary of certain terms of this Offering. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Additional Notes and the Note Guarantees, including certain definitions of terms used in this summary, please see "Description of Notes".

Issuer	Merlin Entertainments plc.
Additional Notes Offered	€200 million in aggregate principal amount of 2¾% Senior Notes due 2022 (the "*Additional Notes*"). The Additional Notes will have the same terms as the Existing Notes, except as described herein. The Additional Notes, which are being offered and sold pursuant to Regulation S, will have a different ISIN and common code from, and will not trade fungibly with, the Existing Notes sold pursuant to Regulation S during the period to and including the 40th day the later of the Issue Date and the last date on which the Issuer or any affiliate of the Issuer is the owner of the Additional Notes (the "*Distribution Compliance Period*"). Following the Distribution Compliance Period, certain selling restrictions with respect to the Additional Notes will terminate and the Additional Notes will become fully fungible with, and have the same ISIN and common code as, the Existing Notes sold pursuant to Regulation S.
Issue Date	17 March 2017.
Issue Price	103.50 per cent. (plus accrued and unpaid interest, if any, from 15 March 2017).
Maturity Date	15 March 2022.
Interest Rate	Interest on the Additional Notes will accrue from 15 March 2017 at a rate of 2.75 per cent. *per annum*. Interest on the Notes will be payable in cash.
Interest Payment Dates	Interest is payable on the Additional Notes semi-annually in arrear on 15 September and 15 March of each year, commencing on 15 September 2017.
Form and Denomination	The Issuer will issue the Additional Notes in global form in minimum denominations of €100,000 and integral multiples of €1,000 above €100,000. Additional Notes in denominations of less than €100,000 will not be available.
Ranking of the Notes	The Additional Notes will be and the Existing Notes are general, senior unsecured obligations of the Issuer and: • rank or will rank *pari passu* in right of payment with all of the Issuer's existing and future unsecured senior obligations that are not subordinated in right of payment to the Notes, including obligations under the Senior Facilities Agreement; • rank or will rank senior in right of payment to all of the Issuer's existing and future obligations that are expressly subordinated in right of payment to the Notes, if any; • are or will be effectively subordinated to all existing and future secured obligations of the Issuer to the extent of the value of the property and assets securing such obligations; and • are or will be structurally subordinated to all obligations of the Issuer's subsidiaries that do not guarantee the Notes.
Note Guarantors	Madame Tussauds Touring Exhibition Limited, Merlin Attractions Operations Limited, Merlin Entertainments (Dungeons) Limited, Merlin Entertainments Group Holdings Limited, Merlin Entertainments (SEA LIFE) Limited, LEGOLAND ApS, Dungeon

	Deutschland GmbH, Heide-Park Soltau GmbH, LEGOLAND Deutschland Freizeitpark GmbH, LEGOLAND Deutschland GmbH, Madame Tussauds Deutschland GmbH, Sea Life Deutschland GmbH, Gardaland S.r.l., LEGOLAND California, LLC, LEGOLAND Discovery Centre US, LLC, Madame Tussaud Las Vegas LLC, Madame Tussaud's New York LLC, Merlin Entertainments Group Florida LLC, Merlin Entertainments Group U.S. Holdings Inc., Merlin Entertainments North America LLC, SEA LIFE Minnesota LLC, SEA LIFE US LLC
Note Guarantees	The Additional Notes will be and the Existing Notes are guaranteed on a senior basis by each of the Note Guarantors. The Note Guarantees with respect to the Additional Notes will be and with respect to the Existing Notes are subject to contractual and legal limitations, and may be released without the consent of the holders of the Notes under certain circumstances. See "Description of Notes—The Note Guarantees" and "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees". During the 53 week period ended 31 December 2016, the Issuer and the Note Guarantors accounted for 77 per cent. of the consolidated revenue and 87 per cent. of the consolidated EBITDA of the Issuer and its subsidiaries, and as of 31 December 2016, the Issuer and the Note Guarantors accounted for 65 per cent. of the consolidated assets (excluding goodwill) of the Issuer and its subsidiaries.
Ranking of the Note Guarantees . .	Each Note Guarantee is or will be, as applicable, a senior unsecured obligation of the relevant Note Guarantor and: • ranks or will rank *pari passu* in right of payment with all existing and future senior unsecured obligations of such Note Guarantor that are not subordinated in right of payment to such Note Guarantor's Note Guarantee, including obligations under the Senior Facilities Agreement; • ranks or will rank senior in right of payment to all existing and future obligations of such Note Guarantor that are expressly subordinated in right of payment to such Note Guarantor's Note Guarantee, if any; and • is or will be effectively subordinated to all existing and future secured obligations of such Note Guarantor to the extent of the value of the property and assets securing such obligations. The Note Guarantees are full and unconditional guarantees of the Issuer's obligations under the Notes, but are subject to the limitations as set forth in "Description of Notes—The Note Guarantees" and "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees".
Optional Redemption	The Issuer may redeem the Notes: • in whole or in part at any time prior to the date that is three months prior to the maturity of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof, plus the applicable "make whole" premium as set forth in this Offering Memorandum under the caption "Description of Notes—Optional Redemption", plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; and • in whole or in part at any time on or after the date that is three months prior to the maturity of the Notes at a redemption price

equal to 100 per cent. of the principal amount thereof as set forth in this Offering Memorandum under the caption "Description of Notes—Optional Redemption", plus accrued and unpaid interest and additional amounts, if any, to the date of redemption.

See "Description of Notes—Optional Redemption".

Additional Amounts; Tax Redemption	All payments made by or on behalf of the Issuer and the Note Guarantors under or with respect to the Notes or any Note Guarantee will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes except to the extent required by law. If such withholding or deduction is required by law in any relevant taxing jurisdiction, subject to certain exceptions, the Issuer or relevant Note Guarantor will pay such additional amounts as may be necessary so that the net amount received by each holder of Notes after such withholding or deduction will not be less than the amount such holder would have received if such withholding or deduction had not been required. See "Description of Notes—Additional Amounts". In the event of certain developments affecting taxation of the Notes, the Issuer may redeem all, but not less than all, of the Notes at 100 per cent. of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "Description of Notes—Redemption for Taxation Reasons".
Change of Control	Upon the occurrence of certain events constituting a "*change of control*" and a "*ratings event*", the Issuer is required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101 per cent. of the principal amount thereof on the date of purchase, plus accrued and unpaid interest and additional amounts, if any, to the date of purchase. See "Description of Notes—Repurchase at the Option of Holders—Change of Control Repurchase Event".
Certain Covenants	The Indenture contains certain covenants that limit, among other things, the ability of the Issuer and its Subsidiaries to: • enter into guarantees issued by subsidiaries with respect to certain public indebtedness without concurrently guaranteeing the Notes; and • incur liens on their principal properties to secure indebtedness. The Issuer is also limited in its ability to undertake certain mergers, consolidations or sales of assets and is required to make available periodic financial reports under the Indenture. These covenants are subject to important exceptions and qualifications. For a more detailed description of these covenants, see "Risk Factors—Risks Related to the Notes and Our Structure" and "Description of Notes—Certain Covenants".
Use of Proceeds	The Issuer intends to use the proceeds from the Offering: (i) to repay borrowings under the Senior Facilities, including accrued but unpaid interest, (ii) for general corporate purposes, and (iii) to pay costs, fees and expenses incurred in connection with the Transaction, including underwriting and/or arranging commissions and fees for legal, accounting, ratings advisory and other professional services. See "Use of Proceeds".
Transfer Restrictions	The Notes and the Note Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any

	other jurisdiction. The Additional Notes are being offered and sold only to non-U.S. persons in offshore transactions outside the United States in reliance on Regulation S and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See "Notice to Investors" and "Plan of Distribution".
Listing	The Existing Notes have been listed on the Official List of the Luxembourg Stock Exchange and have been admitted for trading on the Euro MTF market of the Luxembourg Stock Exchange (the "*Euro MTF*"). Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to admit them for trading on the Euro MTF. There is no assurance that the Additional Notes will be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF.
Governing Law for the Notes, Note Guarantees and the Indenture	New York law.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Registrar, Transfer Agent and Listing Agent	Deutsche Bank Luxembourg S.A.
Temporary ISIN	XS1581375000
Temporary Common Code	158137500
ISIN	XS1204272709.
Common Code	120427270.

Risk Factors

Investing in the Additional Notes involves substantial risks. Please see the section of this Offering Memorandum captioned "Risk Factors" for a discussion of certain risks you should carefully consider before investing in the Additional Notes.

Additional Information

The Issuer was incorporated as a public limited company under the laws of England and Wales on 20 September 2013, with registration number 08700412. The registered address of the Issuer is 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables set forth our summary historical consolidated financial information for the periods ended and as of the dates indicated below. Except as otherwise noted, we have extracted the summary historical consolidated financial information for the 2014 financial year, the 2015 financial year and the 2016 financial year from the audited consolidated financial statements of the Issuer and its subsidiaries, which are included elsewhere in this Offering Memorandum. We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2015 financial year and the 2014 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between these periods.

We present below certain non-IFRS measures and ratios that are not required by or presented in accordance with IFRS, including EBITDA, EBITDA margin, visitors, revenue per capita, like-for-like revenue growth, like-for-like EBITDA growth and certain leverage and coverage ratios, among others. The Non- IFRS Metrics are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. The Non-IFRS Metrics as presented in this Offering Memorandum may differ from and may not be comparable to similarly titled measures used by other companies. The calculations for the Non-IFRS Metrics are based on various assumptions. There can be no assurance that items we have identified for adjustment as non-recurring will not recur in the future or that similar items will not be incurred in the future. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of our financial condition or results of operations for the periods presented and should not be relied upon when making an investment decision. See "Presentation of Financial Information".

This Offering Memorandum also includes unaudited *pro forma* financial information of the Issuer, presented on an as adjusted basis to give *pro forma* effect to the Transaction. The unaudited *pro forma* financial information is for informational purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position that the Issuer would have reported had the Transaction been completed as of (i) 26 December 2015 for purposes of the calculation of cash interest payments and (ii) 31 December 2016 for the purposes of the calculation of net financial indebtedness and should not be taken as indicative of the Issuer's future consolidated results of operations or financial position.

The following summary financial information set forth below should be read in conjunction with "Use of Proceeds", "Capitalisation", "Selected Historical Financial & Other Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto, included elsewhere in this Offering Memorandum.

Consolidated Income Statement

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
		(£ in millions)	
Revenue	**1,249**	**1,278**	**1,457**
Cost of sales	(181)	(193)	(227)
Gross profit	**1,068**	**1,085**	**1,230**
Staff expenses	(312)	(327)	(382)
Marketing	(62)	(68)	(75)
Rent	(83)	(87)	(93)
Other operating expenses[(1)]	(200)	(201)	(229)
Depreciation, amortisation and impairment	(100)	(111)	(131)
Operating profit	**311**	**291**	**320**
Finance income	2	6	3
Finance costs	(87)	(60)	(46)
Profit before tax	**226**	**237**	**277**
Taxation	(64)	(67)	(66)
Profit for the year	**162**	**170**	**211**

(1) Other operating expenses include repairs and maintenance, displays (primarily relating to SEA LIFE aquaria), utilities, travel costs, office costs, insurance and IT costs.

Consolidated Statement of Financial Position

	At 27 December 2014	At 26 December 2015	At 31 December 2016
		(£ in millions)	
Total non-current assets	2,414	2,475	2,958
Total current assets	372	260	340
Total assets	**2,786**	**2,735**	**3,298**
Total non-current liabilities	1,449	1,320	1,518
Total current liabilities	274	266	352
Total liabilities	**1,723**	**1,586**	**1,870**
Net assets	**1,063**	**1,149**	**1,428**
Total equity	**1,063**	**1,149**	**1,428**

Consolidated Statement of Cash Flows

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
		(£ in millions)	
Net cash inflow from operating activities	357	325	433
Net cash outflow from investing activities	(193)	(219)	(287)
Net cash outflow from financing activities	(148)	(243)	(106)
Net increase/(decrease) in cash and cash equivalents	**16**	**(137)**	**40**

Other Key Performance Measures

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
Visitors(1) (millions)			
Midway Attractions	38.1	40.0	41.7
LEGOLAND Parks	12.7	12.7	12.9
Resort Theme Parks	12.0	10.2	10.5
Group Total	**62.8**	**62.9**	**65.1**
Revenue per capita(2)(3) (£)			
Midway Attractions	14.08	14.63	14.92
LEGOLAND Parks	33.47	34.92	35.53
Resort Theme Parks	22.91	23.22	24.26
Group Total	**19.26**	**19.77**	**20.17**
Like-for-like revenue growth(1)(4) (per cent.)			
Midway Attractions	3	2	0
LEGOLAND Parks	13	8	2
Resort Theme Parks	7	(12)	4
Group Total(5)	7	0	1
Like-for-like EBITDA growth(1)(6)(7) (per cent.)	**8**	**(4)**	**(4)**

(1) Visitor numbers include visitors to Attractions operated under management contracts (which, during the periods under review, included only LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye) and visitors to Attractions operated as joint ventures.

(2) Revenue per capita for all periods is prepared on a constant currency basis.

(3) Revenue per capita is calculated by dividing total visitor revenue by the number of visitors (excluding visitors to Attractions operated under management contracts, including LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye, and under joint ventures).

(4) Like-for-like revenue growth in respect of each financial year reflects the growth in revenue attributable to the estate of Attractions owned by the Issuer and operational on the first day of the immediately preceding financial year (excluding visitors to Attractions operated under management contracts, including LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye, and under joint ventures), on a constant currency basis. In calculating like-for-like revenue and EBITDA growth, the results of the 53rd week of the 2016 financial year (which was a 53-week financial year) have been excluded for comparability purposes.

(5) The following table provides a reconciliation of our revenue to our like-for-like revenue and the resulting like-for-like revenue growth between the 2014 to 2016 financial years:

	2014-2015 Like-for-like revenue growth		2015-2016 Like-for-like revenue growth	
	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
	(£ in millions except percentages)			
Revenue for the financial year	1,249	1,278	1,278	1,457
Revenue attributable to 53rd week of 2016				(28)
Foreign exchange adjustment to restate revenue on a constant currency basis	(19)	—	101	—
Revenue from Attractions or businesses opened or acquired since the start of the first financial year being compared and Central revenue(a)	(24)	(68)	(44)	(75)
Like-for-like revenue	**1,206**	**1,210**	**1,335**	**1,354**
Percentage growth (per cent.)		**0**		**1**

(a) Attractions opened during the 2015 financial year include seven Midway Attractions (including the Orlando Eye, which we operate under management contract), the LEGOLAND Florida Hotel and the "Enchanted Village" at Alton Towers Resort. Attractions opened during the 2016 financial year include five Midway Attractions, LEGOLAND Dubai, the "Adventure Hotel" at Gardaland and the "Knight's Village" at Warwick Castle.

(6) Like-for-like EBITDA growth in respect of each financial year reflects the EBITDA growth attributable to the estate of Attractions owned by the Issuer and operational on the first day of the immediately preceding financial year (excluding Attractions operated under management contracts, including LEGOLAND Malaysia LEGOLAND Dubai and the Orlando Eye, and under joint ventures), on a constant currency basis. In calculating like-for-like revenue and EBITDA growth, the results of the 53rd week of the 2016 financial year (which was a 53-week financial year) have been excluded for comparability purposes.

(7) The following table provides a reconciliation of our EBITDA to our like-for-like EBITDA and the resulting like-for-like EBITDA growth between the 2014 and 2016 financial years:

	2014-2015 Like-for-like EBITDA growth		2015-2016 Like-for-like EBITDA growth	
	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
	(£ in millions except percentages)			
EBITDA for the financial year	411	402	402	451
EBITDA Adjustment attributable to 53rd week of 2016				(18)
Foreign exchange adjustment to restate EBITDA on a constant currency basis	(4)	—	39	—
EBITDA from Attractions or businesses opened or acquired since the start of the first financial year being compared and Central EBITDA[(a)]	(5)	(18)	(11)	(18)
Like-for-like EBITDA	**402**	**384**	**430**	**415**
Percentage growth (per cent.)		**(4)**		**(4)**

(a) Attractions opened during the 2015 financial year include seven Midway Attractions (including the Orlando Eye, which we operate under management contract), the LEGOLAND Florida Hotel and the "Enchanted Village" at Alton Towers Resort. Attractions opened during the 2016 financial year include five Midway Attractions, LEGOLAND Dubai, the "Adventure Hotel" at Gardaland and the "Knight's Village" at Warwick Castle.

Other Operating, Financial and *Pro Forma* Financial Information:

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
	(£ in millions except ratios)		
Capital expenditures	192	215	259
EBITDA[(1)]	411	402	451
EBITDA margin (per cent.)[(2)]	33	31	31
Pro forma cash and cash equivalents[(3)]			347
Pro forma total financial indebtedness[(4)]			1,366
Pro forma net financial indebtedness[(5)]			1,019
Pro forma cash interest expense[(6)]			41
Ratio of *pro forma* net financial indebtedness to EBITDA[(1)(5)]			2.3 x
Ratio of EBITDA to *pro forma* cash interest expense[(1)(6)]			11.0 x

(1) EBITDA is defined as profit before finance income and costs, taxation, depreciation, amortisation and impairment and is after taking account of profit after tax of joint ventures. See "Presentation of Financial Information".

(2) EBITDA margin is defined as EBITDA divided by total revenue.

(3) *Pro forma* cash and cash equivalents represents cash and cash equivalents as of 31 December 2016, as adjusted to give effect to the Transaction, including the use of proceeds of the Offering as contemplated in "Use of Proceeds", as if the Transaction occurred on 31 December 2016. See "Use of Proceeds and "Capitalisation".

(4) *Pro forma* total financial indebtedness represents interest bearing loans and borrowings and finance lease liabilities as recorded on our consolidated statement of financial position as of 31 December 2016, as adjusted to give effect to the Transaction, as if the Transaction occurred on 31 December 2016, but excluding any deduction from capitalised transaction costs. The Notes have been converted to pounds sterling at an exchange rate of €1.171 to £1.00, which was the exchange rate at the close of trading on 31 December 2016. Drawings under the Senior Facilities have been converted to pounds sterling at an exchange rate of €1.171 to £1.00 and $1.235 to £1.00, which were the exchange rates at the close of trading on 31 December 2016. See "Use of Proceeds" and "Capitalisation".

(5) *Pro forma* net financial indebtedness represents *pro forma* total financial indebtedness less *pro forma* cash and cash equivalents, as adjusted to give effect to the Transaction, as if the Transaction occurred on 31 December 2016. See "Use of Proceeds" and "Capitalisation".

(6) *Pro forma* cash interest expense represents estimated cash interest expense as of 31 December 2016, as adjusted to give effect to the Transaction, as if the Transaction occurred on 26 December 2015. See "Use of Proceeds" and "Capitalisation". *Pro forma* cash interest expense does not include any charges related to debt issuance costs in connection with the Offering. *Pro forma* cash interest expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would have actually been had the issue of the Additional Notes occurred on the date assumed, nor does it purport to project our interest expenses for any period or our financial condition on any future date.

RISK FACTORS

An investment in the Additional Notes involves risks. Before investing in the Additional Notes, you should consider carefully the following risk factors and all information contained in this Offering Memorandum. Additional risks and uncertainties of which we are not aware or that we believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operations or prospects. If any of these events occur, our business, financial condition, liquidity, results of operations or prospects could be materially and adversely affected, we may not be able to pay interest or principal on the Additional Notes when due and you could lose all or part of your investment.

This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum.

Risks Related to Our Market and Our Business

We may be adversely affected by terrorist activities, political direct action, natural disasters and significant power outages.

Actual, attempted and threatened terrorist, sabotage and other criminal activities (such as trespass and other direct action by politically motivated groups) as well as natural disasters and significant power outages may adversely affect visitor volumes and spending at Attractions, delay or cause the abandonment of the development or expansion of Attractions or cause the temporary or permanent cessation of operations of one or a number of the Attractions, which could have a material adverse effect on our business, financial condition and results of operations. We have Attractions in cities and in countries that have experienced terrorist attacks in recent years, such as Istanbul, Orlando and Paris. The perceived threat of terrorist activity could in itself cause a downturn in visitor numbers and spending at our attractions, particularly at attractions located in city centres.

In the event of any terrorist or other disruptive activity successfully targeting or otherwise impacting, or a natural disaster or significant power outage impacting, an Attraction, there can be no assurance that we would seek to or receive approval to rebuild, restore or otherwise repair any damage to the Attraction, or that visitor volumes could be restored to levels experienced prior to the occurrence of such event. While we have insurance cover designed to mitigate the financial impact of direct terrorist or other disruptive activities or natural disasters or power outages on our operations, such insurance cover is subject to exclusions, exceptions, deductibles and limits on liability which mean that we may not be reimbursed in whole or in part for any resulting loss.

We operate a number of clusters of Midway Attractions and other Attractions in or near city centres. Any actual, attempted or threatened terrorist or other disruptive activity targeting a location where we operate a cluster of Midway Attractions could have a disproportionately negative effect on visitor numbers and our business, financial condition and results of operations.

In addition, we operate a number of aquaria and other animal attractions, including 47 SEA LIFE attractions, as of 31 December 2016. Despite our involvement with various conservation charities, certain animal rights activists are known to campaign against such operations. If we were to become the subject of any such campaigns, this could impact public opinion about or interfere with our operations and consequently reduce visitor volumes at the Attractions. Any significant reduction in visitor volumes could have a material adverse effect on our business, financial condition and results of operations.

In order to maintain appropriate water temperatures in our tanks, our SEA LIFE Centres have back-up generators to provide power in the event of short-term power failure. In the event generators fail or power outages persist for a prolonged period of time, there is a potential risk of loss or damage to stock and a consequent impact on displays at Attractions, which could be detrimental to customer satisfaction, result in temporary closure of displays or attractions and have a material adverse effect on our business, financial condition and results of operations.

We are exposed to the risk of serious accidents and other safety incidents.

Our brand and our reputation are among our most important assets. Our ability to attract and retain customers depends, in part, upon the external perceptions of our business, the quality and safety of our parks, services and rides, and our corporate and management integrity. While we carefully maintain the safety of our rides, there are inherent risks involved with these attractions. An accident or an injury at any of our parks or at parks operated by competitors, particularly an accident or injury involving the safety of guests and employees, that receives media attention, could negatively impact our brand or reputation, cause loss of consumer confidence in our company, reduce attendance at our parks, and negatively impact our results of operations. The considerable expansion in the use of social media over recent years has compounded the impact of negative publicity. If any such incident occurs during a time of high seasonal demand, the effect could disproportionately impact our results of operations for the year.

Despite the health and safety measures that we have imposed, incidents involving harm to persons at certain of the Attractions, including a limited number of incidents involving serious bodily injury and loss of life, as well as damage to property and assets have occurred. The accident at our Alton Towers Resort in June 2015, in which two carriages on one of our rides collided and 16 passengers were injured, was one such serious incident. See "Business—Health and Safety—Alton Towers Resort Accident". We believe that this accident was the primary driver behind the fall in revenue of 12.4 per cent., on a like-for-like basis, for our Resort Theme Parks operating group during the 2015 financial year. Although we have implemented changes to reduce the likelihood of such an event happening again, there can be no assurance that another similar event will not occur in the future. In addition, we are exposed to the risk of other safety incidents, including social disturbances and health concerns such as instances of food-borne illnesses at our restaurants, water-borne illnesses on our water rides and air-borne illnesses at any of the Attractions. Any accident or other safety incident involving loss of life or harm to any persons or damage to property or assets (or the public perception of risk thereof) could expose us to financial risk, including personal injury and other liability claims and criminal proceedings. Internal investigations or investigations by insurers or other interested parties following an accident or other incident involving a ride or attraction could cause the affected ride or attraction to be closed for a period of time or indefinitely which could negatively impact our brands, reputation and visitor volumes. In addition, rides (including high profile rides) at our Theme Parks could be subject to stoppages as a result of mechanical or technical faults. The occurrence of any such accident, other safety incident or material stoppage could have a material adverse effect on our business, financial condition and results of operations.

In addition, accidents or other safety incidents at attractions we operate or at our competitors' attractions (for example, historic incidents involving marine animals at one of our competitors) may generate adverse media coverage of us or the visitor attractions industry generally, result in regulatory changes that affect our industry and may adversely affect the general attitudes of potential visitors towards us and our brands. Any such events could adversely affect visitor volumes at the Attractions which could have a material adverse effect on our business, financial condition and results of operations.

Economic conditions beyond our control could have an adverse effect on our results of operations.

Our business is influenced by general economic trends. Discretionary consumer spending, which is the principal economic driver for visitor attendance at the Attractions, is affected by global economic conditions. Visitor volumes at the Attractions, and the amount that visitors spend at the Attractions when they visit, may decrease if relative disposable income decreases, unemployment increases or the spending habits of potential visitors change to reflect any increased uncertainty or apprehension regarding economic conditions. A significant deterioration or sustained decline in economic conditions could reduce spending at the Attractions, and if the current economic conditions continue or worsen in any of the markets in which we operate, there can be no assurance that this will not have a material adverse effect on our business, financial condition and results of operations.

In June 2016, a majority of voters in the U.K. elected to withdraw from the European Union ("Brexit") in a national referendum. Brexit may lead to a downturn in the U.K. or other European economies and could lead to lower access to European markets, in general. Further, any reduction in our customers' willingness or ability to travel due to Brexit-related changes in the economic environments of the U.K. and the European Union could materially affect our revenue.

We may be adversely affected by unfavourable weather conditions.

In the 2016 financial year, 56 per cent. of our revenue was derived from our LEGOLAND Parks and Resort Theme Parks operations, which are primarily organised around outdoor activities. Accordingly, visitor volumes at the LEGOLAND Parks and Resort Theme Parks can be significantly negatively affected by excessive rain or heat, other inclement weather and forecasts of inclement weather. Moreover, since the majority of the Resort Theme Parks are concentrated in Northern Europe, we are exposed to the risk that any single inclement weather pattern that affects the whole region could have a significant adverse effect on the Resort Theme Parks operations as a whole.

In the 2016 financial year, 44 per cent. of our revenue was derived from our Midway Attractions operating group, which is primarily organised around indoor activities. Accordingly, visitor volumes at the Midway Attractions can be negatively affected by unusually hot weather and forecasts of unusually hot weather, particularly during the summer months.

Furthermore, due to the seasonal nature of our business, inclement weather during July and August, the peak months of our opening period, and other peak periods across the globe (for example, the Easter holiday period in the U.K. and the relatively short snow season in Australia), can have a greater negative impact on visitor volumes at the LEGOLAND Parks, Resort Theme Parks and the Midway Attractions ski resorts than inclement weather at other times. In addition, because weekend days are typically peak days for visitor volumes at the Attractions, unusually hot weather on weekends can have a greater negative impact on visitor volumes at Midway Attractions than on weekdays and inclement weather on weekends can have a greater negative impact on visitor volumes at the LEGOLAND Parks and Resort Theme Parks than on weekdays.

Due to the varying nature and locations of the Attractions, weather conditions resulting in reduced visitor numbers at the outdoor Attractions may not always result in a corresponding increase in the number of visitors at the indoor Attractions, and *vice versa*.

A significant reduction in visitor volumes at the Attractions due to unfavourable weather conditions could have a material adverse effect on our business, financial condition and results of operations.

We may not generate the desired returns from our roll-out of Midway Attractions and the development of LEGOLAND Parks and our development of new resort hotels.

The continued roll-out of Midway Attractions into new locations and countries is a key component of our growth strategy, with a priority on expanding the Midway Attractions brands into new markets, including new locations in the United States and Asia. In February 2016, we announced plans to open approximately 40 new Midway Attractions by the end of 2020, of which five were opened in 2016, balancing the growth of the portfolio across geographies and brands and building clusters of Midway Attractions where appropriate. Although we have identified and secured a number of sites for roll-out of Midway Attractions in the 2017 financial year, there can be no assurance that our site search team will be able to continue successfully to identify and secure suitable roll-out locations for new site openings each year or successfully execute such openings.

We intend to develop new Midway Attractions such as the "Little Big City" brand in Berlin. We also plan to continue growing our LEGOLAND resorts with the opening of LEGOLAND Parks in Japan and South Korea in addition to several other LEGOLAND projects which remain under development.

New Midway Attractions, the proposed new resort hotels and other accommodation and additional LEGOLAND Parks may fail to become operational on the timetable expected or fail to open due to setbacks caused by: planning delays or refusals; development requests from local authorities over and above the norm; infrastructure issues; construction delays; financing delays; the delay or our inability, for any reason, to recruit, manage and control appropriately skilled employees and consultants; the financial failure of any key suppliers, development partners or finance providers; or otherwise. Furthermore, once opened, the Midway Attractions, the proposed resort hotels and other accommodation and additional LEGOLAND Parks may not attract anticipated volumes of visitors or guests, either in the short or long term. In addition, we rely in some instances on independent contractors and sub-contractors for services relating to the development and construction of our Attractions and the provision of certain amenities and services to our customers once an Attraction has opened. There can be no assurance that we will be able to engage appropriate third-parties and if engaged, that they will provide the services in a satisfactory and timely manner.

The occurrence of any of these factors could negatively impact our ability to generate the desired returns from the roll-out of Midway Attractions, our development of additional resort hotels and other accommodation and our development of additional LEGOLAND Parks.

We may not generate the desired returns from our planned capital investment strategy.

Our growth strategy is dependent in part upon regular, planned investments that are intended to increase visitor volumes, support price increases and drive revenue growth at our existing Attractions, as well as to maintain the long term attractiveness of the Attractions. Such investments include: installing new rides and attractions; replacing old attractions with new, more up-to-date attractions; upgrading and/or re-theming existing attractions; and the general maintenance of existing attractions (including ensuring health and safety standards are met). Our planned approach with regard to our investment cycles is to complete a significant new development in each LEGOLAND Park approximately every four years and to open a major new ride or experience in each of our Resort Theme Parks approximately every four years. Capital expenditure programmes for the Midway Attractions operating group vary between attractions, with the longest capital expenditure cycle being five years. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Effecting Our Results of Operation—Management of Investment Cycles". Going forward, the Directors expect annual capital expenditure relating to the development of our Existing Estate to be approximately eight to 10 per cent. of revenue for our business as a whole. In the past, in some circumstances, investments have not yielded the anticipated increase in visitor volumes and revenues and there can be no assurance that our future planned investments will result in revenue growth at levels we anticipated (or at all), or that, if revenues do increase, the additional revenues will be sufficient to recover the amounts we invested and provide a return on such investments.

A failure to maintain the planned approach to these investment and maintenance cycles and/or any investment that does not result in increased visitor volumes, that otherwise does not recover the amount we have invested or that does not maintain the long-term attractiveness of the relevant Attraction, could adversely affect revenues at the relevant Attraction and consequently have a material adverse effect on our business, financial condition and results of operations.

We rely on key personnel and on our ability to attract and retain employees.

We rely on the contributions of our senior management team and other key personnel for the successful management and operation of our business. In addition, our future success depends in part on our ability to continue to recruit, train, motivate and retain employees and on our ability to continue to employ creative employees and consultants. In addition, our ability to roll-out new Midway Attractions in new geographies is dependent in part on our ability to recruit, manage and retain employees in those locations. The loss of service of any of our senior management team or other key personnel, or our inability to attract, retain and appropriately manage new employees or qualified employees and consultants, could have a material adverse impact on our business, financial condition and results of operations.

Our use of the LEGOLAND and LEGO trademarks, content and other intellectual property rights are subject to the terms and conditions of the LEGOLAND Licence and Co-operation Agreement.

We have the right to use the LEGOLAND and LEGO trademarks in the LEGOLAND Parks and LEGOLAND Discovery Centres on an exclusive, perpetual and worldwide basis pursuant to the LEGOLAND Licence and Co-operation Agreement with KIRKBI, one of our significant shareholders. Although those of our Directors who are independent of KIRKBI believe that the termination provisions in the LEGOLAND Licence and Co-operation Agreement are such that termination by KIRKBI of the agreement is highly unlikely, the agreement includes rights for KIRKBI to terminate the rights to use the LEGOLAND and LEGO trademarks in certain circumstances, for example, if visitor satisfaction survey results fall below a specified level, subject to specified cure periods. KIRKBI also has the right to terminate the LEGOLAND Licence and Co-operation Agreement upon a change of control of the Issuer, but only where such change of control would result in the control of the Issuer by a LEGO competitor or an inappropriate person, as determined in accordance with the agreement. In addition, we may lose exclusivity if we fail to expand the number of LEGOLAND venues worldwide in accordance with the agreement.

Any loss of our rights to use the LEGOLAND and LEGO trademarks in relation to all or any of the LEGOLAND Parks or LEGOLAND Discovery Centres could require us to direct significant levels of capital expenditure to removing the LEGOLAND and LEGO trademarks from the relevant LEGOLAND Parks and/or LEGOLAND Discovery Centres and to introducing new trademarks and theming to, and marketing of, such Attractions. In addition, the loss of the benefit of association with these trademarks and the operational disruption could have a negative effect on visitor volumes which could have a material adverse effect on our business, financial condition and results of operations. The loss of the rights to use the trademarks could also delay completion of or cause the abandonment of any LEGOLAND Parks and LEGOLAND Discovery Centres under development which could restrict our ability to pursue our growth strategy. The termination of the LEGOLAND Licence and Co-operation Agreement could have a material adverse effect on our business, financial condition and results of operations.

We also rely on the use of other intellectual properties in connection with the operation of our business, including from DreamWorks and the BBC. As the ownership of intellectual property becomes increasingly concentrated, it may be difficult for us to procure or develop the rights to its use.

Our business is partly dependent on tourism.

Visitor volumes at the Attractions are partly dependent on the tourism industry, both domestic tourists and, particularly in the case of the cluster of Attractions located in London, overseas tourists. The tourism industry is influenced by a number of external factors beyond our control, any of which may affect the number of tourists visiting the Attractions. Such factors include the general state of the global economy and the regional economies of an Attraction and the tourist's home country, reliance on tour operators, exchange rates (particularly in the U.K., and the detrimental impact any strengthening of pound sterling may have on visitor numbers at the London cluster of Midway Attractions) and international and regional geopolitical landscapes, including any actual, attempted or threatened terrorist activity, as well as visa requirements for countries where the Attractions are located. In addition, if transport links to, and related infrastructure such as car parks at, Attractions for any reason become inadequate, this could have a negative effect on visitor volumes at the relevant Attractions. There can be no assurance that in the future the number of tourist visitors to the Attractions will match current levels or that any decline in overseas tourists will be wholly or partly offset by any staycation effect. A significant reduction in the number of tourist visitors to the Attractions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks resulting from exchange rate fluctuations.

Although we prepare our financial statements in pounds sterling, we have material operations in several countries and continue to pursue a global expansion strategy. In the 2016 financial year, we generated 67 per cent. of our revenue in currencies other than pounds sterling, principally in euro and U.S. dollars. As a result, a strengthening of the pound sterling against the euro or the U.S. dollar may materially adversely affect our translated results of operations and *vice versa*. Fluctuations in currency exchange rates, which have experienced volatility due to, among other reasons, the global financial downturn or, more recently, the fall in Sterling following the Brexit referendum in the U.K., have affected and may continue to affect our operating results. Where we have clusters of attractions in cities that attract foreign visitors, foreign exchange fluctuations may impact inbound tourism. As we grow our overseas operations, particularly our expansion of Midway Attractions and LEGOLAND Parks into the United States and Asia, this effect could increase. Fluctuations in exchange rates for these or other reasons could have a material adverse effect on our reported results of operations.

Certain of our borrowings bear interest at floating rates that could rise significantly, increasing our interest cost and reducing cash flow.

A part of our indebtedness, including borrowings under the Senior Facilities, bears interest at per annum rates equal to the Euro Interbank Offered Rate ("*EURIBOR*"), the London Interbank Offered Rate ("*LIBOR*") and benchmark rates with respect to certain other currencies, in each case adjusted periodically, plus a margin. These interest rates could rise significantly in the future, thereby increasing our interest expenses associated with these obligations, reducing cash flow available for capital expenditures and hindering our ability to make payments on the Notes. Although we may enter into certain hedging arrangements designed to fix a portion of these rates, hedging may not be available or continue to be available on commercially reasonable terms.

We may be adversely affected by public health concerns.

The outbreak of a prolonged pandemic or epidemic disease, such as H1N1/swine flu, H5N1/bird flu and Zika virus, or the occurrence of any other public health concern could negatively impact the public's willingness to gather in public spaces or travel domestically or overseas or result in health or other government authorities imposing restrictions on travel, any of which individually or together could reduce visitor volumes or revenues at the Attractions. In addition, any such public health concerns may severely restrict the level of economic activity in affected areas. Any of these events, particularly if they occur during July or August, could have a material adverse effect on our business, financial condition and results of operations.

Our business may be adversely affected by competition.

The Attractions compete directly with (i) other theme parks (both international destination parks and national/regional destination parks); (ii) other regional amusement parks; (iii) other visitor attractions, such as museums, galleries, parks and aquaria, and (iv) zoos and wildlife attractions and indirectly with all other types of recreational and cultural facilities and alternative forms of entertainment, tourism and recreation activities, including cinemas, shopping malls, new media, in-home entertainment, sporting events, both regular and "one-off" events such as major sporting events, and vacation travel. Within each Attraction's regional market, the principal factors affecting competition include the brand positioning of attractions, location, price, customer-friendliness, the uniqueness and perceived quality of the rides, activities, installations, entertainment and/or attractions, the atmosphere and cleanliness of the Attraction and the quality of our food and other services. Competition may limit our ability to raise admission and other prices and may require us to make significant new investments or reduce pricing to avoid losing visitors to competitors and competing alternatives. There can be no assurance that competition from other free and paid-for attractions or other forms of entertainment will not have a material adverse effect on our business, financial condition and results of operations. The continued success of our business also depends, in part, on our ability to respond to changes in our industry as a result of improvements in technology, and there can be no assurance that our failure to adapt to these changes in a timely manner will not have a material adverse effect on our business, financial condition and results of operation.

We may be adversely affected by changes in public and consumer tastes.

The success of the Attractions depends substantially on consumer tastes and preferences that can change in often unpredictable ways and on our ability to ensure that the Attractions meet the changing preferences of the broad consumer market. Although we carry out extensive research and analysis before opening new Midway Attractions or opening new rides or attractions at Theme Parks, we often invest substantial amounts before we learn the extent to which new Midway Attractions and new rides or attractions will earn consumer acceptance. Visitor volumes at the LEGOLAND Parks and the LEGOLAND Discovery Centres could be adversely affected if the value of the LEGO and/or LEGOLAND brands were to diminish as a result of changes in public and consumer tastes or for any other reason. If visitor volumes at the LEGOLAND Parks or LEGOLAND Discovery Centres were to decline significantly or if the new Midway Attractions or new rides and entertainment offerings at the Attractions do not achieve sufficient consumer acceptance, visitor volumes may decline, which could have a material adverse effect on our business, financial condition and results of operations.

The operation and development of the Attractions may be subject to planning and other consents, laws and regulations.

The operation, development and redevelopment of rides, other entertainment offerings and other structures (including hotels) at the Attractions and the roll-out and development of new Attractions may require consent from the relevant local planning authorities as well as from third parties, such as landlords, development partners, finance providers and regulatory bodies. There can be no assurance that we can obtain the requisite planning or other consents as and when required in respect of developments or redevelopments or the roll-out and development of new Attractions or that they will not be withdrawn in relation to existing offerings at any of the Attractions.

We are required to submit a report to Lambeth Borough Council, the local planning authority, in relation to The Coca-Cola London Eye by November 2023. The report must assess the continued acceptability of the Coca-Cola London Eye on the basis of planning considerations. If the outcome of the review is adverse, planning permission for the Coca-Cola London Eye will expire in November 2028 and we will be required to remove it. Although the Directors believe that this is highly unlikely, given the Coca-Cola London Eye's importance to the London tourism industry, the closure of the Coca-Cola London Eye could have a material adverse effect on our business, financial condition and results of operations.

Our relationships with the relevant local planning authorities are significant factors contributing to the success and development of our business. We engage with local planning authorities with regard to issues of shared concern that impact the development and redevelopment of our estate and the roll-out and development of new Attractions including sensitivities to site noise, listed structures, road congestion and other traffic concerns and health and safety matters. If we fail to maintain such relationships, or if such relationships were adversely affected for any reason, this could negatively impact our ability to obtain the planning and other consents necessary for the development and redevelopment of our Existing Estate or expansion into new sites or could result in the withdrawal of existing consents.

Any refusal or delay in obtaining planning or other consents or the application of any special conditions to such consents, or a breach of such conditions, could have a material adverse effect on our business, financial condition and results of operations. Furthermore, future grants of planning consents are likely to impose further conditions and/or require the entry into new planning agreements. In addition, proposed regeneration schemes may adversely impact visitor access to or the operation of individual Attractions, particularly those in city centres. There can be no assurance that the constraints placed on our operations by future planning consents or regeneration schemes will not be more onerous than those currently in place, which could have a material adverse effect on our business, financial condition and results of operations.

Our business is also subject to numerous other laws and licensing and authorisation regimes in the jurisdictions in which we operate, regulating a number of operating issues, including health and safety procedures, equipment specifications, employment requirements, environmental laws and regulations and requirements relating to the handling of animals. These laws and regimes are constantly subject to change and there can be no assurance that any or all of the regulatory and licensing and authorisation frameworks in which we operate will not become more restrictive in the future. Our strategy to expand our operations into new countries, regions and territories increases our risk exposure to political and regulatory changes. The impact of, and costs associated with, complying with changes in interpretation of existing, or the adoption of new, legislation, regulations or other laws or licensing and authorisation regimes in the jurisdictions in which we operate, or in which we have plans to operate, can be difficult to anticipate or estimate and could have a material adverse effect on our business, financial condition and results of operations.

Our tax burden could increase due to changes in tax laws, rules or treaties or their application or interpretation, adverse decisions of tax authorities or current or future tax audits.

Our tax burden could increase due to changes in tax laws, rules or treaties or their application or interpretation, adverse decisions of tax authorities or current or future tax audits. Our tax burden is dependent on certain aspects of tax laws and their application and interpretation. Any changes in tax laws or their interpretation could have a material adverse effect on our business, financial condition and results of operations. For example, the tax implications of Brexit are not known as at the date of this Offering Memorandum.

As a result of future tax audits or other review actions of the relevant tax authorities, additional taxes could be identified, which could lead to an increase in our tax obligations, either as a result of the relevant tax payment being levied directly on us or as a result of us becoming liable for tax as a secondary obligor due to a primary obligor's (such as, for example, an employee's) failure to pay. Tax authorities in European countries are routinely challenging corporate transactions, including financings such as the Offering. Any future audit may require us to pay additional taxes (and any accrued interest and penalties).

Increased costs of labour, work stoppages and other labour problems, and the seasonal nature of our workforce may negatively impact our results of operations.

Labour is a primary component of our operating costs, and any increase in the cost of labour may have a negative effect on our results. Increased labour costs due to competition, increased minimum wage, employee benefit costs, medical benefits costs or otherwise could adversely impact our business results, financial condition and results of operations. Further, a small number of our employees belong to trade unions. Though the level of our employees' participation in strikes organised by trade unions has been, in general, very low, we have experienced some limited social unrest in a small number of our Attractions in Germany in the 2012 financial year in the run up to political elections and works council elections and one instance in the first half of the 2013 financial year. A strike or other work stoppage at our Attractions could have an adverse effect on our business.

Our Attractions are dependent in part on a seasonal workforce. We manage seasonal wages and the timing of the hiring process to attempt to secure the appropriate workforce for peak and low seasons. We cannot guarantee that material increases in the cost of securing our seasonal workforce will not occur in the future. Increased seasonal wages, employment costs or an inadequate workforce could have an adverse impact on our business, financial condition and results of operations.

We may be subject to cash misappropriation schemes by our employees or third-parties and may have to invest in tighter control mechanisms.

While we have a profit protection team that seeks to limit instances of misappropriation and protect and oversee our operations, our business deals heavily in cash and payment cards. Employees and/or external persons can be involved in cash misappropriation schemes, ranging from taking cash from registers at shops or restaurants to more complex theft schemes or schemes involving the appropriation of customers' payment card details. We cannot guarantee that our employees or third-parties will not be involved in such schemes and we cannot completely assess the economic impact of these practices. Further, we may have to invest in tighter control mechanisms and in the case of payment cards, invest in conforming to Payment Card Industry standards and take other appropriate steps to protect customers' card data. Employee theft could have a material adverse impact on our business, financial condition and results of operations and loss of customer card data could have negative financial and public relations consequences.

We may be materially adversely affected because of risks associated with leases on certain of our properties.

We lease Alton Towers Resort, Heide Park Resort, Thorpe Park Resort and Warwick Castle from Secure Income REIT plc, following completion of the sale and leaseback of the properties to the predecessor in title of Secure Income REIT plc in 2007. The leases granted back to us as part of the transaction were for an initial term of 35 years, expiring in 2042, and we have a right to renew each lease for two additional, consecutive 35-year periods on materially similar terms. Although the Heide Park lease contains the same contractual rights of renewal as the other leases under the sale and leaseback arrangements, as a matter of German law, Secure Income REIT plc has the right to terminate the lease after 30 years, notwithstanding the terms of the lease. Madame Tussauds London was part of the 2007 sale and leaseback but now leases its site from Fubon MTL Property (Jersey) Ltd, which acquired the freehold in 2015.

In addition, a significant number of our properties are leased from third party landlords. We may not be able to renew our leasehold interests on their expiry or to renew them on terms which are as favourable as current terms. Further, part of the Coca-Cola London Eye site is operated in the current location pursuant to a licence granted to us by the Port of London Authority, the remainder of which is held by us pursuant to various leases. Although the Directors believe that it is highly unlikely that such licence will be revoked, revocation is possible by the Port of London Authority on three months' notice, subject to the right of appeal to the U.K. Government, in certain exceptional circumstances, including an unremedied breach of the licence, the insolvency of the licensee or if the Port of London Authority exercises its statutory powers for navigational or river regime reasons. If the licence were terminated, we would be unable to continue to operate the Coca-Cola London Eye.

A number of our property leases and licences, including those relating to the sale and leaseback properties and the Coca-Cola London Eye, may be terminated in the event of breach and certain other circumstances. The termination of the leases on any of our properties, and in particular on any of the sale and leaseback properties or the Coca-Cola London Eye, could have a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage may not be adequate to cover all possible losses that we could suffer and our insurance costs may increase.

We seek to maintain comprehensive insurance coverage at commercially reasonable rates. Although we carry property and casualty insurance to cover certain risks, our insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that our insurance will be sufficient to cover the full extent of all losses or liabilities for which we are insured and we cannot guarantee that we will be able to renew our current insurance policies on favourable terms, or at all. In addition, if we or other visitor attraction operators sustain significant losses or make significant insurance claims, then our ability to obtain future insurance coverage at commercially reasonable rates could be materially adversely affected.

If we fail to maintain effective internal controls over financial reporting or remediate any future material weaknesses in our internal controls over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which would have a material adverse effect on our financial results.

Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Effective internal controls over financial reporting are necessary for us to provide reliable reports and prevent fraud. Internal control systems provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of such inherent limitations in control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. For example, we have previously terminated certain individuals' employment with us due to acts of fraud, and on a limited number of occasions, we have had concerns with respect to internal financial controls at certain Attractions. Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business.

We may be subject to privacy or data protection failures.

We are subject to regulation regarding the use of personal customer and credit card data. We process sensitive personal customer data, including name, address, bank details and credit card details, as part of our business and therefore must comply with strict data protection and privacy laws in the jurisdictions in which we operate. Such laws restrict our ability to collect and use personal information relating to customers and potential customers, including the use of that information for marketing purposes. We are also at risk from cyber-theft, hacking and ransomware. We seek to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by our employees and any third party service providers, and also implement security measures to help prevent these crimes. Notwithstanding such efforts, we are exposed to the risk that customer data could be wrongfully appropriated, lost, disclosed, stolen or processed in breach of data protection regulation. If we, or any of the third party service providers on which we rely, fail to store or transmit customer information and online payment details in a secure manner, or if any loss of personal customer data were otherwise to occur, we could face liability under data protection laws or sanctions by card merchants. This could also result in the loss of the goodwill of our customers and deter new customers which could have a material adverse effect on the our business, financial condition and results of operations.

We are dependent on our IT systems, which may fail or be subject to disruption.

Our operations, including in particular our online booking systems, are dependent in part on our information technology "*IT*" systems, and there is a risk that such systems could fail or that third-parties could gain unauthorised access to those systems. There can be no assurance that our IT systems are or will continue to be able to support a significant increase in online traffic or increased customer numbers. Although we have in place business continuity procedures and security measures in the event of IT failures, disruption, or unauthorised access, including backup IT systems for business critical systems, generally in different geographic locations from the main system, these are not, and are not intended to be, a full duplication of our operational systems. Should any of these procedures and measures not prevent or mitigate a network failure, disruption or event of unauthorised access or should an incident occur to a system for which there is no duplication, there may be a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Notes and Our Structure

Our substantial debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes.

We use debt to finance our operations, the roll-out and development of new Attractions and in connection with our capital investment strategy. As part of the Senior Facilities Agreement, we have syndicated term facilities and a revolving credit facility allowing us to finance our operations.

As of 31 December 2016, our *pro forma* indebtedness (including amounts drawn under the Senior Facilities, the Additional Notes offered hereby, the Existing Notes, finance leases and capitalised transaction costs relating to the Transaction), as adjusted for the Transaction, amounted to £1,366 million. See "Capitalisation".

Our substantial debt could have important consequences for our business and operations and for holders of the Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, developments or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing; and
- limiting our ability to upstream cash from our non-Note Guarantor subsidiaries to help meet our obligations under the Notes.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including under the Notes. The terms of the Indenture restrict, but do not prohibit, our subsidiaries from incurring additional indebtedness. All of the debt of our non-Note Guarantor subsidiaries would rank structurally senior to the Notes, including any interest payment on the Notes paid by issuing further Notes. If we incur new debt in addition to our current debt level, the related risks that we now face, as described above and elsewhere in these "Risks Related to the Notes and Our Structure", could intensify.

Restrictions imposed by the Senior Facilities Agreement, the Indenture, and certain of our other credit facilities limit our ability to take certain actions.

The Senior Facilities Agreement, the Indenture and other outstanding debt agreements limit our flexibility to operate our business. For example, certain of these agreements restrict our and certain of our subsidiaries' ability to, among other things:

- borrow money;
- pay dividends or make other distributions;
- create certain liens;
- make certain asset dispositions;
- make certain loans or investments;
- issue or sell share capital of our subsidiaries;
- guarantee indebtedness;
- enter into transactions with affiliates; or
- merge, consolidate or sell, lease or transfer all or substantially all of our assets.

In addition, the Indenture limits, among other things, the ability of our subsidiaries to enter into guarantees with respect to certain types of indebtedness without guaranteeing the Notes, our ability to create certain liens on our principal properties and our ability to secure indebtedness. The operating and financial restrictions and covenants in the Senior Facilities Agreement, the Indenture and certain of our other credit facilities may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. In addition to limiting our flexibility in operating our business, a breach of the covenants in the Senior Facilities Agreement and the Indenture could cause a default under the terms of each of those agreements, causing all the debt under those agreements to be accelerated. If this were to occur, we may not have sufficient assets to repay our debt.

We and certain Note Guarantors are holding companies, each of which is dependent upon cash flow from their respective subsidiaries to meet their obligations under the Notes and the Guarantees.

We are a holding company with no business operations or material assets other than the equity interests in, and any intercompany receivables from, its subsidiaries as well as any remaining proceeds from this Offering. We are dependent upon the cash flow from its operating subsidiaries in the form of dividends, loans, interest and payments on intercompany loans or other distributions to meet its obligations, including its obligations under the Notes. Similarly, certain Note Guarantors are holding companies and will be wholly dependent upon arrangements with their respective subsidiaries to meet their respective obligations under the Note Guarantees.

The ability of certain of the Note Guarantors' subsidiaries to make distributions or other payments to the Note Guarantors will depend upon their respective cash flows and earnings, as well as applicable law. Furthermore, the Note Guarantors' subsidiaries will also be restricted by the terms of their present and future indebtedness in their ability to make distributions or advance upstream loans to enable us and the Note Guarantors to make payments in respect of the Notes or the Note Guarantees, as the case may be. In addition, applicable tax laws may subject such payments to further taxation, and may limit the amounts that some of the Group's subsidiaries will be permitted to pay as dividends or distributions on their equity interests or even prevent such payments. Therefore, there can be no assurance that the dividend and distribution capacity will be adequate to fund distributions in amounts and at times sufficient for us to pay our obligations as they become due under the Notes. For more information about limitations on distributions, see "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees".

The Additional Notes will be, and the Existing Notes are, structurally subordinated to all of the debt and liabilities of our subsidiaries that are not Note Guarantors.

The Additional Notes will be, and the Existing Notes are, structurally subordinated to all of the debt and liabilities of our subsidiaries that do not guarantee the Notes. Generally, claims of creditors of a subsidiary that does not provide a Note Guarantee, including trade creditors and claims of preference shareholders (if any) of such subsidiary, will have priority with respect to the assets and earnings of such subsidiary over the claims of creditors of its parent entity. In the event of any foreclosure, dissolution, winding up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our subsidiaries that do not provide a Note Guarantee, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to its parent entity. As such, the Additional Notes will be, and the Existing Notes are, structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our subsidiaries that do not provide a Note Guarantee. Our subsidiaries may not have sufficient funds to pay (or receive sufficient funds to pay) all their respective creditors, and you may not receive any payment on the Notes or receive less, rateably, than the holders of debt of our subsidiaries and other liabilities. Subject to certain limitations, our subsidiaries will be permitted to incur additional debt and liabilities in the future under the terms of the Indenture. On a *pro forma* basis for the Transaction, our non-Note Guarantor subsidiaries held £245 million of our total liabilities as of 31 December 2016.

We may incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our business.

We may incur substantial additional debt in the future. Although the Indenture contains restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. The terms of the Indenture permit us to incur future debt that may have substantially the same covenants as, or covenants that are more restrictive than, those of the Indenture. Moreover, the debt we may incur in the future could be structurally senior to the Notes, could mature prior to the Notes or may be secured by collateral that does not secure the Notes. In addition, the Indenture will not prevent us from incurring obligations that do not constitute debt under those agreements. The incurrence of additional debt would increase the leverage-related risks described in this Offering Memorandum.

Our failure to comply with the covenants under the Senior Facilities Agreement or the Indenture, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our financial condition and results of operations.

The Indenture requires us and our restricted subsidiaries to comply with various covenants, and the Senior Facilities Agreement requires us and our subsidiaries (or certain of our subsidiaries) to comply with various covenants, including certain financial covenants, which require us and our subsidiaries (or certain of our subsidiaries) to maintain specified financial ratios, satisfy specified financial tests and comply with operational parameters and certain other undertakings. See "Description of Notes—Certain Covenants" and "Description of Certain Financing Arrangements—Senior Facilities Agreement". Our ability to meet these financial ratios and financial tests could be affected by deterioration in our operating results, as well as by events beyond our control, including unfavourable economic conditions, and we cannot assure you that we will be able to meet these financial ratios and financial tests. Moreover, the Senior Facilities Agreement includes certain events of default (such as breaches of representations, warranties and undertakings and if we fail to make payment when due on certain other debt) that are in addition to the events of default set forth in the Indenture. If an event of default occurs under the Senior Facilities Agreement, the Indenture or any of our other debt instruments and is not cured or waived, the holders of the defaulted debt could terminate their commitments and declare all outstanding debt, together with accrued and unpaid interest and other fees, to be immediately due and payable. Borrowings under our other debt instruments, including the Notes, that contain cross-acceleration or cross-default provisions also may be accelerated or become payable on demand as a result of an event of default under the Senior Facilities Agreement or other debt instruments. In these circumstances, our assets and cash flow may not be sufficient to repay in full the defaulted debt and our other debt, including the Notes then outstanding. If some or all of these instruments were accelerated, we could be forced into bankruptcy or liquidation, and we may not be able to repay its obligations under the Notes in such an event.

To service our indebtedness, we require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures depends in part on our ability to generate cash in the future. This depends on the success of our business strategy and on general economic, financial, competitive, legislative, regulatory and other factors, as well as the other factors discussed in these "—Risks Related to the Notes and Our Structure", many of which are beyond our control.

We cannot assure you that we will generate sufficient cash flow from operations, that we will realize operating improvements on schedule or that future borrowings will be available to us in an amount sufficient to enable us to service and repay our indebtedness or to fund our other liquidity needs. Furthermore, applicable law and future contractual arrangements may impose restrictions on our subsidiaries' ability to make payments to us, which could impact our ability to pay our obligations as they mature or to fund its liquidity needs.

If we are unable to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing or debt restructuring would be possible, or if possible, that it would be on similar terms to those of our debt instruments existing at that time, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realized from those sales would be favourable to us or that additional financing could be obtained on acceptable terms. Disruptions in the capital and credit markets, as we have seen in recent years, could adversely affect our ability to meet our liquidity needs or to refinance our indebtedness, including our ability to draw on our existing credit facilities or enter into new credit facilities. Banks that are party to our existing credit facilities may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

We may be unable to repurchase the Notes as required upon a Change of Control Repurchase Event.

If we experience a Change of Control Repurchase Event, we would be required to make an offer to repurchase all outstanding Notes at 101 per cent. of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase. However, we may be unable to do so because we may not have enough available funds, particularly since a Change of Control Repurchase Event could in certain circumstances cause part or all of our other debt to become due and payable. In addition, restrictions in our then-existing contractual obligations, including the Senior Facilities Agreement, may not allow us to make such required repurchases upon the occurrence of certain events constituting a change of control. See "Description of Notes—Repurchase at the Option of Holders—Change of Control Repurchase Event".

Our variable rate indebtedness subjects us to direct interest rate risks, which could cause our debt service obligations to increase significantly.

The obligations under the Senior Facilities Agreement are indexed to variable rates and expose us to direct interest rate risks that could lead to a material increase in our obligations. In the event of an interest rate increase, our unhedged variable-rate debt service obligations would increase, even if the amount borrowed remained the same and our net earnings and available cash flows to service the debt, including debt securities, would decrease, thus reducing the funds available to finance operations and future commercial opportunities.

If interest rates increase dramatically, we could be unable to service our indebtedness. Furthermore, there can be no assurance that we will, or will be able to, hedge our full exposure or that our hedging transactions will be effective. The use of derivatives is a highly specialized activity that involves investment techniques and risks different from those associated with our ordinary business. Depending on market conditions and movements in interest rates, our use of hedging transactions could enhance or harm our overall performance compared to our competitors. In addition, we will be subject to the creditworthiness of the counterparties under our hedging transactions, and we will be exposed to the risk of insolvency or default on the part of our hedge counterparties. Our business, financial condition and results of operations could be materially and adversely affected in the event that one or more of these risks materialize. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Disclosure About Market and Credit Risk—Interest Rate Risk".

Relevant insolvency laws in England, and other jurisdictions may provide you with less protection than U.S. bankruptcy law or the bankruptcy laws of other jurisdictions with which you are familiar.

We and several of the Note Guarantors are organized under the laws of England and Wales. In addition, certain other Note Guarantors are incorporated in Denmark, Italy and Germany. The insolvency laws of these jurisdictions may not be as favourable to your interests as the laws of the United States or other jurisdictions with which you are familiar. In the event that any one or more of the Issuer, the Note Guarantors or any other of our subsidiaries experience financial difficulty, it may not be possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. A brief description of certain aspects of insolvency law in Denmark, England and Wales, Germany, Italy and the United States is set out under "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees".

Enforcing your rights as a noteholder or under the Note Guarantees across multiple jurisdictions may prove difficult.

The Existing Notes were, and the Additional Notes will be, issued by the Issuer, a company which is incorporated under the laws of England and Wales, and the Existing Notes are, and the Additional Notes will be, guaranteed by the Note Guarantors, which are incorporated under the laws of Denmark, England and Wales, Germany, Italy and the United States. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the jurisdictions mentioned above. Such multi-jurisdictional proceedings are likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Note Guarantees will be subject to the insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative, examinership and other laws of the Issuer's and the Note Guarantors' jurisdictions of organisation may be materially different from, or in conflict with, each other and those of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's law should apply, adversely affect your ability to enforce your rights under the Notes and the Note Guarantees in those jurisdictions or limit any amounts that you may receive. See "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees" and "Enforcement of Civil Liabilities" with respect to some of the jurisdictions mentioned above.

The laws of certain of the jurisdictions in which the Note Guarantors are organised limit the ability of these subsidiaries to guarantee debt of a parent (whether direct or indirect) company. See "—Corporate benefit, capital maintenance laws and other limitations on the Note Guarantees may adversely affect the validity and enforceability of the Note Guarantees of the Notes".

Corporate benefit, capital maintenance laws and other limitations on the Note Guarantees may adversely affect the validity and enforceability of the Note Guarantees of the Notes.

The laws of certain of the jurisdictions in which the Note Guarantors are organised limit the ability of these subsidiaries to guarantee debt of a related company. These limitations arise under various provisions or principles of corporate law which include rules governing capital maintenance, under which, among others, the risks associated with a Note Guarantee on account of a direct or indirect parent company's debt need to be reasonable and economically and operationally justified from the Note Guarantor's perspective, as well as thin capitalisation and fraudulent transfer principles. If these limitations are not observed, the Note Guarantees by these Note Guarantors could be subject to legal challenge. In accordance with the applicable laws of these jurisdictions, the Note Guarantees will contain language limiting the enforcement of guarantees so that applicable local law restrictions will not be violated. Accordingly, if you were to enforce the Note Guarantees by a Note Guarantor in one of these jurisdictions, your claims are likely to be limited. In some cases, where the amount that can be guaranteed is limited by reference to the net assets and legal capital of the Note Guarantor or by reference to the outstanding debt owed by the relevant Note Guarantor to the Issuer under intercompany loans, that amount might have reached zero or close to zero at the time of any insolvency or enforcement. Further, though we believe that the Note Guarantees will be validly given by the Note Guarantors, in accordance with local law restrictions, there can be no assurance that a third-party creditor would not successfully challenge the Note Guarantees in legal proceedings.

Similarly, the laws of certain jurisdictions in which the Note Guarantors are organised prohibit, under certain conditions and unless available exemption procedures were carried out, so-called "financial assistance" such as direct or indirect, and whether by means of a loan, guarantee, the provision of security or otherwise, financial assistance for or in connection with a purchase of or subscription from that company's shares or shares of its direct or indirect controlling entity. The consequence of a breach of the financial assistance prohibition would be the absolute invalidity or ineffectiveness of the respective transactions. In these jurisdictions, the Note Guarantees will contain language excluding certain types of obligations from the scope of such Note Guarantees which, in turn, may limit the amount guaranteed or secured thereunder.

In addition, certain Note Guarantors are also borrowers under our Senior Facilities Agreement, and these limitations would not apply to borrowings under our Senior Facilities Agreement obtained by any of those Note Guarantors. Accordingly, the ability of the lenders under our Senior Facilities Agreement to recover the amount of loans made to any of those Note Guarantors would be superior to the ability of the holders of the Notes to enforce the Note Guarantees of any of those Guarantors to the extent these limitations apply to those Note Guarantees. See "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees".

Insolvency laws and other limitations on the Note Guarantees, including fraudulent conveyance statutes, may adversely affect their validity and enforceability.

Our obligations under the Additional Notes will be, and under the Existing Notes are, guaranteed by the Note Guarantors. The Note Guarantors are organised under the laws of Denmark, England and Wales, Germany, Italy and the United States. Although laws differ among these jurisdictions, in general, applicable fraudulent transfer and conveyance and equitable principles, insolvency laws and, in the case of the Note Guarantees, limitations on the enforceability of judgments obtained in courts in such jurisdictions could limit the enforceability of the Note Guarantee against a Note Guarantor. The court may also in certain circumstances void the Note Guarantee where a Note Guarantor is close to or in the vicinity of insolvency. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction's fraudulent transfer and insolvency statutes.

In an insolvency proceeding, it is possible that creditors of the Note Guarantors or the appointed insolvency administrator may challenge the Note Guarantees, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- void or invalidate or declare ineffective all or a portion of a Note Guarantor's obligations under its Note Guarantee;
- direct that holders of the Notes return any amounts paid under a Note Guarantee to the relevant Note Guarantor or to a fund for the benefit of the Note Guarantor's creditors; and
- take other action that is detrimental to you.

If we cannot satisfy our obligations under the Notes and any Note Guarantee is found to be a fraudulent transfer or conveyance or an improper transfer of assets or is otherwise set aside, we cannot assure you that we can ever repay in full any amounts outstanding under the Notes. In addition, the liability of each Note Guarantor under its Note Guarantee will be limited to the amount that will result in such Note Guarantee not constituting a fraudulent conveyance or improper corporate distribution or otherwise being set aside. However, there can be no assurance as to what standard a court would apply in making a determination of the maximum liability. Also, there is a possibility that the entire Note Guarantee may be set aside, in which case, the entire liability may be extinguished.

In order to initiate any of these actions under fraudulent or improper transfer or other applicable principles, courts may need to make findings that, at the time the Note Guarantees were issued, a Note Guarantor:

- issued such Note Guarantee with the intent or knowledge of hindering, delaying or defrauding current or future creditors or with a desire to prefer some creditors over others, or created such security after its insolvency;
- was aware of the fact that some creditors were disadvantaged over other creditors by these actions;
- issued such Note Guarantee in a situation where a prudent businessman as a shareholder of such Note Guarantor would have contributed no equity to such Note Guarantor; or
- received less than reasonably equivalent value for incurring the debt represented by the Note Guarantee on the basis that the Note Guarantee was incurred for the Issuer's benefit, and only indirectly for the Note Guarantor's benefit, or some other basis and (1) was insolvent or rendered insolvent by reason of the issue of the Note Guarantee, or subsequently became insolvent for other reasons; (2) was engaged, or about to engage, in a business transaction for which the Note Guarantor's assets were unreasonably small; or (3) intended to incur, or believed it would incur, debts beyond its ability to make required payments as and when they would become due.

However, less-stringent requirements may be provided under the laws of certain jurisdictions.

Different jurisdictions evaluate insolvency on various criteria, but a Note Guarantor generally may, in different jurisdictions, be considered insolvent at the time it issued a Note Guarantee if:

- its liabilities exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due; or
- the present saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

Although we believe that we are solvent, and will be so after giving effect to the Offering of the Notes, there can be no assurance which standard a court would apply in determining whether a Note Guarantor was "insolvent" as of the date the Note Guarantees were issued or that, regardless of the method of valuation, a court would not determine that a Note Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Note Guarantor was insolvent on the date its Note Guarantee was issued, that payments to holders of the Notes constituted fraudulent transfers on other grounds.

For an overview of the enforceability issues as they relate to the Note Guarantees, see "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees" with respect to some of the jurisdictions mentioned above.

Transfer of the Additional Notes will be restricted, which may adversely affect the value of the Additional Notes.

Because the Additional Notes have not been, or will not be, and are not required to be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction, they may only be offered and sold to non-U.S. persons outside the United States in offshore transactions in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and all other applicable laws. These restrictions may limit the ability of investors to resell the Additional Notes. It is the obligation of investors in the Additional Notes to ensure that all offers and sales of the Additional Notes comply with applicable securities laws. See "Notice to Investors" and "Description of Notes—Transfer and Exchange".

There may not be an active trading market for the Additional Notes, in which case your ability to sell the Additional Notes will be limited.

The Additional Notes will constitute a single class of securities with the Existing Notes and, following the Distribution Compliance Period (as defined in "The Offering"), will have the same ISIN and common code as the Existing Notes sold pursuant to Regulation S. Prior to such date, the Additional Notes will be deemed to be a new issue of securities for which there is currently no established trading market. See "—The Additional Notes will not be fungible with the Existing Notes during the Distribution Compliance Period".

Accordingly, we cannot assure you as to:

- the liquidity of any market in the Additional Notes;

- your ability to sell your Additional Notes; or
- the prices at which you would be able to sell your Additional Notes.

Future trading prices of the Additional Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. The liquidity of a trading market for the Additional Notes may be adversely affected by a general decline in the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Additional Notes. Any such disruption may have a negative effect on you, as a holder of Additional Notes, regardless of our prospects and financial performance. The Initial Purchasers have advised that they intend to make a market in the Additional Notes after completing the Offering. However, they have no obligation to do so and may discontinue market-making activities at any time without notice. In addition, such market-making activity will be subject to limitations imposed by the U.S. Securities Act and other applicable laws and regulations. As a result, there may not be an active trading market for the Additional Notes. If no active trading market develops, you may not be able to resell your Additional Notes at a fair value, if at all.

The Additional Notes will not be fungible with the Existing Notes during the Distribution Compliance Period.

During the Distribution Compliance Period (as defined in "The Offering"), the Additional Notes will have a separate ISIN and common code than the ISIN and common code of the Existing Notes sold pursuant to Regulation S, and will not be fungible with the Existing Notes sold pursuant to Regulation S. Accordingly, a market for trading in the Additional Notes during the Distribution Compliance Period may not develop, or may not be liquid, which may impact the tradability and price of the Additional Notes.

The Additional Notes may not become, or remain, listed on the Luxembourg Stock Exchange.

Although the Issuer will agree to use its commercially reasonable efforts to have the Additional Notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on its Euro MTF and to maintain such listing as long as the Additional Notes are outstanding, the Issuer cannot assure you that the Additional Notes will become or remain listed. If the Issuer cannot maintain the listing on the Official List of the Luxembourg Stock Exchange and the admission to trading on the Euro MTF or it determines that it will not maintain such listing, the Issuer may cease to make or maintain such listing on the Official List of the Luxembourg Stock Exchange, provided that it will use its commercially reasonable efforts to obtain and maintain the listing of the Additional Notes on another "recognised stock exchange" (within the meaning of Section 1005 of the U.K. Income Tax Act 2007), although there can be no assurance that the Issuer will be able to do so. Although no assurance is made as to the liquidity of the Additional Notes as a result of listing on the Official List of the Luxembourg Stock Exchange or another recognized listing exchange for comparable issuers in accordance with the Indenture, failure to be approved for listing or the delisting of the Additional Notes from the Official List of the Luxembourg Stock Exchange or another listing exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell Additional Notes in the secondary market.

The Notes will initially be held in book-entry form and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Additional Notes will be, and the Existing Notes have been, initially issued in global certificated form and held through Euroclear and Clearstream.

Interests in the global notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered Notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for Euroclear and Clearstream will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, they must rely on the procedures of Euroclear and Clearstream, and if investors are not participants in Euroclear and Clearstream, they must rely on the procedures of the participant through which they own their interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable such investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if investors own book-entry interests, they will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See "Book-Entry; Delivery and Form".

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies have assigned and may in the future assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

Investors in the Additional Notes may have limited recourse against our independent auditors.

See "Independent Auditors" for a description of the independent auditors' reports, including language limiting the accountants' scope of responsibility in relation to such reports and the financial statements to which they relate. In particular, in respect of the audit reports relating to the 2014 financial year, the 2015 financial year and the 2016 financial year reproduced herein, KPMG LLP has stated such reports were made solely to our members as a body and are subject to important explanations and disclaimers regarding KPMG LLP's responsibilities, published on KPMG LLP's website, which are incorporated into the independent auditors' reports as if set out in full and should be read to provide an understanding of the purpose of the reports, the work KPMG LLP has undertaken and the basis of its opinions.

Investors in the Additional Notes should understand that in making these statements, KPMG LLP confirmed that it does not accept or assume any liability to parties, such as the purchasers of the Additional Notes, other than our members as a body, with respect to the reports and to the independent auditors' audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Exchange Act. If a U.S. court, or any other court, were to give effect to the language quoted above, the recourse that investors in the Additional Notes may have against the independent auditors based on their reports or the consolidated financial statements to which they relate could be limited.

Investors may face foreign exchange risks by investing in the Additional Notes.

The Additional Notes will be denominated and payable in euro. An investment in the Additional Notes denominated in a currency other than the currency by reference to which you measure the return on your investments will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of euros relative to other relevant currencies because of economic, political or other factors over which we have no control. Depreciation of euros against other relevant currencies could cause a decrease in the effective yield of the Additional Notes below their stated coupon rates and could result in a loss to you when the return on the Additional Notes is translated into the currency by reference to which you measure the return on your investments.

USE OF PROCEEDS

The gross proceeds from the Offering will be used (i) to repay borrowings under the Senior Facilities, including accrued but unpaid interest, (ii) for general corporate purposes, and (iii) to pay costs, fees and expenses incurred in connection with the Transaction, including underwriting and/or arranging commissions and fees for legal, accounting, ratings advisory and other professional services.

The following table illustrates the estimated sources and uses of funds related to the Transaction assuming it had been completed on 17 March 2017. Actual amounts will vary from estimated amounts depending on several factors, including fees and expenses. See "Description of Certain Financing Arrangements".

Sources	**Amount** *(£ in millions)*	**Uses**	**Amount** *(£ in millions)*
Notes offered hereby[(1)]	180	Repayment of Euro Term Loan Commitments[(2)] .	44
		Cash on balance sheet	134
		Fees and expenses[(3)]	2
Total Sources	**180**	**Total Uses**	**180**

(1) Represents the aggregate amount of the gross proceeds from the Additional Notes to be issued in connection with the Offering. The gross proceeds from the issuance of the Additional Notes have been converted to pounds sterling at an exchange rate of €1.152 to £1.00, which was the exchange rate at the close of trading on 8 March 2017.

(2) Represents the repayment of total outstanding indebtedness under the Euro Term Loan Commitments, including accrued but unpaid interest. Drawings under the Euro Term Loan Commitments have been converted to pounds sterling at an exchange rate of €1.152 to £1.00, which was the exchange rate at the close of trading on 8 March 2017.

(3) This amount reflects our estimate of fees and expenses we will pay in connection with the Transaction, including underwriting fees, professional fees and other transaction costs.

CAPITALISATION

The following table sets forth our cash and cash equivalents and our consolidated capitalisation as of 31 December 2016 on an actual basis and as adjusted to give effect to the Transaction as if it had occurred on 31 December 2016. The information provided on an actual basis was extracted from our audited consolidated financial statements as of 31 December 2016 and should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Certain Financing Arrangements" and the financial statements and notes thereto included elsewhere in this Offering Memorandum.

	As of 31 December 2016 Actual	Adjustments	As of 31 December 2016 As Adjusted
	(£ in millions equivalent)		
Cash and cash equivalents[(1)]	**215**	**132**	**347**
Debt:			
Senior Facilities[(2)]	723	(43)	680
Existing Notes[(3)]	424	—	424
Additional Notes offered hereby[(4)]	—	171	171
Finance leases	88	—	88
Capitalised transaction costs[(5)]	—	1	1
Total financial liabilities	**1,235**	**129**	**1,364**
Issued capital and reserves attributable to owners of the Company	1,424	—	1,424
Non-controlling interest	4	—	4
Total Equity	**1,428**	**—**	**1,428**
Total capitalisation	**2,663**	**129**	**2,792**

(1) The as adjusted column represents cash and cash equivalents as of 31 December 2016 assuming the Offering occurred on 31 December 2016.

(2) Represents outstanding indebtedness under the Term Facilities, comprised of (i) €50,000,000 under the Euro Term Loan Commitments, (ii) £250,000,000 under the pound sterling-denominated facility A1 commitments and (iii) $540,000,000 under the U.S. dollar-denominated facility A1 commitments, including, in each case, amortised transaction costs, converted to pounds sterling at an exchange rate of €1.171 to £1.00, and $1.235 to £1.00, which were the exchange rates at the close of trading on 31 December 2016. In connection with the Transaction, the Euro Term Loan Commitments will be repaid and canceled.

(3) Represents €500 million aggregate principal amount of Existing Notes offered and sold on the Original Issue Date, including amortised transaction costs. The Existing Notes have been converted to pounds sterling at an exchange rate of €1.171 to £1.00, which was the exchange rate at the close of trading on 31 December 2016.

(4) Represents €200 million aggregate principal amount Additional Notes offered hereby. The Additional Notes have been converted to pounds sterling at an exchange rate of €1.171 to £1.00, which was the exchange rate at the close of trading on 31 December 2016.

(5) As adjusted capitalised transaction costs represent the estimated financing fees, discounts and commissions incurred in connection with the issuance of the Additional Notes that are expected to be capitalised. For the purposes of the above table, we have assumed that no other fees, costs and expenses (including advisor fees and other professional fees) incurred in connection with the Offering will be capitalised.

SELECTED HISTORICAL FINANCIAL & OTHER INFORMATION

The following tables set forth our selected historical consolidated financial information for the periods ended and as of the dates indicated below. Except as otherwise noted, we have extracted the selected historical consolidated financial information for the 2014 financial year, the 2015 financial year and the 2016 financial year from the audited consolidated financial statements of the Issuer and its subsidiaries, which are included elsewhere in this Offering Memorandum. We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2015 financial year and the 2014 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between these periods.

The following selected financial information set forth below should be read in conjunction with "Use of Proceeds", "Capitalisation", "Summary Historical Consolidated Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes thereto, included elsewhere in this Offering Memorandum.

Consolidated Income Statement

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
		(£ in millions)	
Revenue	**1,249**	**1,278**	**1,457**
Cost of sales	(181)	(193)	(227)
Gross profit	**1,068**	**1,085**	**1,230**
Staff expenses	(312)	(327)	(382)
Marketing	(62)	(68)	(75)
Rent	(83)	(87)	(93)
Other operating expenses[(1)]	(200)	(201)	(229)
Depreciation, amortisation and impairment	(100)	(111)	(131)
Operating profit	**311**	**291**	**320**
Finance income	2	6	3
Finance costs	(87)	(60)	(46)
Profit before tax	**226**	**237**	**277**
Taxation	(64)	(67)	(66)
Profit for the year	**162**	**170**	**211**

(1) Other operating expenses include repairs and maintenance, displays (primarily relating to SEA LIFE aquaria), utilities, travel costs, office costs, insurance and IT costs.

Consolidated Statement of Financial Position

	At 27 December 2014	At 26 December 2015	At 31 December 2016
		(£ in millions)	
Total non-current assets	2,414	2,475	2,958
Total current assets	372	260	340
Total assets	**2,786**	**2,735**	**3,298**
Total non-current liabilities	1,449	1,320	1,518
Total current liabilities	274	266	352
Total liabilities	**1,723**	**1,586**	**1,870**
Net assets	**1,063**	**1,149**	**1,428**
Total equity	**1,063**	**1,149**	**1,428**

Consolidated Statement of Cash Flows

	52 weeks ended 27 December 2014	52 weeks ended 26 December 2015	53 weeks ended 31 December 2016
		(£ in millions)	
Net cash inflow from operating activities	357	325	433
Net cash outflow from investing activities	(193)	(219)	(287)
Net cash outflow from financing activities	(148)	(243)	(106)
Net increase/(decrease) in cash and cash equivalents	**16**	**(137)**	**40**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations is based upon, and should be read in conjunction with, the audited consolidated financial statements as of and for the 53-week period ended 31 December 2016 (the "2016 financial year"), the 52-week period ended 26 December 2015 (the "2015 financial year") and the 52-week period ended 27 December 2014 (the "2014 financial year"), and the related notes thereto included elsewhere in this Offering Memorandum. We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2015 financial year and the 2014 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between these periods.

The following discussion also contains trend information and forward-looking statements. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Memorandum, particularly under "Forward-Looking Statements" and "Risk Factors".

Overview

Listed on the London Stock Exchange with a market capitalisation of approximately £5.0 billion as of 1 March 2017, we are a global leader in branded, location based family entertainment. As of 31 December 2016, we operated 117 Attractions in 24 countries across four continents, which attracted over 65 million visitors in the 2016 financial year. We are the largest operator of visitor attractions and theme parks in Europe, by number of visitors in 2015 and the second largest globally, by number of visitors in 2015. We are also a market leader in the U.K., Germany and Italy by total visitor numbers, with a growing presence in the U.S. and the Asia Pacific region. We own and/or operate a unique portfolio of brands which possess a strong heritage within their original markets and which are supported by our extensive technical and creative expertise.

We have established a portfolio of nationally and internationally recognised premium brands focused on delivering memorable experiences to millions of visitors. Our portfolio of brands is intended to appeal to a diverse demographic and generated total revenue of £1,457 million and EBITDA of £451 million in the 2016 financial year. See "Presentation of Financial Information—Non-IFRS Financial Information".

We are organised into three operating groups:

FY2016	Midway Attractions	LEGOLAND Parks	Resort Theme Parks
Description	• Branded indoor visitor attractions with up to two hour visitor duration	• Interactive outdoor theme parks offering multi-day visits targeted at families with children aged two–12 • Increasingly with on-site accommodation	• National destination outdoor theme parks offering multi-day visits in densely populated European markets • With on-site accommodation across all our parks.
Attractions/Parks (as of 31 December 2016)	104 attractions[(1)]	7 parks[(2)]	6 parks
Hotels/Holiday Villages	—	5 hotels/2 holiday villages	8 hotels/3 holiday village
Visitors (m)[(3)]	41.7	12.9	10.5
Revenue (£m)	638	495	322
EBITDA (£m)[(4)]	236	193	70

(1) Includes four "second gates", which are accounted for with the Theme Parks where they are located, and the Orlando Eye, which we manage but do not own.

(2) Includes LEGOLAND Malaysia, LEGOLAND Dubai, which we manage but do not own.

(3) Visitor numbers include visitors to Attractions operated under management contracts (which, during the periods under review, included LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye) and visitors to Attractions operated as joint ventures.

(4) See "Presentation of Financial Information—Non-IFRS Financial Information".

Our three operating groups are supported by our extensive in-house business development, creative, project management and production group, Merlin Magic Making, which employs more than 300 people across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for: identifying locations and finding new business opportunities ("Finding the Magic"); driving innovation across the Group and creating high-class, compelling propositions for our attractions ("Creating the Magic"); taking creative ideas, producing content such as LEGO models, wax figures, and ensuring our animal care is of the highest standard ("Producing the Magic"); and delivering new Attractions and investment projects, including new hotels and rides ("Delivering the Magic").

Merlin Magic Making has been at the heart of our major projects. In 2017, Merlin Magic Making will open "Little Big City", Berlin, which is a new Midway Attraction, a new concept Madame Tussauds in Nashville, which will be our first fully musically themed Madame Tussauds, the LEGOLAND Windsor "Castle Hotel", the CBeebies Land Hotel at Alton Towers Resort and a new "Ghostbusters" dark ride at Heide Park.

Our senior management team is also supported by a New Openings team, which was established in 2015 to oversee the opening and integration of all new Attractions. This team includes seven senior executives and is led by a Chief New Openings Officer.

Our strategy and performance is underpinned by our commitment to operational excellence. This entails an integrated approach to quality management, capital investment, marketing and pricing, together with a focus on health and safety. Our strong financial returns are also the result of our efficient, calculated deployment of capital expenditure across the Existing Estate and new attractions.

We have demonstrated the strength of our diversified business model through our historical financial track record. The drivers of this performance are:

- continued investment in our Existing Estate in order to drive like-for-like revenue growth; and
- continued roll-out of Midway Attraction brands and the development of new LEGOLAND Parks, each of which has a target of achieving an average annual 20 per cent. incremental return on invested capital over its first five full years of operation. See "Presentation of Financial Information—Non-IFRS Financial Information".

We have diversified our businesses and revenues internationally with significant growth in revenue in North America and broadly stable revenue in Asia. As a result, revenues in North America have increased as a proportion of total revenues from 22 per cent. in the 2014 financial year to 28 per cent. in the 2016 financial year.

The following table presents a summary of our revenue attributable to each geographic area in which we operate:

Revenue	2014	Per cent. of revenue	2015	Per cent. of revenue	2016	Per cent. of revenue
	(£m)		(£m)		(£m)	
U.K.	490	39%	467	37%	486	33%
Continental Europe	318	26%	300	23%	367	25%
North America	274	22%	336	26%	404	28%
Asia Pacific	167	13%	175	14%	200	14%
Total	**1,249**	**100%**	**1,278**	**100%**	**1,457**	**100%**

Factors Affecting our Results of Operations

Visitor Attendance

Visitor attendance levels are the primary driver of our revenue and one of the primary drivers of our profitability. Most of our revenue is generated by visitors through admission fees and secondary spend.

Visitor attendance is primarily driven by, and dependent upon, the appeal of our Attractions, and we believe that the sustainability of visitor attendance at the Attractions is contingent upon maintaining high visitor satisfaction levels. We measure visitor satisfaction through monitoring processes intended to assist management in pricing and directing capital investment and resources to improve our product offering, including through updating and refreshing the Attractions on a regular basis. We have a target overall satisfaction level of at least 90 per cent. at each of the Attractions, and most of our Attractions consistently achieve scores above this target. We also focus on improving scores on Trip Advisor (or local equivalents).

Visitor attendance is also impacted by our pricing and marketing strategies. The effectiveness of these strategies is dependent upon their alignment with the appropriate target audience, which requires management to implement and deliver brand clarity in respect of each Attraction's proposition. Visitor attendance is also influenced by economic conditions, conditions of the tourism industry and other factors beyond our control.

Additionally, growth in visitor attendance is driven by factors which vary among our operating groups. We believe the overall growth in visitor attendance during the periods under review for (i) the Midway Attractions operating group has been driven largely by the roll-out of new Attractions and (ii) the LEGOLAND Parks operating group has been driven by a combination of capital expenditure on the Existing Estate and the success of "The LEGO Movie" in 2014, new accommodation facilities and the development of new Attractions. Visitor attendance at the Resort Theme Parks operating group fell in the 2015 financial year due mainly to the impact of the accident at the Alton Towers Resort in June 2015. See "Business—Health and Safety—The Alton Towers Resort Accident". Attendance increases in 2014 and 2016 were driven largely by capital expenditure on the Existing Estate and the development of new accommodation facilities to convert our Resort Theme Parks into destination resorts.

Visitor attendance at the Midway Attractions operating group increased in 2014, primarily due to the roll-out of new attractions. Visitor attendance at the LEGOLAND Parks increased in the 2014 financial year due to the successful delivery of new rides and attractions and increased brand awareness in connection with the release of "The LEGO Movie". Visitor attendance for the Resort Theme Parks operating group increased in the 2014 financial year, reflecting generally favourable weather conditions in Northern Europe and the successful delivery of new rides and attractions.

In the 2015 financial year, visitor attendance at the Midway Attractions operating group increased due to the roll-out of new attractions in Asia, North America and Europe. Attendance in the LEGOLAND Parks operating group in the 2015 financial year was broadly flat following a strong year in 2014 and was supported by the repositioning the parks as short-break destinations, which included the opening of the LEGOLAND Florida hotel in 2015. Visitor attendance at the Resort Theme Parks operating group was adversely impacted by the accident at the Alton Towers Resort in the 2015 financial year as compared with the 2014 financial year. See "Business—Health and Safety—The Alton Towers Resort Accident".

Visitor attendance at the Midway Attractions operating group increased in 2016, primarily due to the roll out of new attractions. Visitor attendance at the LEGOLAND Parks increased in 2016 due to the successful delivery of new rides and attractions, including the Ninjago ride at LEGOLAND Billund. Visitor attendance for the Resort Theme Parks operating group increased in the 2016 financial year as compared with the 2015 financial year, as the operating group and in particular Alton Towers Resort showed signs of recovery following the impact of the accident in 2015. The successful delivery of rides such as "Derren Brown's Ghost Train" at Thorpe Park supported that recovery.

The following table sets out visitor numbers and percentage change in visitor numbers by operating group and for the Group for the 2014, 2015 and 2016 financial years:

	Financial Year			2014-2015	2015-2016
	2014	2015	2016	Increase/ (decrease)	Increase/ (decrease)
	million	million	million	per cent.	per cent.
Midway Attractions	38.1	40.0	41.7	5	4
LEGOLAND Parks	12.7	12.7	12.9	0	2
Resort Theme Parks	12.0	10.2	10.5	(14)	2
Total Visitors	**62.8**	**62.9**	**65.1**	**0**	**3**

Visitor numbers, as used in this Offering Memorandum, represent the number of individual visits to an Attraction, as measured by our admissions systems, for the period indicated. Unless otherwise specified, visitor numbers include visitors to Attractions operated under management contracts (which, during the periods under review, included LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye), in respect of which we earn revenues through management fees rather than directly through visitor admission fees and visitors to Attractions operated as joint ventures, which, during the periods under review, included SEA LIFE Helsinki Oy and Pirate Adventure Golf Ltd. We purchased the remaining shares of SEA LIFE Helsinki during the 2016 financial year, such that it is now a wholly owned company.

Management of Investment Cycles

Our success is dependent upon the appeal of the Attractions, which impacts visitor attendance and our results of operations. Part of our growth strategy is to make targeted investments to update and refresh our estate on a regular basis. We seek to achieve this through both operating and capital expenditures that are intended to improve product appeal and guest experience, which are key to increasing visitor attendance levels and length of stay. Such investments include (i) adding new rides and attractions; (ii) replacing old features with new, more up-to-date features; and (iii) general maintenance of existing attractions, including ensuring health and safety standards are met or exceeded. In addition, we also focus on adding visitor attractions that sit next to Theme Parks and for which additional admission fees are charged, referred to as "second gates", and improving and expanding accommodation facilities, food and beverage facilities and retail offerings. Such investment supports increases in admission fees and secondary spend and helps drive our revenue growth and profitability. We also make capital investments to improve back office and IT efficiency.

We typically add at least one new entertainment offering or other improvement at each of our major Attractions each year, with periodic higher levels of investment managed in cycles across the business. Investment cycles are determined for each individual Attraction within each operating group, with the intention of evenly distributing the "peak" years for individual Attractions, when a significant new ride or attraction or other development or feature opens, within and across relevant operating groups. This strategy allows us to focus our resources and balance the capital expenditure spend across the portfolio and from year to year. "Low" years in an Attraction's investment cycle entail primarily the development of relatively smaller, lower cost attractions aimed at maintaining visitor numbers. "Medium" years in an investment cycle (which apply to the Attractions in the LEGOLAND Parks and Resort Theme Parks operating groups) represent the development of new visitor experiences that may form part of the Attraction's marketing message in any particular year but that are less high profile, and generally have a lower impact on visitor numbers, than the significant attractions added in "peak" years.

The following table sets out the typical investment cycle that we generally budget for our Attractions in each of our three operating groups, along with the approximate capital expenditure costs that we might budget to be incurred in respect of each Attraction within the three operating groups in each year of the investment cycle (with the range representing the average costs for a smaller site up to the average costs for a larger site):

	Typical investment cycle (approximate)	"Low" year capital expenditure (approximate)	"Medium" year capital expenditure (approximate)	"Peak" year capital expenditure (approximate)
Midway Attractions	Up to 5-year cycle, with one "peak" year and up to four "low" years(1)	Up to £1 million	N/A	c. £5 million for large sites but most less than £1 million
LEGOLAND Parks	4-year cycle of peak, low, medium, low years	Up to £3 million	Varies	c. £6-10 million
Resort Theme Parks	4-year cycle of peak, low, medium, low years	Up to £3 million	Varies	c. £10 million

(1) Excludes London Eye capsule upgrade programme required every 15-20 years.

In the 2016 financial year, the "peak" year capital investments in the Resort Theme Parks and LEGOLAND Parks operating groups were at Thorpe Park (with the "Derren Brown's Ghost Train") and LEGOLAND Billund (with the "LEGO Ninjago" themed ride), respectively. In the Midway Attractions operating group, there were a number of "peak" year investments including a "Ghostbusters" feature at Madame Tussauds New York and a penguin feature at SEA LIFE Sydney Aquarium. In the 2015 financial year, "Oblivion" at Gardaland and "LEGO Friends" at LEGOLAND Windsor were the "peak" year capital expenditure projects for their respective operating groups. "Peak" year investments in the Midway Attractions operating group included the STAR WARS 4D shows at Madame Tussauds in London and Berlin. Our significant investments that opened during the 2014 financial year included: the "LEGO Chima" themed waterpark at LEGOLAND California, "CBeebies Land" at Alton Towers Resort, the "Flight of the Demons" winged coaster at Heide Park and, in the Midway Attractions Operating Group, a Marvel 4D cinema at Madame Tussauds Hollywood and a ghost show at the Amsterdam Dungeon.

During the periods under review, we have invested approximately nine to 10 per cent. of our total revenue each financial year in capital expenditure relating to the development of our Existing Estate of Attractions owned and operated at the start of such financial year. The percentage of revenue invested in capital expenditure varies by operating group. 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 Resort Theme Parks, and to a lesser extent LEGOLAND Parks, which target a younger age-range than Resort Theme Parks, require relatively higher capital expenditure due to the development of new rides and attractions of significant scale and the drive to attract repeat visitors. During the periods under review, the Midway Attractions, LEGOLAND Parks and Resort Theme Parks operating groups invested approximately seven to eight per cent., six to eight per cent. and 10 to 13 per cent. of revenue, respectively, in capital expenditure relating to the development of their Existing Estate of Attractions in each financial year. We target mid-single digit like-for-like EBITDA growth for the Attractions in our Existing Estate from year to year. Going forward, we broadly anticipate investment in capital expenditure (as a percentage of revenue) in our Existing Estate to be approximately eight to 10 per cent. for our business as a whole. During the periods under review, we have funded our capital expenditure on our Existing Estate of Attractions from our operating free cash flow and we expect to continue to do so going forward.

In respect of the Midway Attractions, we have consistently updated and refreshed our entertainment offerings through the rotation of themed exhibitions across the SEA LIFE Centres; the annual addition of new wax figures at each Madame Tussauds Attraction; the addition of a new ride, feature or new 4D film at each LEGOLAND Discovery Centre approximately once every five years; and the regular introduction of new story lines at The Dungeons sites. Additionally, we expect to periodically undertake a refurbishment of the capsules of the London Eye, which takes three to four years to complete, in order to update and improve the visitor experience. The last capsule refurbishment was completed between the 2008 and 2012 financial years at a cost of approximately £13 million in aggregate.

We establish targeted returns for all capital expenditure incurred in respect of projects expected to make a positive contribution to EBITDA, and we build these targeted returns into our annual budgets. While it is not possible to accurately ascertain returns for individual investments, we believe that the launch of new features at the Attractions following capital investments are a key contributing factor in increasing visitor attendance numbers, particularly during the year of launch.

Roll-Out of Midway Attractions

The continued roll-out of Midway Attractions in new locations and countries is a key component of our business development and growth strategy. The costs we incur to roll-out a new site and the anticipated maturity profile of each new site vary by brand.

During the 2014, 2015 and 2016 financial years, we opened 18 new Midway Attractions, including the Orlando Eye which is operated under a management contract, as set out in the following table:

	Number of sites opened
SEA LIFE Centres	3
Madame Tussauds	6
LEGOLAND Discovery Centres	6
Dungeon	1
DreamWorks Tours' Shrek's Adventure!	1
Observation attractions	1
Total	**18**

Of the 18 new Midway Attractions opened during the periods under review, 13 were net contributors to our EBITDA during the period under review (taking into account site revenues, site costs and the allocation of certain overhead and central management costs). During the 2016 financial year, five new Midway Attractions were opened: Madame Tussauds Chongqing, Madame Tussauds Istanbul, LEGOLAND Discovery Center Michigan, LEGOLAND Discovery Centre Shanghai and LEGOLAND Discovery Center Arizona. Typically, development costs per new Attraction in the Midway Attractions operating group during the period under review ranged from approximately £5 million for a smaller site to approximately £8 million for a larger site. However, development costs may be higher or lower depending on the size and scope of each new Attraction.

The majority of new Midway Attractions opened during the periods under review were located in North America and the Asia Pacific region, in line with our strategy of geographical expansion and diversification.

Another key component of our strategy with respect to the roll-out of Midway Attractions is the creation of "cluster cities", developing multiple Attractions in one city to capitalise on costs, cross-selling and marketing opportunities. Clustering Attractions also allows us to achieve logistical benefits, including the sharing of management and administrative functions across Attractions and, in some cases, the sharing of premises, which helps reduce costs and improve EBITDA margins.

We conduct detailed demographic reviews of target locations, with over 100 potential new sites for Midway Attractions currently identified in over 55 locations around the world (approximately two-thirds of such sites being based in existing or potential cluster cities). In February 2016, we announced our intention to open 40 Midway Attractions by the end of 2020, of which 20 have either opened or are currently under development. Our planned openings for 2017 include "Little Big City" Berlin (a new Midway concept which is scheduled to launch in 2017), a LEGOLAND Discovery Centre in Melbourne, a LEGOLAND Discovery Centre in Philadelphia, a Madame Tussauds in New Dehli and a SEA LIFE Centre in Chongqing. The development costs on each of these sites, and for other existing core brands, are expected to be between £5 million and £8 million.

Development of LEGOLAND Parks

Another significant component of our business development and growth strategy is the development of new LEGOLAND Parks. Given the strength of the LEGO and LEGOLAND brands and the success of our existing LEGOLAND Parks, we recognise significant scope for new LEGOLAND Parks, particularly in the Asian market. Our aim stated in 2016 was to open four new LEGOLAND Parks by 2020, of which one, LEGOLAND Dubai, was opened during 2016. These will be operated under one of our three operating models: (i) "operated and owned", (ii) "operated and leased" and (iii) management contracts. Of the parks currently in operation, five are "operated and owned" and two, LEGOLAND Malaysia and LEGOLAND Dubai, are operated under a management contract. The two parks currently in development, LEGOLAND Japan and LEGOLAND Korea, will be operated under our "operated and leased" model.

We opened LEGOLAND Florida, the first LEGOLAND Park launched under our ownership, in October 2011. LEGOLAND Florida is owned and operated by us, with admissions fees reflected directly in revenues for the LEGOLAND Parks operating group. EBITDA for LEGOLAND Florida has outperformed the investment base case in each financial year since the park opened.

LEGOLAND Malaysia opened in September 2012 and it is managed by us pursuant to a management contract with Malaysian partners. The park was developed with funds provided by the Malaysian government. As part of an agreement for the development and operation of LEGOLAND Malaysia, we contributed fees earned during the development and operating phase back to IDR Resorts Sdn. Bhd. ("*IDR*") which, together with its subsidiaries, owns LEGOLAND Malaysia until we held approximately 20 per cent. of the share capital in IDR. That level has been reached and thus we own approximately 20 per cent. of the company that owns the park and no longer contribute management fees to IDR. We believe this operating model enables us to enter certain new markets, while reducing our risk in those markets. Under the management contract model, we typically receive development and management fees in return for the provision of design, construction and ongoing operational management services; however we do not own the underlying assets or fund the site's capital expenditure requirements. The management fee is included in revenues for the LEGOLAND Parks operating group. We have an agreement with LL Theme Parks LLC, which is a wholly owned subsidiary of DXB Entertainments, to operate LEGOLAND Dubai under this management contract model. LEGOLAND Dubai opened in 2016.

We intend to open a LEGOLAND Park in Nagoya, Japan in 2017, which will be developed under an "operated and leased" model, whereby we invest in the park with a partner from which we lease any unowned assets in exchange for rent. Under this model, we will invest approximately one third of the total park cost, with the balance of the assets, primarily park infrastructure assets, funded and owned by one of KIRKBI's subsidiaries through a combination of equity and external debt provided by Sumitomo Mitsui Banking Corporation. We will lease the park and associated assets on arm's length commercial terms, paying a turnover-based rent with an annual floor on a 50 year lease. See "Certain Relationships and Related Party Transactions". We also intend to open a LEGOLAND Park in Chuncheon, Gangwon province, South Korea in 2019. Similarly, we will invest approximately a third of the value of the park, predominantly in the branded assets, and the remaining balance will be funded by a property company owned by a consortium of local public and private investors. We will lease the balance of the assets, primarily park infrastructure, from the property company. We spent approximately £31 million on LEGOLAND Park development in 2016 and expect to spend a similar amount in 2017.

In addition, we have also identified tangible opportunities to open new LEGOLAND Parks in the United States and China. We have entered into discussions with the local governments and private parties with respect to these development opportunities. See "Business—Material Contracts".

We intend to consider LEGOLAND Park development opportunities and the operating models for these opportunities on a case-by-case basis in light of our strategic objectives.

Development of New Resort Hotels and Other Accommodation Facilities

Our business development strategy also includes the development of hotels and other accommodation at our parks. Besides contributing to overall revenues through direct accommodation fees, our hotels and holiday villages are a key component of our strategy of transforming our LEGOLAND Parks and Resort Theme Parks into short break destinations to attract a broader customer base and encourage multi-day visits, thereby increasing overall visitor attendance and satisfaction while reducing the impact of short-term weather conditions. In February 2016, we announced our intention to open 2,000 new rooms by the end of 2020. We added 210 new rooms in 2016 and intend to add 381 new rooms in 2017.

We are currently nearing completion of new hotels at Alton Towers Resort and LEGOLAND Windsor and a "Beach Retreat" Holiday Village at LEGOLAND Florida, all of which are scheduled to open in 2017.

During the periods under review, we launched seven new accommodation developments: the 90 room "THORPE SHARK Hotel" at Thorpe Park, which opened in April 2014, the 28 room "King's Castle" hotel expansion to the holiday village at LEGOLAND Deutschland, which opened in April 2014 and the 69 room "Azteca Hotel" at Chessington World of Adventures Resort, which opened in August 2014, the 125 room "Enchanted Village" at Alton Towers Resort, which opened in April 2015, the 152 room hotel at LEGOLAND Florida, which opened in May 2015, the 100 room "Adventure Hotel" at Gardaland, which opened in May 2016, the 69 room "Knight's Village" at Warwick Castle, which opened in July 2016 and the 35 room "Chessington Explorer Glamping" at Chessington World of Adventures Resort, which opened in 16 May 2016. In addition, the holiday village at LEGOLAND Billund was expanded in 2014 to include 24 highly themed bedrooms. Our aggregate room capacity was approximately 3,083 rooms as of 31 December 2016.

Strategic Acquisitions

In addition to the roll-out and development of new Attractions, our revenue growth and profitability are affected by strategic acquisitions. During the periods under review, we acquired a minority interest in BIG BUS Tours in 2016 and entered into co-promotion agreements with them in a number of city centre locations. We believe that by working more closely with BIG BUS Tours, we can increase cross-promotion and drive visitor traffic to our Attractions.

Variations in Weather

Our portfolio is diversified across outdoor and indoor Attractions and multiple geographies, which provides a degree of natural hedging against the financial impact of certain external factors such as variations in weather. However, unfavourable weather and forecasts of unfavourable weather, especially during our peak opening period and on or for weekend days, can adversely affect visitor attendance at the Attractions and, consequently, our financial performance, particularly at our LEGOLAND and Resort Theme Park attractions.

The Midway Attractions operating group can also be impacted by weather conditions. Unlike our Resort Theme Parks and our LEGOLAND Parks, almost all of our Midway Attractions are located indoors and thus hot weather can have a negative impact on visitor numbers as potential visitors are diverted to outdoor attractions, such as theme parks.

During the period under review, we believe that exceptionally cold weather early in the 2014 financial year impacted trading performance at some of our North American Midway attractions, however, we believe that prolonged good weather in Europe in 2015 positively impacted trading performance at certain European attractions.

We seek to reduce the risk of weather conditions through the use of an advance purchase pricing model for online ticket sales, providing a discount to customers who book in advance, as well as sales of Merlin Annual Passes and individual Attraction season passes. We also seek to draw trade visitors, such as coach tours and school visits, to the Attractions, and the vast majority of these trade visitors book tickets in advance. Our strategy of creating short break destinations at our Resort Theme Parks and LEGOLAND Parks, chiefly by the development of accommodation facilities, further supports advance ticket sales by encouraging visitors to plan multi-day trips further in advance. In the 2016 financial year, approximately 55 per cent. of our revenue from admissions was pre-booked and approximately 23 per cent. of our revenue from admissions was derived from online bookings.

Seasonality

Our operations are subject to seasonal factors. The majority of our revenue is generated between mid-March and November due to a variety of factors affecting the northern hemisphere, where the majority of the Attractions are located. Such factors include school holiday periods, with the longest peak during July and August and shorter peaks during the Easter and (in the U.K.) October school holiday periods, and generally favourable weather conditions. The timing of the Easter holiday each year may affect our results of operations because when the Easter holiday occurs later in the year, it is more likely to coincide with periods of favourable weather. In the 2016 financial year, on a 52-week basis, 24 per cent. of our revenue was generated between January and April, 16 per cent. of our revenue was generated between May and June, 39 per cent. of our revenue was generated between July and September, and 21 per cent. of our revenue was generated between October and December. These results are representative of the effect of seasonal variation on our revenue during the periods under review. During the winter months (November to mid-March in the northern hemisphere), our revenue reduces substantially and, in particular, our seasonal Attractions (including most of the Resort Theme Parks and the European LEGOLAND Parks) are either closed or open for more limited hours during certain periods. Even at the Attractions that are open year-round, including

LEGOLAND Florida, LEGOLAND California and all of our Midway Attractions, attendance patterns have historically experienced significant seasonality, driven by, amongst other factors, tourism patterns and school holidays. We typically incur expenditure during the winter months (which vary depending on the location of the Attractions) in carrying out maintenance and refurbishment work and the addition of new rides to the Resort Theme Parks and LEGOLAND Parks.

We seek to manage our expenses to match this seasonality in revenue by the use of seasonal employees during the peak months. Additionally, our recent expansion in the United States, Asia and Australia has created some variance in peak seasons between our Attractions. This increasing geographical diversification is a part of our growth strategy that we believe will, over time, reduce the effects of seasonality on our business.

The seasonality of our business may also, from time to time, cause our results to be affected disproportionately by any significant "one-off" events that occur in our principal trading markets during the peak seasons of operation. Such "one-off" events may impact particular financial years and may make comparability across different financial years more difficult For example, the LEGOLAND Parks benefited from increased visitor attendance in the first half of the 2014 financial year due to promotional activity related to the launch of "The LEGO Movie" and increased LEGO brand awareness.

Macroeconomic Conditions

As an operator of leisure attractions, our success depends to an extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. Low economic growth in many of the countries in which we operate, coupled with future economic uncertainty, has had and continues to have an adverse effect on consumers' discretionary spending and consumer confidence. Our business has historically demonstrated resilience during periods of economic slowdown. We believe our resilience in adverse economic conditions is due to, among other reasons, consumer spending on family visitor attractions tending to be more resistant to cutbacks than many other forms of discretionary spending during periods of economic downturn. Additionally, the Attractions may represent a less expensive holiday or leisure alternative compared to overseas travel holidays for domestic customers in the countries in which we operate.

Following the U.K. referendum on Brexit in June 2016, sterling weakened considerably relative to other world currencies. As over 70 per cent. of our EBITDA in 2016 was derived from other countries, notably the U.S. and continental Europe, we saw positive translation effects that benefitted our results for the 2016 financial year. Moreover, in the medium term, we believe a more competitive pound could increase in-bound tourism to London and drive more "staycations" on the part of U.K. residents.

Notwithstanding this general resilience to economic downturns, significant macroeconomic events in the countries in which we operate may have an adverse effect on our performance, and unemployment may also play a significant role in the level of discretionary consumer spending and, in particular, the unemployment level among our target demographics may affect visitor attendance levels and revenues at certain Attractions. For example, the performance of Thorpe Park, another of our largest Attractions by visitor numbers, is subject to movements in the employment rate of its key target customers in the 16-24 age group.

Geographical Expansion and Diversification

One of our key strategies is geographical expansion and diversification. Our success implementing this strategy is a key driver of our growth and financial performance. The geographic scope of our business has expanded significantly since our inception, and now includes a portfolio of Attractions across Europe, North America and the Asia Pacific region. Our long-term goal is to evenly split our revenue between Europe, North and South America and the Asia-Pacific region. Expanding into new cities and countries allows us to continually increase the number of Attractions in our portfolio, which in turn helps to increase visitor numbers and revenues. This also provides us with some opportunities to create "cluster cities", developing multiple Attractions in one city to capitalise on operational, marketing and cross-selling advantages.

Geographical diversification can also reduce the effects of seasonality. With Attractions in different cities, countries and hemispheres, there is some variance in peak seasons between Attractions.

The Asia Pacific region, in particular, represents an area of increasing strategic focus for us, with a growing number of Midway Attractions and LEGOLAND Parks located in the region. By the end of the 2016 financial year, we operated 29 Attractions in nine countries across the Asia Pacific region. We anticipate opening six new Midway Attractions and one LEGOLAND Park in the Asia Pacific region in 2017. In addition, we plan to open a LEGOLAND Park in South Korea in 2019, additional Midway Attractions throughout the region and have identified potential sites for a LEGOLAND Park in China, though the latter is at an early stage of development. For further information, see "—Development of LEGOLAND Parks".

Geographical diversification also provides us with a degree of natural hedging against certain external factors, such as variations in weather, localised economic downturns and other localised events that may have a temporary or sustained impact on visitor numbers at particular Attractions.

This geographical expansion and diversification requires careful strategic planning and active management as we enter jurisdictions with different legal, political and economic circumstances. We may enter a new jurisdiction in multiple ways. In addition to launching new sites on our own, we may enter a new jurisdiction by acquiring and rebranding existing leisure attractions, as demonstrated by our acquisitions of the Sydney Attractions Group and Living and Leisure Australia, or by entering into partnership with local governments or third parties, as reflected by LEGOLAND Malaysia and LEGOLAND Dubai. We consider entering into new jurisdictions, including the method of entering into such jurisdictions, on a case-by-case basis in light of our strategic objectives.

Volume and Yield Strategies

Although visitor volumes are the primary driver of our revenue growth and profitability, profitability is also a function of the admissions revenue per capita. We define "admissions revenue per capita" as the amount of revenue each visitor provides by way of admission fees. Admissions revenue per capita is a function of the lead price (being the full price for visitors), excluding VAT and other sales taxes, and any promotional discounts we provide. To maximise total revenue and profit, we continuously monitor both visitor volumes and admissions yield, being the admissions revenue per capita divided by the lead price, for each of the Attractions.

Decisions about volume and yield strategies for each Attraction are made weekly, monthly, quarterly and annually by central and local management. In making these decisions, management seeks to respond to changing patterns of demand, taking into account a wide variety of factors, including prevailing economic circumstances, the time of year, the age of an Attractions and the Attractions' propositions, customer ratings of "value for money" and target audience. Both volume and yield strategies rely on our ability to implement effective pricing and marketing strategies.

We can achieve higher volumes for an individual Attraction through the use of entry promotions and admission fee discounts. We can use such promotions and discounts to distribute visitor attendance across an Attraction's opening hours or opening period. For example, we may offer discounts for off-peak times of day or off-peak days, thereby improving visitor volumes during those times. We may also use promotions to help establish Attractions in local markets, typically using promotions in the second year after opening once the initial heightened visitor volumes associated with a new launch have subsided.

We can also affect the admissions revenue per capita for an individual Attraction by incrementally increasing an Attraction's lead price and/or changing the quantum or level of discounts offered in respect of an Attraction's admission fee. We seek to increase revenue and profit generated during an Attraction's periods of peak demand and by high-demand Attractions by increasing the admissions revenue per capita during those periods and for those Attractions.

Similar to decisions about volume and yield strategies for individual Attractions, decisions about volume and yield strategies for Merlin Annual Passes and individual Attraction seasonal passes are made regularly by central management to respond to changing patterns of demand and use.

Impact of Exchange Rates

Our presentational currency is pounds sterling, but our operations outside the United Kingdom use currencies other than pounds sterling, principally the euro, the Danish Kroner and the U.S. dollar, as well as other currencies including the Australian dollar, the New Zealand dollar, the Canadian dollar and various currencies in Asia. In the 2016 financial year, 33 per cent. of our revenue was generated in pounds sterling, 25 per cent. in euro and Danish Kroner and 27 per cent. in U.S. dollars. Our financial performance is therefore subject to fluctuations as a result of foreign currency exchange rate movements whenever financial information is translated from non-pounds sterling currencies.

To eliminate the impact of foreign exchange movements on our reported revenue and EBITDA, management uses revenue and EBITDA on a constant currency basis to evaluate business performance. We also seek to structure our indebtedness in currencies that help reduce translational foreign exchange exposure by drawing debt denominated in our major currencies of operation. As of 31 December 2016, 22 per cent. of our outstanding debt was denominated in pounds sterling, 41 per cent. in euro and 37 per cent. in U.S. dollars. As of 31 December 2016, on a *pro forma* basis giving effect to the Transaction, approximately 19 per cent. of our outstanding debt was denominated in pounds sterling, 47 per cent. in euro, 34 per cent. in U.S. dollars.

In addition to the translational impact of exchange rate fluctuations, we are exposed to transactional exchange rate risk. Certain operating expenses and capital expenditures are from time to time denominated in foreign currencies, though in general, most payments and revenues are denominated in the same local currencies used in the countries in which we have Attractions. Additionally, we seek to limit our exposure to foreign currency fluctuations through the use of derivative instruments under an approved control framework. See "Description of Certain Financing Arrangements—Hedging Agreements" and "—Disclosure about Market and Credit Risks—Currency Risk" for a further description of our foreign currency hedging activities and certain risks related thereto.

Staff Expenses

Staff expenses represent the largest portion of our operating expenses. Staff expenses include compensation and benefits for our employees and change over time based on changes in the number of personnel employed and the compensation level per employee. During the periods under review, staff expenses increased by £70 million or 23 per cent. to £382 million in the 2016 financial year from £312 million in the 2014 financial year, representing 26 per cent. and 25 per cent. of revenues for those years, respectively. Staff expenses as a percentage of revenues have therefore remained broadly stable over the periods under review, with expenses increasing in line with revenues primarily as a result of the roll-out and development of new Attractions.

Due to the seasonality of our business, employee headcount varies significantly throughout the year. We manage our employment costs by hiring a substantial number of workers on a flexible, seasonal basis, which is typical for operators of seasonal attractions in the leisure industry. Depending on the Attraction, and subject to the relevant laws and regulations of the jurisdiction in which the Attraction is located, seasonal employees are hired for the entire summer season or on a periodic basis, in each case with flexible arrangements, enabling us to vary the hours worked as we deem necessary. Although the use of seasonal employees provides us with a certain amount of flexibility on our cost base, our ability to make substantial savings through headcount reduction of seasonal employees during the opening period is constrained by the limited advance visibility of visitor numbers and for some Attractions, such as Gardaland, certain restrictions imposed by local employment laws.

Our average number of permanent employees for the 2014, 2015 and 2016 financial years was 8,538, 7,958 and 8,515, respectively. The number of permanent staff fell in 2015 primarily due to a change in the definition of what constitutes a permanent employee in the LEGOLAND Parks operating group. Our average number of total employees for the 2014, 2015 and 2016 financial years was 17,327, 18,821 and 19,489, respectively, with the difference reflecting seasonal or temporary employees. During the 2016 financial year, approximately 95 per cent. of our permanent employees comprised staff at our Attractions and approximately 5 per cent. comprised head-office staff.

Hedging of Interest Rate and Currency Exposures

We hold derivative financial instruments primarily to hedge our interest rate and foreign currency exposures. In general, we endeavour to implement hedging arrangements that will qualify for hedge accounting treatment, but we are not always able to do so. To the extent we hold hedges that do not qualify for hedge accounting treatment, we determine the fair value of those hedges at the end of each accounting period and recognise the changes in fair value as finance income or finance cost. See notes 5.4, 5.5 and 5.6 to the audited consolidated financial statements for the 2014 financial year and note 4.3 to the audited consolidated financial statements for the 2015 and 2016 financial years, included elsewhere in this Offering Memorandum. In connection with the Transaction, we expect to enter into new derivative financial instruments.

Impact of Operating Leases

We lease and pay rent on a substantial portion of our Attractions. In the 2016 financial year, we recognised an expense of £96 million in our income statement with respect to operating leases. Our operating leases typically have a duration of between 10 and 60 years. Our Midway Attractions are predominately leasehold properties, with the exception of five freehold SEA LIFE sites, Madame Tussauds Blackpool and the Blackpool Tower complex, which we operate pursuant to a management agreement, Madame Tussauds, London, which leases the site from Fubon MTL Property (Jersey) Ltd and the Coca- Cola London Eye, which we hold pursuant to a licence. See "Business—Property" and "Business—Material Contracts" and

"Description of Certain Financing Arrangements". In general, we have historically held freehold interests in our LEGOLAND Parks, however we operate LEGOLAND Malaysia under a management contract, although we hold an equity interest in the project company that owns the park assets. We operate LEGOLAND Dubai pursuant to a management contract and will operate LEGOLAND Japan and LEGOLAND Korea under our "operated and leased" model with other third party investors. In addition, we lease parts of LEGOLAND Florida, LEGOLAND Billund, LEGOLAND Windsor and LEGOLAND California. See "Business—Property" and "Business—Material Contracts". In our Resort Theme Parks operating group, we lease the Alton Towers Resort, Heide Park, Thorpe Park and Warwick Castle sites pursuant to a sale and leaseback arrangement with Secure Income REIT plc. See "Business—Property" and "Description of Certain Financing Arrangements". As we expand our existing portfolio with new Attractions, we may enter into further operating leases, which may increase our operating costs thereby impacting our results of operations. We expect that, with effect from the 2019 financial year onwards, the implementation of a new IFRS accounting standard will result in changes to the presentation of leases in our consolidated financial statements.

Additional Factors Affecting Future Results of Operations

Financial Periods

We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2015 financial year and the 2014 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between these periods.

Impact of the 53rd Week in the 2016 Financial Year

The 2016 financial year was a 53-week financial period. The impact of the 53rd week on the key income statement lines was as follows:

	Financial Year		
	2016 52 weeks (unaudited)	2016 week 53 (unaudited)	2016 53 weeks (audited)
	£ million	£ million	£ million
Revenue	1,428	29	1,457
Operating profit	302	18	320
Profit before tax	259	18	277
Profit for the year	197	14	211
Other Financial Information:			
EBITDA	433	18	451
Visitor numbers	64	1	65

The Transaction

We will issue the Additional Notes on the Issue Date. We intend to use the proceeds from the Offering (i) to repay borrowings under the Senior Facilities, including accrued but unpaid interest, (ii) for general corporate purposes, and (iii) to pay costs, fees and expenses incurred in connection with the Transaction, including underwriting and/or arranging commissions and fees for legal, accounting, ratings advisory and other professional services. See "Use of Proceeds".

We expect to incur financing costs of approximately £2 million in connection with the Offering. The financing costs related to the issuance of the Additional Notes will be amortised over the life of the Additional Notes. Our financial condition and results of operations may differ from the historical financial condition and results of operations presented in this discussion as a result of the Offering.

Key Components of our Income Statement

The key components of certain line items of our consolidated income statement are described below.

Revenue

Revenue primarily represents the amounts (excluding VAT and similar taxes) received from visitors for admission fees and priority ride access passes, amounts generated from hotel and holiday village operations and additional secondary spend by visitors, including food and beverages, merchandise, souvenir photography, games, car parking and guide book sales. Revenue also includes development and management fees received under development and management agreements for certain LEGOLAND Parks (including with respect to the development and management of LEGOLAND Dubai and the management of LEGOLAND Malaysia) during the periods under review. Revenue is also generated from private functions and sponsorship arrangements.

Admissions revenue is recognised at point of entry. Revenue from the sale of Merlin Annual Passes, individual attraction season passes and multi-Attraction tickets is recognised by the Attraction that sold the pass (or, in the case of passes and multi-attraction tickets sold online, by the Attraction designated by the purchaser as being the Attraction of first visit) and, in the case of Merlin Annual Passes and individual Attraction season passes, over the period that the pass is valid.

In many locations across our estate, photography and game operations are operated with partners that provide specialist knowledge under revenue sharing arrangements.

Cost of Sales

Cost of sales represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. The expense of food and beverages, accommodation-related expenses and retail merchandise are the principal expenses recognised in cost of sales.

Royalty payments made to KIRKBI are also recognised in cost of sales. We make a royalty payment to KIRKBI for the use of the LEGOLAND trademark and ancillary use of the LEGO trademark, content and other intellectual property rights, pursuant to the LEGOLAND Licence and Co-operation Agreement. See “Business—Intellectual Property” for further details of the LEGOLAND Licence and Co-Operation Agreement.

Staff Expenses

Staff expenses are the principal component of our operating expenses. Staff expenses primarily comprise wages and salaries, social security costs and pension costs, as well as any expenses arising from share-based payments and profit related bonuses.

Marketing

Costs relating to marketing include expenditures on advertising, e-commerce and in connection with third-party promotions for our Attractions.

Rent

Rent comprises rental payments made by us under operating leases. In respect of a number of our leasehold properties (particularly within the Midway Attractions operating group), additional rents may be payable to landlords where the turnover from operations at such properties exceeds relevant thresholds for qualifying periods. The calculation of these turnover-based rents is subject to various thresholds, limitations and deductions.

Other Operating Expenses

Other operating expenses include repairs and maintenance, displays (primarily relating to SEA LIFE aquaria), utilities, travel costs, office costs, insurance and IT costs.

Depreciation, Amortisation and Impairment

Depreciation, amortisation and impairment relates to the on-going depreciation of property, plant and equipment (“*PPE*”) over the estimated applicable useful lives, amortisation of intangible assets or acquired over their applicable estimated useful lives and impairment charges where the value of such assets do not prove to be recoverable in full. When separate components of an item of PPE have different useful lives, those components are accounted for separately.

Finance Income

Finance income is primarily comprised of interest income, foreign exchange gains and gains on hedging instruments, which are recognised as they accrue. Finance income also includes gains generated on the termination of certain derivative financial instruments.

Finance Costs

Finance costs comprise the interest paid by us on our bank debt including the amortisation of financing costs in respect of bank facilities, together with financing charges on our finance leases, foreign exchange losses and losses on hedging instruments, which are recognised as they accrue. Finance costs also include losses generated on the closing out of certain derivative financial instruments.

Taxation

Taxation represents the corporation tax charge or credit on our profit or loss for the year, and includes both current and deferred taxation. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, 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 rates enacted or substantively enacted in each jurisdiction at the end of the reporting period, and any adjustments in respect of previous periods. Deferred tax is provided on certain temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and taxation purposes at the end of each reporting period. 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 the tax rates enacted in each jurisdiction at the end of the reporting period.

Our gross effective tax rate for any financial year is equal to total taxation divided by our consolidated profit before tax.

Results of Operations

53 Weeks Ended 31 December 2016 Compared with the 52 Weeks Ended 26 December 2015

The following tables set out certain income statement items and percentage change in those items from our audited consolidated financial statements for the 2015 and 2016 financial years on an actual currency basis:

	Financial Year		Increase/ (decrease)
	2015	**2016**	
	£ million	**£ million**	**per cent.**
Revenue	**1,278**	**1,457**	**14**
Cost of sales	(193)	(227)	17
Gross Profit	**1,085**	**1,230**	**13**
Staff expenses	(327)	(382)	17
Marketing	(68)	(75)	11
Rent	(87)	(93)	8
Other operating expenses	(201)	(229)	13
Depreciation, amortisation and impairment	(111)	(131)	18
Operating profit	**291**	**320**	**10**
Finance income	6	3	(39)
Finance costs	(60)	(46)	(22)
Profit before tax	**237**	**277**	**17**
Taxation	(67)	(66)	(1)
Profit for the year	**170**	**211**	**24**
Other Financial Information:			
EBITDA[(1)]	402	451	12

(1) See "Presentation of Financial Information—Non IFRS Financial Information", "Presentation of Financial Information" and footnote (1) under the caption "Summary Historical Consolidated Financial Data—Other Operating, Financial and Pro Forma Financial Information" for a discussion as to how we define and calculate EBITDA as well as a discussion as to other considerations with respect to using EBITDA to assess our financial performance.

Revenue

Revenue increased by £179 million, or 14 per cent., to £1,457 million for the 2016 financial year from £1,278 million in the 2015 financial year. This increase was driven primarily by a combination of growth in the Existing Estate and the roll-out and development of new Attractions and accommodation developments across the estate. The impact of foreign exchange rates and the additional 53rd week contributed the increase in revenue.

Like-for-like revenue increased by one per cent. from the 2015 financial year to the 2016 financial year, primarily due to growth in the Existing Estate of Attractions, largely as a result of capital expenditure on the Existing Estate.

Cost of Sales

Cost of sales increased by £34 million, or 17 per cent., to £227 million for the 2016 financial year from £193 million in the 2015 financial year. This increase reflects increased sales of food and beverages and merchandise as result of the growth of the our portfolio of Attractions and an increase in visitor numbers. The impact of foreign exchange rates and the additional 53rd week contributed to the increase in cost of sales. Cost of sales represented 16 per cent. of our revenue in the 2016 financial year, a slight increase from 15 per cent. in the 2015 financial year.

Staff Expenses

Staff expenses increased by £55 million, or 17 per cent., to an expense of £382 million for the 2016 financial year from an expense of £327 million in the 2015 financial year. This increase was primarily attributable to an increase in staff head count, which was broadly in line with the growth of our business and portfolio of Attractions. The impact of foreign exchange rates and the additional 53rd week contributed to the increase in expenses. The average number of persons employed by us (including managers) increased by 668, or four per cent., to 19,489 in the 2016 financial year from 18,821 in the 2015 financial year. Staff expenses represented 26 per cent. of our revenue in each of the 2016 and 2015 financial years.

Marketing

Marketing expenses increased by £7 million, or 11 per cent., to an expense of £75 million for the 2016 financial year from an expense of £68 million in the 2015 financial year. Marketing expenses represented 5 per cent. of our revenue in both the 2016 and 2015 financial years.

Rent

Rent increased by £6 million, or eight per cent., to rent payable of £93 million for the 2016 financial year from rent payable of £87 million in the 2015 financial year. This increase was driven primarily by a combination of annual rent increases and the roll-out of new Midway Attractions. The impact of foreign exchange rates and the additional 53rd week contributed to the increase in expenses. Rent payments represented six per cent. of our revenue in the 2016 financial year, a slight decrease from seven per cent. in the 2015 financial year.

Other Operating Expenses

Other operating expenses increased by £28 million, or 13 per cent., to an expense of £229 million for the 2016 financial year from an expense of £201 million in the 2015 financial year. This increase in costs resulted from the roll-out of new Midway Attractions, new Accommodation and other cost increases. Other operating expenses represented 16 per cent. of our revenue in both the 2016 financial year and the 2015 financial year.

Depreciation, Amortisation and Impairment

The following table sets out depreciation, amortisation and impairment and percentage change for the 2015 and 2016 financial years:

	2015	2016	Increase/ (decrease)
	£ million	£ million	per cent.
Depreciation	(110)	(129)	18
Amortisation	(1)	(2)	*nm*
Impairments and Goodwill Reduction	—	—	—
Total Depreciation, Amortisation and Impairment	**(111)**	**(131)**	**18**

Depreciation, amortisation and impairment amounted to £131 million for the 2016 financial year, an increase of £20 million, or 18 per cent., from £111 million in the 2015 financial year. Depreciation, amortisation and impairment represented nine per cent. of our revenue in each of the 2016 and 2015 financial years.

Operating Profit

Operating profit increased by £29 million, or 10 per cent., to £320 million for the 2016 financial year from £291 million in the 2015 financial year. Operating profit, and the increase thereof, is a function of the movements in revenue and costs described above. Our operating profit represented 22 per cent. of our revenue in the 2016 financial year, a slight decrease of one per cent. from 23 per cent. in the 2015 financial year, as a result of the factors discussed above.

Finance Income

Finance income decreased by £3 million, or 39 per cent., to £3 million for the 2016 financial year from £6 million in the 2015 financial year. Finance income in both the 2016 and 2015 financial years was primarily attributable to interest receivable and foreign exchange gains.

Finance Costs

Finance costs decreased by £14 million, or 22 per cent., to a cost of £46 million for the 2016 financial year from a cost of £60 million in the 2015 financial year. This decrease in finance costs reflects exceptional costs of £14 million incurred in the 2015 financial year in relation to a restructuring of interest rate swaps as part of a wider refinancing of the Group's debt facilities.

Taxation

Taxation decreased by £1 million, or one per cent. to £66 million for the 2016 financial year from £67 million in the 2015 financial year. This decrease was partially attributable to a change in Italian tax laws in the 2016 financial year, which offset the impact of an increase in Profit before Tax. Our effective tax rate for the 2016 financial year was 24 per cent.

Profit for the Year

Profit increased by £41 million, or 24 per cent., to £211 million for the 2016 financial year from £170 million in the 2015 financial year, as a result of the factors discussed above.

EBITDA

EBITDA increased by £49 million, or 12 per cent., to £451 million for the 2016 financial year from £402 million in the 2015 financial year.

Like-for-like decline in EBITDA was four per cent. in the 2016 financial year in comparison to the 2015 financial year.

Please see "Presentation of Financial Information—Non-IFRS Financial Information", "Presentation of Financial Information" and footnote (1) under the caption "Summary Historical Consolidated Financial Data—Other Operating, Financial and *Pro Forma* Financial Information" for a discussion as to how we define and calculate EBITDA, as well as a discussion as to other considerations with respect to using EBITDA to assess our financial performance.

53 Weeks Ended 31 December 2016 Compared with the 52 Weeks Ended 26 December 2015 by Operating Group

In the 2016 financial year, our EBITDA was £451 million, of which £236 million was attributable to the Midway Attractions operating group, £193 million was attributable to the LEGOLAND Parks operating group and £70 million was attributable to the Resort Theme Parks operating group. However, a net expense of £48 million was attributable to Central costs not allocated to a specific operating group.

Midway Attractions

The following table sets out certain financial measures and percentage change in those items for the Midway Attractions operating group for the 2015 and 2016 financial years:

	Midway Attractions		
	2015	2016	Increase/ (decrease)
	£ million	£ million	per cent.
Revenue	561	638	14
Segment EBITDA	221	236	7

Revenue from the Midway attractions operating group increased by £77 million, or 14 per cent., to £638 million for the 2016 financial year from £561 million in the 2015 financial year. This increase was driven primarily by the roll-out and development of new Attractions. The increase was also attributable to the impact of foreign exchange rates and the additional 53rd week of trading in the 2016 financial year.

Segment EBITDA from the Midway attractions operating group increased by £15 million, or seven per cent., to £236 million for the 2016 financial year from £221 million in the 2015 financial year. The increase was primarily attributable to the impact of foreign exchange rates and the additional 53rd week of trading in the 2016 financial year. Segment EBITDA from the Midway Attractions operating group represented 37 per cent. of its revenue in the 2016 financial year, a decrease of two per cent. from 39 per cent. of its revenue in the 2015 financial year.

LEGOLAND Parks

The following table sets out certain financial measures and percentage change in those items for the LEGOLAND Parks operating group for the 2015 and 2016 financial years:

	LEGOLAND Parks		
	2015	2016	Increase/ (decrease)
	£ million	£ million	per cent.
Revenue	429	495	16
Segment EBITDA	169	193	14

Revenue from the LEGOLAND Parks operating group increased by £66 million, or 16 per cent., to £495 million for the 2016 financial year from £429 million in the 2015 financial year. The increase was driven primarily by increased visitor numbers. The increase was also attributable to the impact of foreign exchange rates and the additional 53rd week in the 2016 financial year.

Segment EBITDA from the LEGOLAND Parks operating group increased by £24 million, or 14 per cent., to £193 million for the 2016 financial year from £169 million in the 2014 financial year. This increase is a result of increased revenue. Segment EBITDA from the LEGOLAND Parks operating group represented 39 per cent. of its revenue in the 2016 financial year, a decrease of one per cent. from 40 per cent. in the 2015 financial year.

Resort Theme Parks

Due to the nature and location of the Attractions in the Resort Theme Parks operating group, this operating group is generally impacted more by seasonality than our other two operating groups. The majority of revenue generated at the Resort Theme Parks typically occurs in the second half of each financial year, in particular, during the peak months of July and August.

The following table sets out certain financial measures and percentage change in those items for the Resort Theme Parks for the 2015 and 2016 financial years:

	Resort Theme Parks		
	2015	2016	Increase/ (decrease)
	£ million	£ million	per cent.
Revenue	285	322	13
Segment EBITDA	47	70	48

Revenue from the Resort Theme Parks operating group increased by £37 million, or 13 per cent., to £322 million for the 2016 financial year from £285 million in the 2015 financial year. The increase was primarily attributable to the recovery in visitor numbers following a difficult year in 2015, which was impacted by the incident at Alton Towers Resort in June 2015. The increase was also attributable to the impact of foreign exchange rates and the additional 53rd week in the 2016 financial year.

Segment EBITDA from the Resort Theme Parks operating group increased by £23 million, or 48 per cent. to £70 million for the 2016 financial year from £47 million in the 2015 financial year. This increase is a result of effective control of our cost base and strong growth in revenue following a difficult year in 2015, which was impacted by the incident at Alton Towers Resort in June 2015. See "Business—Health and Safety—The Alton Towers Resort Accident". Segment EBITDA from the Resort Theme Parks operating group represented 22 per cent. of its revenue in the 2016 financial year, an increase of six per cent. from 16 per cent. in the 2015 financial year.

52 Weeks Ended 26 December 2015 Compared with the 52 Weeks Ended 27 December 2014

The following tables set out certain income statement items and percentage change in those items from our audited consolidated financial statements for the 2014 financial year compared to our audited consolidated financial statements for the 2015 financial year on an actual currency basis:

	Financial Year		Increase/ (decrease)
	2014	2015	
	£ million	£ million	per cent.
Revenue	**1,249**	**1,278**	**2**
Cost of sales	(181)	(193)	7
Gross Profit	**1,068**	**1,085**	**2**
Staff expenses	(312)	(327)	5
Marketing	(62)	(68)	9
Rent	(83)	(87)	5
Other operating expenses	(200)	(201)	1
Depreciation, amortisation and impairment	(100)	(111)	11
Operating profit	**311**	**291**	**(6)**
Finance income	2	6	*nm*
Finance costs	(87)	(60)	(31)
Profit before tax	**226**	**237**	**5**
Taxation	(64)	(67)	4
Profit for the year	**162**	**170**	**5**
Other Financial Information:			
EBITDA[(1)]	411	402	(2)

(1) See "Presentation of Financial Information—Non IFRS Financial Information", "Presentation of Financial Information" and footnote (1) under the caption "Summary Historical Consolidated Financial Data—Other Operating, Financial and Pro Forma Financial Information" for a discussion as to how we define and calculate EBITDA as well as a discussion as to other considerations with respect to using EBITDA to assess our financial performance.

Revenue

Revenue increased by £29 million, or two per cent., to £1,278 million for the 2015 financial year from £1,249 million in the 2014 financial year. This increase was driven primarily by the operation of new Midway Attractions.

Like-for-like revenue growth was less than one per cent. from the 2014 financial year to the 2015 financial year primarily due to growth in the Existing Estate in the LEGOLAND Parks operating group, which offset challenging trading in the Resort Theme Parks operating group, which was impacted by the accident at Alton Towers Resort. See "Business—Health and Safety—The Alton Towers Resort Accident"

Cost of Sales

Cost of sales increased by £12 million, or seven per cent., to £193 million for the 2015 financial year from £181 million in the 2014 financial year. The increase in cost of sales was primarily attributable to the growth of our portfolio of Attractions and a 0.3% increase in visitor numbers. Cost of sales represented 15 per cent. of our revenue in both of the 2015 and 2014 financial years.

Staff Expenses

Staff expenses increased by £15 million, or 5 per cent., to an expense of £327 million for the 2015 financial year from an expense of £312 million in the 2014 financial year. This increase was driven primarily by an increase in staff headcount, which was consistent with the growth of our business and portfolio of Attractions, including in particular, the addition of seven new Midway Attractions. The average number of persons employed by us (including managers) increased by 1,494, or nine per cent., to 18,821 in the 2015 financial year from 17,327 in the 2014 financial year. Staff expenses represented 26 per cent. of our revenue in the 2015 financial year, a slight increase of one per cent. from 25 per cent. in the 2014 financial year.

Marketing

Marketing expenses increased by £6 million, or nine per cent., to an expense of £68 million for the 2015 financial year from an expense of £62 million in the 2014 financial year. Marketing expenses represented 5 per cent. of our revenue in both the 2015 financial year and 2014 financial year.

Rent

Rent increased by £4 million, or 5 per cent., to rent payable of £87 million for the 2015 financial year from rent payable of £83 million in the 2014 financial year. This increase was driven primarily by a combination of annual rent increases and the roll-out of new Midway Attractions. The impact of foreign exchange rates reduced the rise in rents. Rent payments represented seven per cent. of our revenue in each of the 2015 and 2014 financial years.

Other Operating Expenses

Other operating expenses increased by £1 million, or one per cent., to an expense of £201 million for the 2015 financial year from an expense of £200 million in the 2014 financial year. Other operating expenses represented 16 per cent. of our revenue in both the 2015 financial year and the 2014 financial year.

Depreciation, Amortisation and Impairment

The following table sets out depreciation, amortisation and impairment and percentage change for the 2014 and 2015 financial years:

	2014	**2015**	**Increase/ (decrease)**
	£ million	**£ million**	**per cent.**
Depreciation	(99)	(110)	11
Amortisation	(1)	(1)	*nm*
Impairments and Goodwill Reduction	—	—	—
Total Depreciation, Amortisation and Impairment	**(100)**	**(111)**	**11**

Depreciation, amortisation and impairment increased by £11 million, or 11 per cent., to £111 million for the 2015 financial year from £100 million in the 2014 financial year. Depreciation, amortisation and impairment represented nine per cent. of our revenue in the 2015 financial year, a slight increase of one per cent. from eight per cent. in the 2014 financial year. Depreciation increased by £11 million, or 11 per cent., to £110 million for the 2015 financial year from £99 million in the 2014 financial year, primarily as a result of the roll-out of new Midway Attractions and accommodation facilities and capital expenditure on the Existing Estate of Attractions.

Operating Profit

Operating profit decreased by £20 million, or six per cent., to £291 million for the 2015 financial year from £311 million in the 2014 financial year primarily as a result of challenging trading in our Resort Theme Parks operating group following the accident at Alton Towers Resort and an increase in depreciation and amortisation charges. See "Business—Health and Safety—The Alton Towers Resort Accident". Our operating profit represented 23 per cent. of our revenue in the 2015 financial year, a decrease of two per cent. from 25 per cent. in the 2014 financial year,

Finance Income

Finance income increased by £4 million, to £6 million for the 2015 financial year from £2 million in the 2014 financial year.

Finance Costs

Finance costs decreased by £27 million, or 31 per cent., to a cost of £60 million for the 2015 financial year from a cost of £87 million in the 2014 financial year. This decrease in finance costs primarily attributable to the impact of a refinancing of our core debt facilitates, which reduced the cost of debt finance.

Taxation

Taxation increased by £3 million, or four per cent., to £67 million for the 2015 financial year from £64 million in the 2014 financial year. This increase in taxation was primarily attributable to our increased profit before tax, which increased by £11 million, or 5 per cent., to £237 million in the 2015 financial year from £226 million in the 2014 financial year.

Profit for the Year

Profit increased by £8 million, or 5 per cent. to £170 million for the 2015 financial year from £162 million in the 2014 financial year, as a result of the factors discussed above.

EBITDA

EBITDA decreased by £9 million, or two per cent., to £402 million for the 2015 financial year from £411 million in the 2014 financial year.

Like-for-like decline in EBITDA was four per cent. in the 2015 financial year in comparison to the 2014 financial year.

52 Weeks Ended 26 December 2015 Compared with the 52 Weeks Ended 27 December 2014 by Operating Group

In the 2015 financial year, our EBITDA was £402 million, of which £221 million was attributable to the Midway Attractions operating group, £169 million was attributable to the LEGOLAND Parks operating group and £47 million was attributable to the Resort Theme Parks operating group, with the difference of £35 million being attributable to Central costs not allocated to a specific operating group.

In 2015, we revised the way in which certain costs incurred by the Group are allocated among our three operating groups. This change applied to the 2015 financial year and all subsequent financial years. EBITDA for each of our operating groups for the 2014 financial year was not restated.

The effect on 2015 EBITDA was:

	£ million
Midway	4
LEGOLAND Parks	1
Resort Theme Parks	2
Central	(7)
Group	—

Midway Attractions

The following table sets out certain financial measures and percentage change in those items for the Midway Attractions operating group for the 2014 and 2015 financial years:

	Midway Attractions		
	2014	**2015**	**Increase/ (decrease)**
	£ million	**£ million**	**per cent.**
Revenue	529	561	6
Segment EBITDA	214	221	3

Revenue from the Midway Attractions operating group in the 2015 financial year increased by £32 million, or six per cent., to £561 million for the 2015 financial year from £529 million in the 2014 financial year. This increase was driven primarily by an increase in visitor numbers, partly due to the opening of new attractions and to like-for-like revenue increases due to strong performance of Midway Asia (particularly in mainland China) as well as Midway Europe. The increase in visitors was also attributable to the full-year impact of six new Midway Attractions opened during the 2014 financial year. Segment EBITDA from the Midway Attractions operating group increased by £7 million, or three per cent., to £221 million for the 2015 financial year from £214 million in the 2014 financial year.

Segment EBITDA from the Midway Attractions operating group represented 39 per cent. of its revenue in the 2015 financial year, an decrease of two per cent. from 41 per cent. in the 2014 financial year, which was primarily due to a decreased percentage of revenue that was generated from higher margin Attractions, particularly the cluster of Midway Attractions in London, England and the Madame Tussauds attraction in Hong Kong.

LEGOLAND Parks

The following table sets out certain financial measures and percentage change in those items for the LEGOLAND Parks operating group for the 2014 and 2015 financial years:

	LEGOLAND Parks		
	2014	**2015**	**Increase/ (decrease)**
	£ million	**£ million**	**per cent.**
Revenue	386	429	11
Segment EBITDA	142	169	19

Revenue from the LEGOLAND Parks operating group in the 2015 financial year increased by £43 million, or 11 per cent., to £429 million from £386 million in the 2014 financial year primarily attributable to an increase in revenue per capita, which itself reflected a closing of pricing differentials with competitors in the North American market.

Segment EBITDA from the LEGOLAND Parks operating group increased by £27 million, or 19 per cent., to £169 million for the 2015 financial year from £142 million in the 2014 financial year. Segment EBITDA from the LEGOLAND Parks operating group represented 40 per cent. of its revenue in the 2015 financial year, an increase of three per cent. from 37 per cent. in the 2014 financial year. The increase in segment EBITDA reflected the increased revenues of the LEGOLAND Parks operating group as described above, which was partially offset by increased cost of sales, staff costs and other operating costs.

Resort Theme Parks

Due to the outdoor nature and location of the Attractions in the Resort Theme Parks operating group, this operating group is generally impacted more by seasonality than our other two operating groups. The majority of revenue generated at the Resort Theme Parks typically occurs in the second half of each financial year, in particular, during the peak months of July and August.

The following table sets out certain financial measures and percentage change in those items for the Resort Theme Parks operating group for the 2014 and 2015 financial years:

	Resort Theme Parks		
	2014	2015	Increase/ (decrease)
	£ million	£ million	per cent.
Revenue	331	285	(14)
Segment EBITDA	87	47	(46)

Revenue from the Resort Theme Parks operating group in the 2015 financial year decreased by £46 million, or 14 per cent., to £285 million from £331 million in the 2014 financial year. This decrease was driven primarily by a decrease in visitor numbers at Alton Towers Resort and Thorpe Park following the accident at the Alton Towers Resort in June 2015.

Segment EBITDA from the Resort Theme Parks operating group decreased by £40 million, or 46 per cent., to £47 million for the 2015 financial year from £87 million in the 2014 financial year. Segment EBITDA from the Resort Theme Parks operating group represented 16 per cent. of its revenue in the 2015 financial year, a decrease of 10 per cent. from 26 per cent. in the 2014 financial year. The decrease in segment EBITDA reflected the reduction in revenue described above.

Liquidity and Capital Resources

Our principal sources of liquidity for the periods under review have been, and following the Offering will be, our cash flows from operating activities and our borrowings under our banking facilities. The principal variations in our borrowing requirements and our principal uses of funds have been in respect of investments in our Existing Estate, the roll-out and development of new Attractions and the acquisition of new businesses.

Our business is highly cash generative during our main trading period (mid-March to November), with additional cash generation occurring in December and January with respect to certain of our year-round Attractions and our Attractions located in the southern hemisphere. Our revenue is primarily driven by visitor attendance at the Attractions. Receivables from trade debtors do not constitute a significant portion of our current assets. During the winter months in the northern hemisphere, when our seasonal Attractions (including most of the Resort Theme Parks and European LEGOLAND Parks) are generally closed or have reduced opening hours and generate substantially lower revenue than during our main trading period, we generate losses and typically incur expenditure in carrying out maintenance and refurbishment work and investments to upgrade and refresh our Existing Estate. Reflecting this seasonality, our cash low point is typically at or around the Easter holiday period. We have not had to draw down on the revolving credit facility in the 2016 financial year.

Following the Offering of the Notes, our primary debt service obligations will consist primarily of interest payments on the Notes and on borrowings under the Senior Facilities. See "Description of Certain Financing Arrangements". As of the Issue Date, we expect to have approximately £297 million in available cash drawings under the Revolving Credit Facility, which we intend to use for overdrafts and ancillary facilities at a later date. On or about the Issue Date, we may make limited additional drawings based on available cash on hand to fund our operations.

Although we believe our expected cash flows from operating activities, together with available borrowings will be adequate to meet our anticipated general liquidity needs and debt service obligations for the next twelve months, we cannot assure that our business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to enable us to funds our liquidity needs, including making payments on the Notes or other debt when due.

Cash flows

The following tables set out certain cash flow statement items from our audited consolidated financial statements for the 2014, 2015 and 2016 financial years:

	Financial Year		
	2014	2015	2016
	£ million	£ million	£ million
Net cash inflow from operating activities	357	325	433
Net cash outflow from investing activities	(193)	(219)	(287)
Net cash outflow from financing activities	(148)	(243)	(106)
Net increase in cash and cash equivalents	**16**	**(137)**	**40**

Net Cash Inflow from Operating Activities

The primary source of our cash flow is funds generated by operating activities. Net cash from operating activities primarily reflects our EBITDA, as well as working capital movements, changes in provisions and other non-current liabilities and tax paid.

Net cash from operating activities in the 2016 financial year amounted to a net cash inflow of £433 million, an increase of £108 million, or 33 per cent., from a net cash inflow of £325 million in the 2015 financial year. The increase was primarily attributable to an increase in EBITDA and an increase in net working capital.

Net cash from operating activities in the 2015 financial year amounted to a net cash inflow of £325 million, a decrease of £32 million, or nine per cent., from a net cash inflow of £357 million in the 2014 financial year. This decrease was primarily attributable to the reduction in EBITDA in the 2015 financial year and a decrease in net working capital.

Net Cash Outflow from Investing Activities

Net cash outflow from investing activities primarily includes cash used for payments to acquire businesses, net of cash acquired, capital expenditure in our Existing Estate and investment in new Midway attractions, new LEGOLAND Parks and new accommodation offerings, net of cash received from proceeds on the disposal of property, plant and equipment and interest received.

Net cash outflow from investing activities in the 2016 financial year amounted to a net cash outflow of £287 million, an increase of £68 million, or 30 per cent., from a net cash outflow of £219 million in the 2015 financial year. The increase was primarily attributable to increased capital expenditure on our Existing Estate of Attractions, increased capital expenditure on the roll-out of new Midway Attractions, developing new LEGOLAND Parks and new accommodation offerings and an investment in BIG BUS Tours.

Net cash outflow from investing activities in the 2015 financial year amounted to a net cash outflow of £219 million, an increase of £26 million, or 14 per cent., from a net cash outflow of £193 million in the 2014 financial year. The increase was primarily attributable to increased capital expenditure on our Existing Estate of Attractions, increased capital expenditure on the roll-out of new Midway Attractions, developing new LEGOLAND Parks and new accommodation offerings.

Net Cash Outflow from Financing Activities

Net cash outflow from financing activities primarily includes any form of long-term debt financing raised or repaid, interest paid, cash used for payments to acquire available-for-sale financial assets and dividends paid.

Net cash outflow from financing activities in the 2016 financial year amounted to a net cash outflow of £106 million, a decrease of £137 million, or 56 per cent., from a net cash outflow of £243 million in the 2015 financial year. The decrease was primarily attributable to costs incurred in 2015 in connection with refinancing of certain of our indebtedness, including transaction costs and costs incurred to settle interest rate swap liabilities related thereto.

Net cash outflow from financing activities in the 2015 financial year amounted to a net cash outflow of £243 million, an increase of £95 million, from a net cash outflow of £148 million in the 2014 financial year. The increase was primarily attributable to costs incurred in 2015 in connection with refinancing of certain of our indebtedness, including transaction costs and costs incurred to settle interest rate swap liabilities related thereto. The increase was also attributable to an increase in dividends paid due to the fact that no dividend was paid in respect of the 2013 financial year.

Capital Expenditure

Our capital expenditure was £259 million, £215 million and £192 million for the 2016, 2015 and 2014 financial years, respectively.

We continuously plan expenditure for the development of our estate, both in respect of (i) upgrading and refreshing our Existing Estate and (ii) new business, primarily the roll-out of Midway Attractions into new locations and countries, the development of new LEGOLAND Parks and the development of accommodation at or close to existing Attractions.

During the periods under review, we invested approximately nine to 10 per cent. of our revenue each year in the development of our Existing Estate of Attractions. Going forward, we expect investment in capital expenditure in our Existing Estate to be approximately eight to 10 per cent. of our revenue. Investments include (i) adding new rides and attractions; (ii) replacing old features with new, more up-to-date ones; and (iii) general maintenance and refurbishment of existing attractions (including ensuring health and safety standards are met or exceeded). Such investments are intended to maintain or improve product appeal and guest experience, which is key to increasing visitor attendance levels and length of stay, and support increases in admission fees (above inflation) and secondary spend. We typically benefit from increased visitor numbers and revenue from an Attraction in the year of opening a new ride or other significant product investment at the site. For further details regarding our planned approach with regard to upgrading and refreshing our Existing Estate, see "—Factors Affecting our Results of Operations—Management of Investment Cycles".

Our capital expenditure relating to the development of new business is primarily focused on the continued roll-out of Midway Attractions into new locations and countries globally, as well as the development of "second gates", up-selling our existing Theme Parks and new accommodation offerings and transforming our Theme Parks into short break destinations. Our new business capital expenditure is principally in respect of the development of new sites but can also be in respect of acquired sites.

In February 2016, we announced new "Milestones" pursuant to which we intend to open 40 Midway attractions, four LEGOLAND Parks and 2,000 new rooms by the end of 2020, of which we opened five Midways Attractions, one LEGOLAND Park and 210 rooms during 2016. As of 31 December 2016, over 20 new Midway Attractions were opened, under development or approved and 1,500 new rooms were opened, under development or approved. Further, LEGOLAND Dubai was opened in 2016, we expect LEGOLAND Japan to open in 2017 and progress is being made towards developing other LEGOLAND sites. For details of the average investment costs in respect of Midway Attractions opened during the periods under review, see "—Factors Affecting our Results of Operations—Roll-Out of Midway Attractions" and "—Factors Affecting our Results of Operations—Development of LEGOLAND Parks".

The following tables summaries our capital expenditures during the 2014, 2015 and 2016 financial years, respectively:

	Capital Expenditure				
	2014	2015	2016	per cent. change (2014-2015)	per cent. change (2015-2016)
	£ million	£ million	£ million	per cent.	per cent.
Existing Estate:					
Midway Attractions	37	42	47	15	10
LEGOLAND Parks	25	34	39	40	14
Resort Theme Parks	34	35	42	1	20
Central	11	14	13	28	(4)
Total Existing Estate Capital Expenditure	**107**	**125**	**141**	**17**	**12**
New Business Development:					
Accommodation	34	40	51	17	29
Midway Attractions	49	44	36	(10)	(19)
LEGOLAND Parks	2	6	31	*nm*	*nm*
Total New Business Development Capital Expenditure	**85**	**90**	**118**	**5**	**31**
Total Capital Expenditure	**192**	**215**	**259**	**12**	**20**

Our capital expenditure in the 2016 financial year of £259 million included investments in new Attractions such as the development of LEGOLAND Discovery Centres in Michigan, Arizona and Shanghai, and Madame Tussauds in Chongqing and Istanbul, all of which opened in 2016. We also made investments in SEA LIFE Chongqing, which we are in the process of opening and in LEGOLAND Japan which is expected to open in 2017. Capital expenditure further included new developments such as the "Adventure Hotel" at Gardaland, which opened in 2016, the "CBeebies Hotel" at Alton Towers Resort scheduled to open in 2017, a second hotel at LEGOLAND Windsor scheduled to open in 2017 and the "Beach Retreat" Holiday Village at LEGOLAND Florida also scheduled to open in 2017 and investments in our Existing Estate such as the "Derren Brown's Ghost Train" at Thorpe Park, the exclusive movie short "The LEGO Movie 4D" across the LEGOLAND Parks and the Ghostbusters feature at Madame Tussauds, New York. Our Central capital expenditure decreased to £13 million in the 2016 financial year from £14 million in the 2015 financial year.

Our capital expenditure in the 2015 financial year was £215 million and included the development of SEA LIFE Michigan, LEGOLAND Discovery Centres in Osaka and Istanbul, "DreamWorks Tours' Shrek's Adventure!" in London and a Madame Tussauds and SEA LIFE in Orlando. Capital expenditure also included the development of the hotel at LEGOLAND Florida, which was completed in 2015 and the development of the "Adventure Hotel" at Gardaland which opened in 2016. Investments on our Existing Estate included the "Oblivion" "dive-coaster" at Gardaland, LEGO Friends themed areas at LEGOLAND Windsor and LEGOLAND Florida and a new "Ice Age 4D" experience at Madame Tussauds Shanghai.

Our capital expenditure in the 2014 financial year of £192 million included investments into new Attractions such as the development of Madame Tussauds in Beijing, Singapore and San Francisco, a LEGOLAND Discovery Centre in Boston, the San Francisco Dungeon, and SEA LIFE Charlotte, all of which opened in 2014. We also made investments in SEA LIFE Michigan, which opened in early 2015. Capital expenditure further included new developments such as the "THORPE SHARK Hotel" at Thorpe Park and the Azteca Hotel at Chessington World of Adventures Resort and investments in our Existing Estate such as the "Flight of the Demons" ride at Heide Park, "CBeebies Land" at Alton Towers Resort and the "LEGO Chima" waterpark at LEGOLAND California. Our Central capital expenditure was £11 million in the 2014 financial year and was driven by investment to bring our data protection programs in line with the Payment Card Industry standards set by the various credit card schemes.

We anticipate that our capital expenditure in the 2017 financial year will be approximately £360 to £390 million.

Contractual Commitments and Off Balance Sheet Arrangements

Contractual Commitments

The following table summarises our contractual obligations, commercial commitments and principal payments scheduled as of 31 December 2016 (other than capital commitments and liabilities under defined benefit pension schemes, which are described below), on a *pro forma* basis, as adjusted for the Transaction:

	Payments due by period			
Contractual Commitments	**Total**	**less than 1 year**	**1-4 years**	**5 years and over**
	£ million	**£ million**	**£ million**	**£ million**
Long-term debt obligations(1)	(1,285)	—	(687)	(598)
Finance leases	(204)	(7)	(27)	(170)
Operating leases	(1,737)	(83)	(329)	(1,325)
Other long-term liabilities—interest rate swaps	(10)	(3)	(3)	(4)
Total	**(3,236)**	**(93)**	**(1,046)**	**(2,097)**

(1) The Notes offered hereby have been converted to pounds sterling at an exchange rate of €1.171 to £1.00, which was the exchange rate at the close of trading on 31 December 2016. The Senior Facilities have been converted to pounds sterling at an exchange rate of €1.171 to £1.00, and $1.235 to £1.00, which were the exchange rates at the close of trading on 31 December 2016.

Long-term debt obligations comprise the Additional Notes offered hereby, the Existing Notes and the Senior Facilities. Long-term debt obligations does not include estimated interest payments.

Finance leases and operating leases predominantly relate to rental payments on our estate. Finance leases, which totalled £204 million as of 31 December 2016, are leases of property, plant and equipment for which substantially all the risks and rewards of ownership of the leased assets have been passed to us, and include leases in respect of the majority of rides at Alton Towers Resort, Heide Park and Thorpe Park leased by us following completion of our sale and leaseback transaction with the predecessor in title of Secure Income REIT plc in July 2007.

Operating leases, which totalled £1,737 million as of 31 December 2016, are leases of property, plant and equipment for which a significant portion of the risks and rewards of ownership are retained by the lessor, and include leases in respect of substantially all land and buildings at Alton Towers Resort and Hotel, Heide Park Theme Park and Hotel, Madame Tussauds London, Thorpe Park and Warwick Castle, which we leased following the completion of our sale and leaseback transaction with the predecessor in title of Secure Income REIT plc in July 2007. Secure Income REIT plc subsequently sold the freehold interest in Madame Tussauds to Fubon MTL Property (Jersey) Ltd. We also entered into a lease with respect to the LEGOLAND Windsor Hotel following completion of a sale and leaseback transaction with Richie Properties in May 2012. In addition, we enter into operating leases in respect of land and buildings for most of our Midway Attractions. These leases are typically of a duration of between ten and sixty years. Options to renew these leases exist in line with local market practice in the territories concerned.

Additionally, as of 31 December 2016, we had capital commitments of £82 million, primarily with respect to capital expenditures at our existing Attractions, including accommodations, and the roll-out of new Midway Attractions.

We plan to open a LEGOLAND Park in Japan in 2017, with a hotel to be opened on the site in 2018. We will invest approximately one third of the value of the park, primarily in branded assets, with the balance of the assets, primarily park infrastructure assets, funded and owned by one of KIRKBI's subsidiaries, through a combination of equity, and external debt provided by Sumitomo Mitsui Banking Corporation. We will lease the park and associated assets on arm's length commercial terms, paying a turn-over based rent with an approximate £6 million (equivalent) annual floor on a 50 year fully repairing and insuring lease. See "Business—Material Contracts". As of 31 December 2016 our expected further investment in the park and hotel totalled £62 million.

We also plan to open a LEGOLAND Park in South Korea in 2019, in which we will invest approximately one third of the value of the park, predominantly in the branded assets, with the remaining balance to be funded by a property company owned by a consortium of local public and private investors. We will lease the balance of the assets, primarily park infrastructure, from the property company. See "Business—Material Contracts".

Off Balance Sheet Arrangements

In July 2007, we entered into sale and leaseback arrangements with the predecessor in title of Secure Income REIT plc in respect of substantially all land, buildings and rides at Alton Towers Resort and Hotel, Heide Park Theme Park and Hotel, Madame Tussauds London, Thorpe Park and Warwick Castle. Secure Income REIT plc subsequently sold the freehold interest of Madame Tussauds London to Fubon MTL Property (Jersey) Ltd. In May 2012, we entered into a sale and leaseback arrangement with Richie Properties in respect of the LEGOLAND Windsor Hotel.

We do not have any other sale and leaseback or other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, operating results, liquidity, capital expenditures or capital resources that is material to investors.

Pensions

We operate a number of defined contribution pension schemes as well as a closed defined benefit scheme for certain former U.K. employees of The Tussauds Group, which was acquired in 2007, and a closed defined benefit scheme for certain employees of Gardaland in Italy. The Tussauds Group 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 entitlement of the retired employees under the Gardaland scheme is dependent on the state laws in place at the date employment commenced and is subject to a certain minimum period of service. For further information with respect to the expenses relating to the defined contribution schemes and the assets and liabilities in respect of the defined benefit schemes, see note 5.2 to the audited consolidated financial statements for the 2016 financial year, included elsewhere in this Offering Memorandum.

As with all employers in the U.K., we enrol all eligible U.K. jobholders (which includes all employees aged between 22 and the state pension age who earn over £10,000 in the tax year 2016-2017) into a defined contribution pension scheme automatically (a process known as auto-enrolment). Auto-enrolment requires us to make contributions to each participating jobholder's defined contribution pension (based on “qualifying earnings” (as defined below)) with effect from our staging date, which was 26 November 2013. We have adopted the qualifying earnings (“*QE*”) basis of contributions. Qualifying earnings (for the purposes of the 2016- 2017 tax year) are earnings between £5,824 and £43,000. Compulsory employer contributions are being phased in at a rate of one per cent. of a participating employee’s QE until 5 April 2018, rising to two per cent. from 6 April 2018 until 5 April 2019 and three per cent. thereafter. However, we also allow eligible U.K. employees, depending on grade entitlement, to increase their contributions based on basic salary, in which case our matching employer contributions are based on the relevant employees’ entire basic salaries rather than QE.

Dividend Policy

We have adopted a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This dividend policy will reflect our long-term earnings and cash-flow potential and retain sufficient capital to fund continued investment. It is therefore our current intention to target an initial payout ratio of approximately 35 to 40 per cent. of net income. There are no guarantees that we will pay dividends or regarding the level of any such dividends.

Assuming that there are sufficient distributable reserves available at the time, we intend to pay an interim dividend and a final dividend in respect of each financial year in the approximate proportions of one-third and two-thirds, respectively, of the total annual dividend. The board has proposed a final dividend of 4.9 pence per share for 2016. The total dividend for the current year, subject to approval of the final dividend, will be 7.1 pence per share. We may revise our dividend policy from time to time.

Disclosure about Market and Credit Risks

We are exposed to market risks, including interest rate, credit and liquidity risks, as well as adverse changes in currency exchange rates. Our risk management policies are determined by our board of directors and managed by our finance department in accordance with documented internal control procedures. All significant transactions are authorised by either our executive committee or by the board of directors according to the scale of commitment.

Currency Risk

As we operate internationally, the performance of our business is sensitive to movements in foreign exchange rates. The Group’s potential currency exposures comprise transaction and translation exposures.

We aim to ensure that 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 31 December 2016 the fair value of foreign currency swaps was £1 million.

Transaction Exposures

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

Translation Exposures

Our results, as presented in sterling, are subject to fluctuations as a result of exchange rate movements. We do not hedge this translation exposure to our earnings but, where material, may carry out net asset hedging by borrowing in the same currencies as the currencies of our operating units. Our debt is therefore denominated in euros, US Dollars and sterling and as of 31 December 2016, consisted of €550 million, $540 million and £250 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. 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. We also treat specific intercompany loan balances, which are not intended to be repaid in the foreseeable future, as part of our 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.

Sensitivity Analysis on Foreign Currency Risk

As at 31 December 2016, a 10 per cent. strengthening of all currencies against sterling would increase net debt by £83 million as at 31 December 2016. 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.

As at 31 December 2016, a 10 per cent. 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 £5 million.

Interest Rate Risk

We are exposed to interest rate risk on both our interest-bearing assets and interest-bearing liabilities, including in connection with our floating rate indebtedness. Floating rate interest liabilities expose us to cash flow interest rate risk, while fixed rate interest on our interest-bearing assets exposes us to fair value interest rate risk. Fluctuations in these rates may have a negative impact on our cash flows and earnings. To limit our risk exposure on the floating rate portion of our indebtedness, we enter into interest rate swap arrangements.

On a *pro forma* basis for the Transaction, approximately 79 per cent. of our long-term indebtedness is expected to be fixed rate over the next three years. With respect to the remaining approximately 21 per cent. of our indebtedness which is subject to floating interest rates, we estimate that a 100 basis points shift in interest rates would result in a maximum cash payments increase or decrease of £1.00 million in the 2017 financial year.

Credit Risk

The vast majority of customers pay in advance or at the time of their visit. We are therefore subject to limited credit risk in respect of trade counterparties, such as tour companies and other businesses that sell tickets as part of a package offering, which represents a small proportion of our business, and larger function bookings. We manage our credit risk by implementing policies that require appropriate credit checks on potential trade counterparties before sales commence and dealing with creditworthy counterparties. Credit evaluations are performed on customers requiring credit over a certain amount. We manage and monitor the credit rating of our counterparty exposures including any exposure arising from bank deposits, cash held at bank and derivative transactions. Our Group Treasury will only place funds and transact derivatives with banks with a minimum investment grade credit rating of Baa3 or BBB- (from Moody’s or Standard and Poors, respectively) or better. In practice, however, we deposit the majority of our cash with banks with an investment grade credit rating of A−/A3 or better. We do not believe that the Group has any material concentrations of credit risk, as its exposure is spread over a large number of customers and counterparties. Some Attractions maintain local bank accounts with banks which have lower credit ratings than Baa3 or BBB-. In these circumstances, the Attractions are subject to tight limits as to the cash balances they may hold with those banks. We also appraise investments to ensure the associated credit risk is acceptable. Performance of investments is monitored to ensure returns are in-line with expectations and that credit risk is acceptable.

Liquidity Risk

Liquidity risk is the risk that we will not have sufficient funds to meet our financial obligations as they fall due. Our policy on liquidity risk is to maintain flexibility in funding by keeping a minimum specific amount of liquid resources available. We produce short term and long term cash forecasts to identify our liquidity requirements and we manage our exposure to liquidity risk through maintaining a diversity of funding resources. On 25 February 2015, we entered into a £300 million revolving credit facility under the Senior Facilities which can be used to meet any shortfalls. Surplus cash is actively managed across our bank accounts to cover local shortfalls or invested in bank deposits or liquidity funds in line with our policies on counterparty exposure. In some jurisdictions bank cash pooling arrangements are in place to optimise the use of cash.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ.

We consider the following policies to be the most significant policies that require management to make subjective and complex judgements or to consider matters that are inherently uncertain, which may cause actual results to differ from the estimated and assumptions we use in applying the critical accounting policies described below.

Recognition of Deferred Tax Assets

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.

Business Combinations

When a business combination takes place, management consider the rights and intentions of the management of both entities and the overall controlling parties before and after acquisition to determine who the acquiring party is, and then account for business combinations by applying the purchase method. Having determined the acquiring party, any individually identifiable assets and contingent liabilities acquired are valued. These include the property, plant and equipment and any intangible assets which can be sold separately or which arise from legal rights regardless of whether those rights are separable, with any remaining balance being assigned to goodwill.

Given the specialised nature of the property, plant and equipment 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 in note 3.1 to the audited consolidated financial statements for each of the 2014, 2015 and 2016 financial years, included elsewhere in this Offering Memorandum. Residual values are based on industry specific indices.

Goodwill and Useful Life of Brands

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired and 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. Certain brands are regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the demonstrable "chaining" of brands, and managements' intentions regarding the future use of brands. We believe 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 definite life on the brands.

Impairment Testing

The carrying amounts of our goodwill, intangible assets and property, plant and equipment ("*PPE*") are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, or in respect of indefinite lived assets, 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.

The level at which the assets concerned are reviewed varies as follows: 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, which are our individual attractions. Brands are reviewed individually. PPE is reviewed at an attraction level. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the assets belong.

Management judge the recoverable amount of an asset as 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. Our internally approved five year business plans are used as the basis for these calculations, with cash flows beyond the five year business plan horizon 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 as their risk profiles are similar. The key assumptions and estimates used when calculating the net present value of future cash flows from our businesses include growth in EBITDA, the timing and quantum of future capital expenditure and maintenance expenditure, long term growth rates and discount rates to reflect the risks involved. These assumptions and estimates are described further in note 3.3 to the audited consolidated financial statements for the 2014,2015 and 2016 financial years included elsewhere in this Offering Memorandum.

Recognition of Provisions

Provisions are recognised when we have 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 management's 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.

Accounting for Interest-bearing Loans and Borrowings

Interest-bearing loans and borrowings are initially recognised at fair value, being consideration received less any directly attributable transaction costs. Thereafter, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. To calculate this effective interest rate, we estimate the date of repayment, expected future gearing during the life of the facility based on our business plans and forecasts, and expected future interest rates. This includes the amortisation of all transaction costs over the same period. We assess whether the terms of the borrowings provide a clear commercial incentive or a contractual commitment to repay them over a specific period that is shorter than the contractual life of the facility. If this is the case, we adopt the short period as the period used for the purposes of the effective interest rate calculations. If neither of these conditions exist, we calculate our effective interest rate and hence amortises transaction costs based on the contractual term of the facility. If we determine that a different date should be adopted for the purposes of the effective interest rate calculations, the resulting adjustment is recognised as a gain or loss on remeasurement and presented separately in the income statement.

If we modify our debt arrangements, we consider how substantive the change is in determining the appropriate accounting. This includes both qualitative analysis, and quantitative analysis of the level of change in the cash flows of the new and old arrangements.

Fair Value of Derivative Financial Instruments

We hold derivative financial instruments primarily to hedge our foreign currency and interest rate exposures.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Thereafter changes in fair value are recognised immediately in the income statement, except in specific circumstances where we adopt hedge accounting, as described below.

The fair value of interest rate swaps are determined by reference to market rates at the end of the accounting period. It is the estimated amount that we would receive or pay to exit the swap at the end of the reporting period, taking into account current interest rates, credit risks and bid/ask spreads.

The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates at the end of the accounting period.

The fair value of derivative provisions for committed share issues is determined by reference to contractually agreed amounts and the value of the shares to be issued, which management assesses based on the value attributed in recent transactions of our shares.

We have designated certain derivatives as hedges against variable cash flows resulting from fluctuations in interest rates. On a *pro forma* basis for the Transaction, we expect to hold approximately £730 million of floating rate debt, approximately 60 per cent. of which will be hedged. On initial designation of the hedge, we formally document the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, and the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as 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 period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. Effectiveness testing is performed using regression analysis at inception and on a regular basis thereafter. See "Description of Certain Financing Arrangements—Hedging Agreements".

The effective portion of changes in fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss, and under the same line item in the statement of comprehensive income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income are recognised immediately in profit or loss.

INDUSTRY OVERVIEW

The market data and economic and industry data and forecasts used in this section have been obtained from the data reports prepared by third-party providers and from our own experience, internal studies, estimates and investigations of market conditions. See "Market and Industry Data". We cannot assure you that any of the assumptions that we have made, or that the providers of the data reports have made in compiling this data are accurate or correctly reflect our position in the markets. The information and estimates involve risks and uncertainty and are subject to change based on various factors. Please See "Market and Industry Data", "Risk Factors" and "Forward-Looking Statements".

Overview of the Attractions Industry

We are a global leader in branded, location based, family entertainment with a portfolio of Attractions serving the global leisure market, of which the attractions industry forms a part. Spending in the global leisure market is forecast to increase by four per cent. per annum between 2015 and 2025, according to the World Travel & Tourism Council. The travel and tourism sector is expected to remain resilient and to continue to grow at a faster rate than the wider global economy, according to the World Travel & Tourism Council. We believe that the long-term growth of the attractions industry may be driven by a number of factors including: (i) rising income and more affluent populations in developing countries, notably China, where middle class consumers tend to purchase high-quality, branded, entertainment options and travel often, a phenomenon contributing to high growth in international tourism to destination cities; (ii) increasing trend in developed markets toward multiple short breaks at home or abroad; (iii) demand for higher quality out-of-home entertainment; (iv) increased leisure time to enjoy entertainment; and (v) improving transport infrastructure, including ease of access from long-distance travel infrastructure.

We segment the attractions industry into a commercial sector, including paid-for attractions, and a public sector, including state-owned, primarily free entry attractions such as museums and parks. Within the commercial attractions sector, we have identified four key categories: (i) theme parks, including both international destinations and national/regional destinations; (ii) regional amusement parks; (iii) smaller visitor attractions, such as our Midway Attractions; and (iv) larger zoos and wildlife attractions.

Our focus is mainly on the national/regional destination theme parks and smaller visitor attractions sectors.

Theme Parks

We define theme parks as outdoor sites with rides and shows as the main attractions and are typically seasonally operated. They often focus on a central theme or themes and are aimed at appealing to families and/or young adults. Revenue is driven by visitor volumes, upfront admission fees, secondary revenue, including the sale of retail merchandise (for example, LEGO and related toys in the case of the LEGOLAND Parks), food and beverages, ancillary products such as souvenir photography. On-site accommodation has also become an increasingly important part of the revenue mix.

Theme parks can be sub-categorised between international and national/regional destination theme parks.

International destination theme parks

International destination theme parks typically target visitors from a wide catchment area, including international "fly-in" tourists, and attract families as their prime demographic. The majority of such sites are located in the U.S. (e.g. Disney, Universal Studios, SeaWorld), in Asia (Disney, Universal Studios) and only one in Europe (Disneyland Paris). We categorise international destination theme parks as theme parks which typically attract more than five million visitors annually and cost approximately £2,000 per visit (with accommodation) for a family of four. Attractions tend to be themed experiences, with a focus on storytelling, and are based on owned or licensed intellectual property. Lengths of visitor stays are generally longer than for national/regional destination theme parks and can reach up to two weeks as part of a resort package. Secondary spend is a significant source of revenue with on-site accommodation comprising an important part of the international destination theme park.

National/regional destination theme parks

National/regional destination theme parks target visitors from the surrounding area (generally a two hour drive but up to five hours), in some cases complemented by a limited number of international visitors from neighbouring countries. We categorise national/regional destination theme parks as theme parks which typically attract between one and four million visitors annually and cost approximately £125 per daily visit for a family of four. Attractions tend to be themed experiences, typically attracting families and teens for one to three day visits. Retail merchandise, food and beverages and ancillary products are key secondary sources of revenue, and accommodation including on-site hotels are becoming more relevant to national/regional destination theme parks. In Europe, most theme parks can be categorised as national/regional destination theme parks. PortAventura in Spain, Efteling in the Netherlands and Europa-Park in Germany are examples of European national/regional destination theme parks. Our European Theme Parks (including the LEGOLAND Parks) are examples of European national destination theme parks, although some also receive a significant proportion of visitors from neighbouring regions. The Busch Gardens theme parks, in Florida and Virginia, are examples of national/regional destination theme parks in the United States.

Regional Amusement Parks

Regional amusement parks have historically developed from travelling shows and are now characterised by having thrill rides with limited theming as their main attractions. Regional amusement parks generally attract older children and young adults with an average stay of half a day and a typical journey time of up to two hours.

We categorise regional amusement parks as amusement parks which typically attract up to one million visitors annually and cost approximately £100 per daily visit for a family of four. Rather than charge admission fees up front, some amusement parks offer a “pay-as-you-go” format where secondary spend is typically limited. We consider Blackpool Pleasure Beach in the U.K. and the various Six Flags parks in the United States to be examples of regional amusement parks. We have no Attractions which fall within this sector.

Smaller Visitor Attractions

We define smaller visitor attractions as broadly indoor, commercial venues aimed at appealing to either a broad range of visitors or a specific target group and offering various forms of entertainment (excluding cinemas, theatres and sporting venues), typically located in city centre or coastal environments or close to other significant population centres. They can be standalone buildings or part of shopping malls or other entertainment centres.

Visitors to smaller visitor attractions include tourists (both domestic and international) and local residents and the length of stay is generally up to two hours. As the length of stay is shorter than that of a theme park or amusement park, a higher proportion of revenue is generated through admission fees than through secondary spend. Ongoing capital expenditure requirements for smaller visitor attractions are generally less than for theme parks and amusement parks as smaller visitor attractions are to some degree less reliant on repeat visitors (requiring new products each year) and thrill rides. Examples of smaller visitor attractions include Ripley’s Believe It or Not and Kidzania. Our Midway Attractions predominantly fall into this category.

Zoos and Wildlife Attractions

Zoos and other wildlife attractions can generally be categorised as targeting a family audience, travelling for a half day visit from the surrounding area (up to a three hour drive). Locations vary between city centre attractions, targeting tourists and local residents, and standalone wildlife centres, often geared towards families or groups on a day trip. Given the relatively short length of stay, typically up to five hours, revenues are more geared to admission fees, with a limited amount of secondary spend. There is often an emphasis on education, conservation and understanding wildlife and animal habitats.

Industry Overview by Demographic Market

We also classify the attractions industry by demographic appeal. While most visitor attractions target multiple visitor segments, there are three main demographic categories that the commercial attractions industry seeks to target:

(1) **Families with young children:** Attractions and parks that target families with young children generally have the backing of a strong family brand (for example, LEGO or Disney) or appeal to both children and adults who are seeking an enjoyable experience alongside an element of education (for example, SEA LIFE Centres, Kidzania and zoos/wildlife attractions);

(2) **Families and young adults:** Most visitor attractions and a number of theme parks target the broader segment of families (including grandparents with their grandchildren) and young adults, including Madame Tussauds, the Coca-Cola London Eye, Gardaland, Alton Towers Resort and Ripley’s Believe It or Not; and

(3) **Teenagers and young adults:** Parks that target teenagers, young adults and families with older children tend to be positioned as regional theme and amusement parks with a focus on thrill rides, with visitors typically spending no more than a day at the park given the intense nature of the entertainment. State-of-the-art rides and the introduction of new rides are key drivers of visitor volume. Parks of this type include Thorpe Park in the U.K., and Six Flags and Cedar Point in the United States. Certain visitor attractions, such as our "Dungeons" brand, are also targeted at this visitor segment.

Key Industry Drivers

Over the long-term, the main drivers affecting the attractions industry are as follows:

(4) **Visitor supply:** Visitor supply for the majority of attractions is made up of existing residents and tourists and is therefore influenced by the scale and growth of both groups as well as the propensity of all individuals to visit attractions;

(5) **Economic conditions:** Economic cycles are a key driver of disposable income, which influences spend on leisure activities. During downturns, regional/national theme parks, amusement parks and visitor attractions tend to benefit from a "staycation" effect, as individuals opt to trade down from destination holidays to entertainment closer to home. Over the longer term, growth in disposable income is an important driver for overall demand for leisure activities but in the short-term, fluctuations in income are tempered by the staycation effect;

(6) **Demographic changes:** Demographic shifts in the population living in the area surrounding an attraction influence the number of potential visitors within that attraction's target market. For example, we believe that the ageing baby boomer generation has created a beneficial demographic shift for leisure attractions, with an increase in the number of grandparents taking their grandchildren to attractions;

(7) **Transportation infrastructure and accommodation:** Improvements in transport services and accommodation may positively affect customer satisfaction and visitor numbers at leisure attractions. Improvements in accommodation offerings at leisure attractions encourage multi-day visits as well as higher levels of secondary spending;

(8) **External events:** Extraordinary or one-off events can have a significant impact on travel patterns and consequently visitor numbers at leisure attractions. International destination theme parks and some smaller visitor attractions derive revenues from international tourists, a group that is susceptible to extraordinary events, such as terrorism and contagious disease outbreaks, and sporting events such as the Olympics. Conversely, national/regional destination theme parks that are located in areas that are unaffected by any such one-off event tend to benefit from the decline in international travel as holiday makers shift international trips to visits to attractions in their local market; and

(9) **Capital expenditure:** Most theme and amusement parks introduce a new significant attraction every few years to support the growth of visitor supply. In addition to driving visitor growth, investment in new rides or features can also enable operators to increase admission prices. This is particularly relevant with respect to small visitor attractions where less capital expenditure is required to maintain visitor volumes, however capital expenditure can drive revenue by providing a justification for higher admission prices.

Barriers to Entry

The theme park and regional amusement park markets are characterised by high barriers to entry. This is largely a result of high initial capital requirements for new parks as well as regulatory and planning restrictions, which add to the development lead time. Additionally, such parks require significant areas of developable land which constrains the number of available suitable spaces in attractive geographies. Existing operators also benefit from the technical and creative expertise to develop new sites and can leverage existing brands and concepts to drive increased visitor numbers from the outset.

(1) Start-up and development costs including licensing and recurring investments for new attractions are high.

(2) Iconic brands. Our portfolio includes nationally regarded brands such as Heide Park in Germany and Gardaland in Italy and internationally recognised, chainable brands such as Madame Tussauds. These have been developed over many years. Furthermore, our global and exclusive rights to the LEGOLAND brand links us to a recognised, international brand, which distinguishes our offering from those of new market entrants. The strength of our brands and the quality of our product engenders customer loyalty among some of our visitors, which results in repeat visitation. Our brands also appeal to a variety of

demographics, for example the LEGOLAND Parks target families with children aged between two and 12 years old, while Thorpe Park is popular with the teenage and young adult markets.

(3) Industry experience. Our success at rolling out and developing new attractions and developing features, rides and entertainments across our sites gives us experience that new entrants may likely lack. The technical and creative expertise of our Merlin Magic Making team is key to the success of our business and new entrants would have to build up teams with expertise and experience in identifying sites, negotiating appropriate leases and developing products and features and in particular, it would take time to build equivalent teams with the expertise in wax and LEGO model figure production.

(4) Availability of suitable land and infrastructure/transport links. We believe there is a scarcity of available spaces to build new theme parks in highly attractive markets such as the U.K. In particular, in areas where there are well developed transport links, such as in London and the South East U.K., it is difficult to identify suitable sites.

(5) Planning permission. It can be difficult to obtain planning permission for new sites and in some cases, it can take up to four years to receive the permission. This can create a lengthy delay between conception and opening (typically between four and six years).

Market Trends

Global Trends

We believe that trends in tourism activity as a whole are an important component of attendance at our portfolio of attractions and overall leisure spend. Increasing globalisation, urbanisation and rising disposable income have been major factors for growth in international tourism.

In 2016, international tourism remained robust, despite challenges related to safety and security. Tourist arrivals grew by 3.9 per cent. to 1,235 million in 2016 according to the UN World Tourism Organisation (UNWTO), the seventh consecutive year of sustained growth. On a regional basis, Asia Pacific was the fastest growing region, increasing by eight per cent. North and South America recorded combined growth of four per cent. as positive momentum continued. Growth in Europe was mixed, with the region growing by two per cent. as a whole and certain destinations recording double-digit growth while others declined.

According to projections by the UNWTO Panel of Experts based on current trends, international tourist arrivals worldwide will grow at a rate of three to four per cent. in 2017.

Despite occasional shocks, the international tourism industry has grown consistently in recent years. According to the UNWTO, revenue from international tourism increased to $1,260 billion in 2015, which represented an increase of 4.4 per cent. over 2014, taking into account exchange rate fluctuations and inflation. Arrivals grew by up to 4.6 per cent. over the same period.

By region, Europe generated the largest share of international tourism revenue at 36 per cent. while Asia Pacific recorded 33 per cent. and North, South and Central America and the Caribbean collectively generated 24 per cent. of international tourism revenue. We have attractions in eight of the top ten countries ranked by international tourism revenue in 2015.

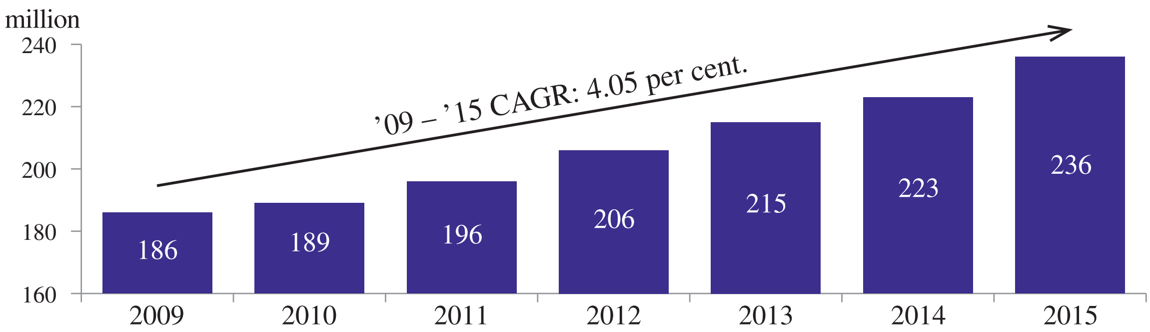
We expect continued growth in international tourism to support our urban locations and clustering strategy as international visitors are a strong source of demand for our urban attractions. According to the World Travel & Tourism Council, the direct contribution of travel and tourism to worldwide GDP is forecast to rise by 3.9 per cent. per annum from 2016 to 2020. In Europe, total contribution of travel and tourism to GDP growth is forecast to rise by 2.8 per cent. per annum from 2016 to 2026, reaching $2,574 billion by 2026 (10.5 per cent. of total GDP). In North America, total contribution of travel and tourism to GDP is expected to rise by 3.5 per cent. per annum from 2016 to 2026, reaching $2,532 billion in 2026 (9.6 per cent. of total GDP). In Asia Pacific, total contribution of travel and tourism to GDP is expected to rise by 5.6 per cent. per annum from 2016 to 2026, reaching $3,646 billion by 2026 (9.7% of total GDP).

The U.K. continues to be a popular holiday destination for international visitors. According to provisional data reported by VisitBritain, a record 37.3 million visitors came to the U.K. in 2016, an increase of three per cent. as compared to 2015. Spend by in-bound tourists in 2016 is further estimated to have been £22 billion, which is broadly in-line with the prior year. The sharp depreciation of the pound, following the U.K. referendum on Brexit has made the U.K. a more affordable destination for many consumers from abroad. Direct travel and tourism GDP growth is expected to hold up well in 2017, as weaker domestic spending growth will be offset by stronger international leisure spending.

These trends in tourism activity as a whole have coincided with growth in theme park attendance globally, which has been strong, particularly considering the mature stage of the industry. According to the TEA/AECOM Theme Index—Global Attractions Attendance Reports (2009-2015), attendance at the top 25 global theme parks has grown by 5.8 per cent. from approximately 223 million visitors in 2014, to approximately 236 million visitors in 2015. Attendance growth at the top 20 theme parks in the Asia-Pacific region was 6.9% in 2015, driven largely by increased attendance in Mainland China, with a number of new parks completing their first full year of operation. From 2011 to 2015, annual attendance at the top 20 theme parks by region grew by a CAGR 1.4 per cent. in Europe, 3.6 per cent. in North America and 6.1 per cent. in the Asia Pacific region, according to TEA/AECOM.

We believe these global trends support our international growth and diversification strategy, reducing our reliance on individual attractions or locations.

(1) Attendance at Top 25 Theme Parks Worldwide



Source: Themed Entertainment Association (TEA) and AECOM Theme Index (2009, 2010, 2011, 2012, 2013, 2014 and 2015 reports)

Short Break Trends

We believe that the short break market, typically composed of one to three day stays, is growing in many of the countries and regions in which we operate and, in particular, in key destination cities, such as London, Berlin, Sydney and Shanghai. Within our national/regional theme parks, we have identified this short break market as a key sector in which we aim to increase market share.

In particular, domestic holiday attractions, including short break attractions, in the U.K. benefit from economic downturns and sterling depreciation, as customers are more inclined to switch from international trips to domestic staycations. By creating attractive and highly successful theme accommodation formats on-site and/or working with hotel partners, as well as continuing to develop second gates, we aim to capitalise on the growing short break market and encourage customers to increase both the duration of their stay at our Attractions and also their overall spend.

Competitive Landscape

We have a broad set of competitors within the attractions leisure industry. In addition, we also compete with more traditional entertainment offerings such as cinemas, museums (many of which are free or government-subsidized), sporting events and large shopping malls.

According to TEA/AECOM, we were the second largest Theme Park Group worldwide in 2015 by number of visitors. We own seven of Europe's top 20 theme parks (including LEGOLAND Parks). Located in 24 countries, we have a large international presence in the industry via the proven roll out of LEGOLAND and Midway brands. Our Resort Theme Parks and LEGOLAND Parks compete with other theme parks which also attract local residents and tourists from within a two to five hour drive. Major competitors in each country of operation include Blackpool Pleasure Beach, Paulton's Park and Drayton Manor in the U.K.; Europa-Park and Phantasialand in Germany; Mirabilandia, Rainbow Magicland and Movieland Park Studios in Italy; Tivoli Gardens, Djurs Sommerland and Bakken in Denmark; and Disneyland Paris on a Europe-wide basis. In the U.S., we compete with Disney, Universal Studios, Six Flags, Cedar Point and SeaWorld Parks and Resorts. LEGOLAND Malaysia competes with Universal Studios on Sentosa Island, Singapore.

(2) Attendance at Top 10 Theme Parks Worldwide

	Group	Per cent. change	2015 Visitors	2014 Visitors
1	Walt Disney Attractions	2.7	137,902,000	134,330,000
2	Merlin Entertainments Group	0.2	62,900,000	62,800,000
3	Universal Parks and Resorts	11.8	44,884,000	40,152,000
4	OCT Parks China	7.8	30,180,000	27,990,000
5	Six Flags Inc.	11.4	28,557,000	25,638,000
6	Cedar Fair Entertainment Company	4.9	24,448,000	23,305,000
7	Chimelong Group	26.4	23,587,000	18,659,000
8	Fantawild (New)	77.4	23,093,000	13,020,000
9	SeaWorld Parks & Entertainment	0.3	22,471,000	22,399,000
10	Songchen Worldwide	53.4	22,338,000	14,560,000
	TOTAL	**9.8**	**420,360,000**	**382,853,000**

Source: Themed Entertainment Association (TEA)/AECOM Global Attractions Attendance Report 2015

Within the attractions industry, our Midway Attractions compete with other local attractions and tourist destinations in the locations where the Midway Attractions operate. Major competitors include both individually owned attractions, such as the Eden Project and the Warner Bros. Studio Tour in the U.K., Madurodam in Holland and Sydney Bridge Climb in Australia, as well as larger attractions groups, such as Ripley's Entertainment, and third sector groups, such as royal historic palaces and the National Trust.

Overview

Listed on the London Stock Exchange with a market capitalisation of approximately £5.0 billion as of 1 March 2017, we are a global leader in branded, location based family entertainment. As of 31 December 2016, we operated 117 Attractions in 24 countries across four continents, which attracted over 65 million visitors in the 2016 financial year. We are the largest operator of visitor attractions and theme parks in Europe, by number of visitors in 2015 and the second largest globally, by number of visitors in 2015. We are also a market leader in the U.K., Germany and Italy by total visitor numbers, with a growing presence in the U.S. and the Asia Pacific region. We own and/or operate a unique portfolio of brands which possess a strong heritage within their original markets and which are supported by our extensive technical and creative expertise.

We have established a portfolio of nationally and internationally recognised premium brands focused on delivering memorable experiences to millions of visitors. Our portfolio of brands is intended to appeal to a diverse demographic and generated total revenue of £1,457 million and EBITDA of £451 million in the 2016 financial year. See "Presentation of Financial Information—Non-IFRS Financial Information".

We are organised into three operating groups:

FY2016	**Midway Attractions**	**LEGOLAND Parks**	**Resort Theme Parks**
Description	• Branded indoor visitor attractions with up to two hour visitor duration	• Interactive outdoor theme parks offering multi-day visits targeted at families with children aged two–12 • Increasingly with on-site accommodation	• National destination outdoor theme parks offering multi-day visits in densely populated European markets • With on-site accommodation across all our parks.
Attractions/Parks (as of 31 December 2016)	104 attractions[(1)]	7 parks[(2)]	6 parks
Hotels/Holiday Villages	—	5 hotels/2 holiday villages	8 hotels/3 holiday village
Visitors (m)[(3)]	41.7	12.9	10.5
Revenue (£m)	638	495	322
EBITDA (£m)[(4)]	236	193	70

(1) Includes four "second gates", which are accounted for with the Theme Parks where they are located, and the Orlando Eye, which we manage but do not own.

(2) Includes LEGOLAND Malaysia, LEGOLAND Dubai, which we manage but do not own.

(3) Visitor numbers include visitors to Attractions operated under management contracts (which, during the periods under review, included LEGOLAND Malaysia, LEGOLAND Dubai and the Orlando Eye) and visitors to Attractions operated as joint ventures.

(4) See "Presentation of Financial Information—Non-IFRS Financial Information".

Our three operating groups are supported by our extensive in-house business development, creative, project management and production group, Merlin Magic Making, which employs more than 300 people across Europe, North America and the Asia Pacific region. Merlin Magic Making is responsible for: identifying locations and finding new business opportunities ("Finding the Magic"); driving innovation across the Group and creating high-class, compelling propositions for our attractions ("Creating the Magic"); taking creative ideas, producing content such as LEGO models, wax figures, and ensuring our animal care is of the highest standard ("Producing the Magic"); and delivering new Attractions and investment projects, including new hotels and rides ("Delivering the Magic").

Merlin Magic Making has been at the heart of our major projects. In 2017, Merlin Magic Making will open "Little Big City", Berlin, which is a new Midway Attraction, a new concept Madame Tussauds in Nashville, which will be our first fully musically themed Madame Tussauds, the LEGOLAND Windsor "Castle Hotel", the CBeebies Land Hotel at Alton Towers Resort and a new "Ghostbusters" dark ride at Heide Park.

Our senior management team is also supported by a New Openings team, which was established in 2015 to oversee the opening and integration of all new Attractions. This team includes seven senior executives and is led by a Chief New Openings Officer.

Our strategy and performance is underpinned by our commitment to operational excellence. This entails an integrated approach to quality management, capital investment, marketing and pricing, together with a focus on health and safety. Our strong financial returns are also the result of our efficient, calculated deployment of capital expenditure across the Existing Estate and new attractions.

We have demonstrated the strength of our diversified business model through our historical financial track record. The drivers of this performance are:

- continued investment in our Existing Estate in order to drive like-for-like revenue growth; and
- continued roll-out of Midway Attraction brands and the development of new LEGOLAND Parks, each of which has a target of achieving an average annual 20 per cent. incremental return on invested capital over its first five full years of operation. See "Presentation of Financial Information—Non-IFRS Financial Information".

We have diversified our businesses and revenues internationally with significant growth in revenue in North America and broadly stable revenue in Asia. As a result, revenues in North America have increased as a proportion of total revenues from 22 per cent. in the 2014 financial year to 28 per cent. in the 2016 financial year.

The following table presents a summary of our revenue attributable to each geographic area in which we operate:

Revenue	2014	Per cent. of revenue	2015	Per cent. of revenue	2016	Per cent. of revenue
	(£m)		(£m)		(£m)	
U.K.	490	39%	467	37%	486	33%
Continental Europe	318	26%	300	23%	367	25%
North America	274	22%	336	26%	404	28%
Asia Pacific	167	13%	175	14%	200	14%
Total	**1,249**	**100%**	**1,278**	**100%**	**1,457**	**100%**

History

Overview

Since our formation in 1999, our strategy has been to create a high growth, family entertainment company based on strong brands and a global portfolio of assets that is naturally hedged against the impact of external factors. Our company was formed in 1999 when Nick Varney, our Group Chief Executive Officer, led a management buy-out from Vardon Attractions to form Merlin Entertainments. At that time, our business comprised 17 SEA LIFE Centres in the U.K., Germany, the Republic of Ireland, The Netherlands, Belgium and Spain, and the London Dungeon and York Dungeon. From 1999 to 2005, we undertook a major expansion of our SEA LIFE and Dungeons brands, which continue to be important brands in our business today. Our ownership has changed a number of times since our formation in 1999, with Hermes Private Equity acquiring the business in 2004 and Blackstone becoming a majority shareholder in May 2005. On 13 November 2013, we completed our initial public offering and listing of our Ordinary Shares on the London Stock Exchange.

Acquisitions and Strategic Development

From May 2005 to May 2007, we completed a number of acquisitions, including the LEGOLAND Parks from KIRKBI, then named LEGO Holding A/S, in August 2005 and Gardaland, Italy's largest theme park, together with its accompanying hotel, in November 2006. We further strengthened our portfolio of assets in May 2007 by acquiring The Tussauds Group from Dubai International Capital. As part of the acquisitions of the LEGOLAND Parks and The Tussauds Group, each of KIRKBI and Dubai International Capital, respectively, became shareholders.

Since January 2011, we have completed the following strategic acquisitions or developments across our brand segments:

- in March 2011, we acquired the Sydney Attractions Group, adding six attractions to our portolio. These attractions have since been rebranded;
- in February 2012, we acquired Living and Leisure Australia, adding a further nine ongoing attractions to our portfolio. These attractions have since been rebranded;
- in September 2012, we opened our first Theme Park in Asia with the opening of LEGOLAND Malaysia, which we operate under a management contract, although we hold a small equity interest in the project company that owns the park assets;
- in October 2016, we opened LEGOLAND Dubai, which is being operated under a management contract;
- in 2014, we announced the opening of two LEGOLAND Parks, one in Nagoya, Japan, which is scheduled to open in April 2017 and one in South Korea, which is scheduled to open in 2019; and
- in 2016, we acquired a minority interest in BIG BUS Tours and entered into co-promotion agreements with them in a number of city centre locations.

Over the same period, we also invested heavily in the Existing Estate with a number of new rides and features at Attractions. In 2014, this included "Flight of Demons", a new winged coaster at Heide Park, "CBeebies Land", a pre-school offering at Alton Towers Resort, and a LEGO-themed waterpark at LEGOLAND California. In 2015, this included the "Oblivion" dive coaster at Gardaland, "LEGO Friends" themed areas at LEGOLAND Windsor and LEGOLAND Florida, the launch of a new "Ice Age 4D" experience at Madame Tussauds Shanghai and new STAR WARS 4D experiences at Madame Tussauds in London and Berlin. In 2016, this included the "Derren Brown's Ghost Train" at Thorpe Park Resort, themed areas at Gardaland and Heide Park based around DreamWorks' "Kung-Fu Panda" and "How to Train Your Dragon", respectively, the launch "The LEGO Movie 4D A New Adventure" for the LEGOLAND Parks, a Sherlock Holmes feature at Madame Tussauds, London, a number of Ninjago-branded "Laser Training Camps" at our LEGOLAND Discovery Centres and Ninjago rides at LEGOLAND Billund and California. We continue to work in partnership with third-party intellectual property partners such as the BBC and are planning the opening of a CBeebies Land Hotel at Alton Towers Resort in 2017. We worked with DreamWorks Animation to launch "DreamWorks Tours' Shrek's Adventure!" in London in 2015. In addition, we have made significant investments in accommodation to increase the number of short break and multi-day visitors and intend to continue to do so to further our strategic goals.

Over the last three financial years we have opened the 100-room Gardaland Adventure, the "Enchanted Village" at Alton Towers Resort, comprising 120 lodges and five premium tree houses, and a Knights Village at Warwick Castle, including 69 lodges and "glamping" tents.

Our Relationship with KIRKBI

We have the right to use the LEGOLAND trademark and to the ancillary use of the LEGO trademark to develop and operate LEGOLAND Parks, as well as other visitor attractions, on an exclusive and worldwide basis until at least 2047 in return for the payment of a royalty, subject to a licence agreement with KIRKBI. The license is subject to certain termination rights, though our Directors believe that such termination is highly unlikely. See "—Intellectual Property" and "Risks Related to Our Market and Our Business—Our use of the LEGOLAND and LEGO trademarks, content and other intellectual property rights are subject to the terms and conditions of the LEGOLAND Licence and Co-operation Agreement". The strength of the LEGOLAND and LEGO brands, combined with our expertise in operating branded attractions, has led to a successful relationship with KIRKBI. This is reflected in continued investment in and development of the existing LEGOLAND Parks and associated accommodation since acquisition, and the profitable growth delivered across the LEGOLAND Parks since acquisition. Under our ownership, average like-for-like revenue at the LEGOLAND Parks between the 2014 financial year and the 2015 financial year and between the 2015 financial year and the 2016 financial year grew by eight per cent. and two per cent., respectively. In addition, we have successfully developed the LEGOLAND Discovery Centre brand with the opening of 16 Attractions under this brand since 2007. We have also actively promoted the LEGOLAND Parks with the development and opening of LEGOLAND Florida in October 2011, LEGOLAND Malaysia in September 2012 and LEGOLAND Dubai in 2016, with further LEGOLAND Parks scheduled to open in Japan in 2017 and South Korea in 2019. We believe our relationship and arrangements with KIRKBI are of mutual benefit to us and to KIRKBI due to the broader global exposure of the LEGOLAND and LEGO brands and the benefit of the continued success of our market-leading Attractions.

The relationship with KIRKBI has enabled us to develop and operate uniquely branded, interactive family theme parks. For example, the development of a LEGOLAND Park in Japan has been funded through an "operated and leased" model whereby we plan to invest approximately one third of the value of the park and lease the balance of the assets from a property company which is a subsidiary of KIRKBI, paying a turnover-based rent. See "—Material Contracts" and "Certain Relationships and Related Party Transactions".

KIRKBI holds a 29.8 per cent. share in our company as of 6 March 2017 and a 75 per cent. ownership share in the LEGO Group.

Our Competitive Strengths

Unique Portfolio of Family Entertainment Brands and Iconic Assets

We own and/or operate a unique global portfolio of brands and assets which are widely recognised by consumers and have a strong heritage. Examples include Madame Tussauds, SEA LIFE and the London Eye in our Midway Attraction operating group, LEGOLAND California and LEGOLAND Windsor in our LEGOLAND Parks operating group and Gardaland and Alton Towers Resort in our Resort Theme Parks operating group. The strength and breadth of our iconic brand portfolio enable us to offer compelling entertainment propositions through a wide variety of activities and visitor experiences across a broad range of geographies and all key target demographic groups. Our portfolio, and the LEGOLAND Parks in particular, focuses on delivering high quality family entertainment with an emphasis on "playful learning".

Midway Attractions

Our Midway Attractions benefit from high quality brands with broad international appeal and recognition which are distributed across geographies, markets and target demographics ensuring a diversified portfolio. The strength of our brands allows us to maximise economies of scale and synergies. As of 31 December 2016 these included:

- Madame Tussauds, the world's premier wax figures exhibition for over 200 years, with a strong relevance to today's celebrity culture in both more mature and emerging markets, comprising 21 Attractions in 11 countries;
- The Eye brand and observation attractions, with iconic, and often internationally recognised landmarks comprising four Attractions in the U.K, the U.S. and Australia;
- SEA LIFE, the world's largest aquarium brand, with strong name recognition and a track record of providing high quality and informative family entertainment for over 30 years, comprising 47 Attractions in 17 countries;
- The Dungeons, with a strong "cult" reputation amongst the teen and young adult market for fun, irreverent horror entertainment and, at the same time, providing informative, historical context and references, comprising nine Attractions in four countries;
- LEGOLAND Discovery Centres, an extension of the LEGOLAND brand to the Midway Attractions format, successfully developed in recent years and offering the same values of interactivity and family fun in a smaller, more accessible format, comprising 16 Attractions in seven countries; and
- Other attractions such as our two ski fields in Victoria, Australia and two Treetop Walk experiences in Victoria and New South Wales, Australia, which we acquired as part of the Living and Leisure Australia acquisition in February 2012, two WILD LIFE Australian animal adventure attractions in Sydney and Hamilton Island, "DreamWorks Tours' Shrek's Adventure!" Midway Attraction in London and a "Little Big City" Midway Attraction scheduled to open in Berlin during 2017.

LEGOLAND Resorts and Parks

The LEGO brand has global recognition and is associated with playful and interactive learning. We own and/or operate LEGOLAND Parks in Denmark, Germany, Malaysia, the U.K., Dubai, California and Florida, all of which build on the strength of the LEGO brand and are themed and interactive parks, which are attractive to families (particularly with children aged two to 12 years) looking for a fun and engaging day out. The LEGOLAND brand attracts all social groups, has particularly high recognition and appeal amongst higher income visitors and has demonstrated high levels of repeat visits.

We have expanded our LEGOLAND offering in recent years with the opening of LEGOLAND Florida in 2011, LEGOLAND Malaysia in 2012 and LEGOLAND Dubai in the United Arab Emirates in 2016. We operate the Parks in Malaysia and Dubai under management contracts. LEGOLAND Japan in Nagoya, Japan and LEGOLAND Korea in Chuncheon, Gangwon province South Korea, are scheduled to open in 2017 and 2019, respectively. LEGOLAND Japan and LEGOLAND Korea will be "operated and leased", meaning the acquisition of the park site, the development of the infrastructure and the basic construction will be funded by a third-party partner while we will fund and build the rides, provide the necessary theming, lease the site on a long-term basis and operate the Park. We have also identified sites for potential LEGOLAND Parks in the United States and China in the medium and long-term.

The LEGOLAND Parks in the U.K., California, Florida, Denmark and Malaysia have themed on-site hotels ranging from 150 to 250 rooms. LEGOLAND Deutschland and LEGOLAND Billund each include a holiday village, both of which have recently been expanded. We plan to open a second 59-room hotel at LEGOLAND Windsor, a 166-room holiday village at LEGOLAND Florida, both planned for 2017, and a 252-room hotel at LEGOLAND Japan in 2018. We also plan to open a 250-room hotel at LEGOLAND Dubai in 2019, which we will operate pursuant to a management contract and in which we will have a 40 per cent. stake. We also have plans for additional accommodation at our other parks in future years. These hotels and villages provide an integral contribution to the overall customer experience and help drive increases in multi-day ticket sales.

Resort Theme Parks

Each of our six Resort Theme Parks benefits from strong brand and customer awareness and is positioned to target specific market segments. For example, Thorpe Park focuses especially on the teen and young adult markets whereas Chessington World of Adventures Resort is orientated more towards families.

The Resort Theme Parks all offer a compelling, coherent proposition and strong theming, with few or no local competitors that can offer the same quality or scale of visitor experience. Supported by effective marketing and promotions, we believe this ensures that each brand is the strongest in its relevant market. Our Resort Theme Parks are increasingly being recognised as destination resorts, attracting short break visits from national and, in certain cases, international visitors, supported by short break marketing campaigns. Each of Alton Towers Resort, Chessington World of Adventures Resort, Gardaland, Heide Park, Warwick Castle and Thorpe Park has one or more hotels or holiday villages. In 2016, we opened a second hotel at Gardaland and a holiday village at Warwick Castle. We plan to open a 76-room CBeebies Land Hotel at Alton Towers Resort in 2017.

Each of our Resort Theme Parks is strongly positioned in its national/regional market, often representing the pre-eminent visitor attraction in its respective region and benefiting from being situated in a prominent location with good transport links to areas of substantial populations. In particular, we have a market-leading position in the U.K., where we own the top four theme parks, as classified by the Themed Entertainment Association, by number of visitors in 2015: LEGOLAND Windsor (part of our LEGOLAND Parks operating group), Alton Towers Resort, Thorpe Park Resort and Chessington World of Adventures Resort. We also hold strong market positions in Italy and Northern Germany, in each case by number of visitors in 2015.

Our scale and portfolio of strong brands has allowed us to leverage a number of strategic synergies. We have developed "cluster cities" of Midway Attractions in Amsterdam, Bangkok, Berlin, Blackpool, Dallas, Kansas City, London, Manchester, Michigan, Oberhausen, Orlando, San Francisco, Shanghai, Sydney and Tokyo, where multiple Attractions are situated in one city to capitalise on strong cross promotional and operational synergies, including multi-Attraction tickets. The scale of our Resort Theme Parks and available undeveloped land at certain locations has also provided opportunities for second gates. For example, there is a SEA LIFE centre located close to Gardaland and a Dungeons Warwick Castle within the Warwick Castle site. We have also been able to capitalise on our marketing leverage through ticketing promotions with partners such as Kellogg's, News International and Tesco, among others, as well as the sale of annual passes, which are purchased online or at our parks for a one-off price that enables customers to visit all Attractions within a particular country for one year for no additional admission fee. In the 2016 financial year, approximately 55 per cent. of our revenue from admissions was pre-booked, including online sales, annual passes and call-centre bookings. Approximately 23 per cent. of our revenue from admissions was derived from online bookings.

Existing and Sustainable Competitive Advantages

We are the leading operator of visitor attractions and theme parks in Europe and second globally, in each case, by number of visitors in 2015. Each of our operating groups commands a strong market share within its market and benefits from established competitive advantages. This is underpinned by consistently high visitor satisfaction levels.

We believe that the strong market position and breadth of the operations of our Resort Theme Parks, LEGOLAND Parks and Midway Attractions are also supported by significant barriers to entry in each category. In particular, our existing portfolio of strong brands and use of the LEGO brand offer a compelling proposition that distinguishes our business.

In the Resort Theme Park and LEGOLAND Park segments, multiple obstacles to new market entrants include the lack of in-house technical and creative capacity, scarcity of suitable sites in attractive markets (for example, sites close to major population centres), the significant initial capital investment required to develop greenfield theme parks, difficultly of obtaining planning permission for new sites, which in some cases cannot be achieved for up to four years, and the length of time from conception to opening (typically between four and six years).

While sites for new Midway Attractions are generally more readily available and can be developed with lower initial capital expenditure than new Theme Parks, we also retain a number of competitive advantages in the Midway Attractions segment. These advantages include strong brand recognition in connection with our existing brands such as Madame Tussauds, SEA LIFE, the Eye and LEGOLAND/LEGO, our own in-house Merlin Magic Making team which includes wax sculptors, LEGO model builders and SEA LIFE marine biologists, and our ability to operate our Midway Attractions as part of "cluster cities", where multiple Attractions are situated in one city to capitalise on cross-selling, including through our multi-Attraction pass opportunities.

In addition, our scale also allows us to capitalise operating cost efficiencies, including marketing costs, central management, site development expertise and application of visitor management experience across our portfolio.

Well-Diversified Portfolio Offering

Through our broad portfolio of Attractions, our overall business is diversified across a range of categories and geographies. This diversification helps us deliver strong financial results across a variety of different market conditions and to minimise the impact of localised external factors such as regional economic performance, extreme weather and other external factors.

We operate in 24 countries globally, including 15 countries in Europe and North America and nine countries in the Asia Pacific region, drawing both national and international visitors in each location. In the 2016 financial year, the U.K., continental Europe, North America and the Asia Pacific region accounted for 33 per cent., 25 per cent., 28 per cent. and 14 per cent. of our revenues, respectively. Furthermore, our business is not reliant upon the "fly-in" market of international tourism. We estimate that in 2015, 65 per cent. of our revenues were generated from domestic visitors and only 34 per cent. were generated from visiting international tourists, based on a survey of a sample of our visitors.

Our Attractions range in format from destination resorts to city centre and coastal attractions to winter attractions, capturing both the urban and resort-based tourist market and appealing to visitors ranging from families with young children to teenagers and adults. Our Attractions are also partially insulated against extreme weather or seasonal changes through a mixture of formats with approximately 42 per cent. of our revenue in the 2016 financial year generated from indoor formats and approximately 58 per cent. generated from outdoor Attractions. Most of our Attractions are open year-round except our European Theme Parks and our two ski sites in Australia.

Pre-booked revenues, which are continuing to increase, also lead to reduced volatility in Attraction revenues with 55 per cent. of total admissions revenue in the 2016 financial year generated from pre-bookings and annual passes and 45 per cent. generated from purchases made by customers on the same day of visit.

Consistent Financial Track Record with Flexible Cost Base

We have a strong financial track record, with revenue growth between 2012 and 2016 (a 53 week financial year) reflecting a CAGR of approximately seven per cent. and like-for-like revenue growth reflecting a CAGR of three per cent, over the same period. We have also demonstrated an ability to improve EBITDA during periods of macroeconomic volatility, geo-political uncertainty and challenging trading conditions within our operating groups, with EBITDA growing at a CAGR of approximately six per cent. between 2012 and 2016 (a 53 week financial year). However, EBITDA fell in the 2015 financial year due primarily to the impact of an accident at our Alton Towers Resort in June 2015. See "Risk Factors—Risks Related to Our Market and Our Business—We are exposed to the risk of serious accidents and other safety incidents" and "Business—Health and Safety—The Alton Towers Accident."

We also have a flexible cost base, with an ability to effectively increase and decrease the number of employee hours and scheduling of shifts at our attractions depending on customer demand levels. There is a lead time required to reduce our costs and our ability to achieve these reductions is greater ahead of peak season. For the year ended 31 December 2016, approximately 20 per cent. of our costs varied directly with sales, comprising, among other things, retail inventory, food and beverage consumables and rent (of which approximately 30 per cent. relates to sites with a turnover component). Furthermore, we maintain flexibility to reduce other discretionary expenses such as marketing spend with approximately 40 per cent. of costs capable of being varied in the short to medium term in order to protect profitability.

Prudent and Successful Strategic Capital Allocation Policies and Flexible Capital Expenditure Spend

Our track record of delivering attractive returns from efficient investment is a result of a disciplined internal focus on investment criteria, return thresholds and hurdles; in-house expertise in capital expenditure efficiency, project delivery, yield and variable cost management; and extensive experience in maximising the returns from marketing spend. Development capital expenditure for new Attractions is targeted to achieve an average annual incremental ROIC of 20 per cent. at an Attraction and an average annual incremental ROIC of 15 per cent. at new accommodation over the first five full years of operation. See "Presentation of Financial Information—Non-IFRS Financial Information". Over the last three financial years, we have not had any material overspends of our annual capital expenditure budget. Further, our own in-house Merlin Magic Making team delivers innovative new product ideas including ride concept and design, wax figure manufacture, animal and fish husbandry and LEGO modelling, and therefore yields synergies and cost-savings over third-parties that would otherwise be engaged to develop our Attractions. We also maximise our marketing spend through targeted campaigns focused on educating prospective customers about new Attractions and rides. Throughout this process, we take advantage of our market leverage and harness cost-efficiencies such as shared marketing costs, central management, site development expertise and application of visitor management experience across the portfolio. In addition to the benefits we derive from our core competencies, we believe our estate is well maintained through regular planned maintenance capital expenditure, which means that incremental capital expenditure can be targeted at driving incremental revenue opportunities.

LEGOLAND Parks typically require lower capital expenditure than Resort Theme Parks because they are geared towards families with young children and do not require expensive, large format coasters. Capital expenditure programmes for the LEGOLAND Parks are planned over four year cycles with a peak spend of up to approximately £10 million in the "peak" year of the cycle and no more than one to two parks having a peak spending year at any one time. Our Resort Theme Parks tend to be nationally pre-eminent in their respective markets and therefore lack the significant competitive intensity of the theme park operators in the United States. As a result, we do not need to compete solely on the basis of the latest and largest coasters but can open significant new coasters in accordance with our planned four year capital expenditure cycle for that operating group, with peak spend of approximately £10 million in the "peak" year of the cycle and no more than two parks having a peak spending year at any one time. In addition, although not directly comparable to other theme park operators, the Midway Attractions operating group does not require substantial ongoing capital expenditure due to the lack of large scale coasters, or rides, and the low overall degree of capital employed in each site. Capital expenditure programmes for the Midway Attractions operating group vary between attractions depending on the size and anticipated growth of the attraction, with the longest capital expenditure cycle being five years with a peak spend of up to approximately £5 million. The peak spend for the majority of our Midway Attractions, however, is below £1 million.

These cycles are managed to smooth as best as possible capital expenditure across the portfolio of Attractions, meaning the investment is primarily funded out of our operating free cash flow and to provide each Attraction, or cluster of Attractions, with the visibility and autonomy to plan effectively. Our high degree of planning for future development also allows us to form and integrate our marketing strategy in advance and facilitate optimum utilisation of our Merlin Magic Making group. Between the 2014 financial year and the 2016 financial year, we invested, on average, nine to 10 per cent. of our revenue in capital expenditure for our Existing Estate.

Strong and Recurring Cash Flow Generation

Our successful and flexible capital expenditure programme, in combination with our continued focus on working capital optimization, has translated into consistently positive cash conversion over the past five financial years with five year average cash conversion (before New Business Development capital expenditure) of greater than 70 per cent. and seven year average cash conversion (after New Business Development capital expenditure) of greater than 50 per cent.

Highly Experienced Management Team

Our senior management team is highly experienced within both the attractions industry and our businesses, with a combined tenure of over 100 years, supplemented with relevant experience from outside the attractions industry. See "Management". Nick Varney, our Group Chief Executive Officer, has been with us or our predecessors for 27 years. Anne-Françoise Nesmes was appointed Chief Financial Officer in August 2016, replacing Andrew Carr, who retired in July 2016. The senior management team has driven the development and execution of our strategy to deliver growth both organically and through acquisitions. Our senior management team has delivered revenue growth for the last 17 years and EBITDA growth for 16 out of the last 17 years despite difficult trading conditions as a result of a poor global economic environment, occasionally challenging weather conditions and other external events.

Senior management's objectives are strongly aligned with our objectives through senior management bonuses and share performance plans.

Our senior management team is supported by local management teams, which run each of our operational groups and Attractions. Each Resort Theme Park, LEGOLAND Park and regional or functional division of the Midway Attractions operating group has a divisional director, who is supported by a management team and who reports directly to the relevant operating group managing director. This decentralised management structure empowers site management to make commercial and operational decisions locally, enabling real-time reaction to local market conditions. Our senior management team is also supported by the New Openings team and the Merlin Magic Making team, which develop and manage the opening of new Attractions and major capital projects. Our strong local management teams are often a result of our culture of training and development, with central and local programmes to develop people at all levels of the organisation. As part of our succession planning and people development programmes, we have instituted a successful graduate scheme recruiting approximately 18 graduates each year. In addition, we operate a profit-related bonus scheme which is linked to various financial metrics and the achievement of personal objectives set at the beginning of the financial year, among other things.

The commitment of our employees is best demonstrated by the results of the 2016 annual staff survey. Out of 21,700 surveys completed in the 2016 financial year, 95 per cent. agreed with the statement "they enjoy working here" and our engagement score, which measures whether our teams think we are a "great place to perform", "a great place for customers" and a "great place to work", was 89 per cent. In 2017, we were named twenthieth in the U.K.'s "Sunday Times Best Big Companies To Work for 2017".

Our Strategy

Existing Estate Growth via the Application of Planned Investment Cycles

We continue to invest in our existing Attractions to improve the visitor experience, which we believe is a key driver for increased visitor numbers and revenue growth. To improve our product appeal, maintain our high levels of customer satisfaction and drive organic growth, we have developed planned investment cycles for each of our three operating groups. Investments are planned well in advance and made across our business according to the forecast potential returns and the capital requirements of the respective operating groups. Investment in the Existing Estate is divided between adding new rides and attractions, replacing old features with newer, more compelling ones and general maintenance, including ensuring health and safety standards are met or exceeded. Our capital expenditure cycles are designed to develop the product portfolio over time so as to increase visitor numbers and visitors' length of stay and to support value added increases in admissions fee prices and secondary spend, thereby delivering growth in revenue and profitability.

In addition to major rides and developments, we also make smaller investments at most Attractions each year that support a continually refreshed marketing message and sustained level of visitor satisfaction. For Midway Attractions, we have developed the concept of a "black box", or area within each site in which themed, mobile features can be displayed, for example the "Octopus Hideout" and "Jurassic Seas" displays at SEA LIFE Centres. After approximately one year at a SEA LIFE Centre, these exhibitions can be transferred around the estate on a rotating basis to help grow new and repeat visitor numbers. We have also developed touring displays of wax work figures which can be rotated around our Madame Tussauds visitor attractions.

Leveraging Strategic Synergies

We aim to leverage our scale in key markets to maximize our marketing, product and cost synergies. Strategic initiatives we have taken include:

The Merlin Annual Pass

We offer customers a Merlin Annual Pass that is purchased for a one-off price that enables them to visit all Attractions within a particular country for one year for an up-front fee. Merlin Annual Passes are available in the U.K., Germany, United States, Australia and Malaysia. The key benefits include: driving customer loyalty and brand-awareness, increasing revenue visibility and securing cash flows in advance, and potentially increasing the level of secondary spend.

Increase Direct Sales Through Online and E-commerce Platforms

We are currently focused on online sales and bookings with increasing numbers of visitors booking through our brand websites and in many cases booking visits more than seven days in advance, thereby reducing visitor volatility. Online advance bookings are increasingly made directly through our Attractions' websites, which offer a lower cost of sale than bookings made through third party intermediaries. Online advance bookings help provide a short-term hedge against the impact of poor weather. They also offer opportunities to cross sell secondary spend items, such as overnight accommodation and priority ride passes. In the 2016 financial year, approximately 55 per cent. of our revenue from admissions was pre-booked and approximately 23 per cent. of our revenue from admissions was derived from online bookings. The use of online advanced booking information is also a valuable source of customer data, which we use to communicate upcoming events, help drive visitor numbers and incremental revenue and extend our Customer Relationship Management databases. Our U.K. database currently stands at three million records and our German database launched in 2014 has seen good initial results.

Group Promotions and Marketing

We apply flexible pricing and promotional strategy to manage visitor numbers through peaks and troughs of attendance, to extend the length of stay and to encourage repeat visits and to enhance overall revenue from each Attraction. Such pricing strategies include promotional discounts, such as selling admission through a retailer's loyalty card programme, and wider national marketing campaigns, such as one part of a newspaper advertising promotions and "on pack" promotions of major consumer brands. We have conducted successful national promotions in the U.K., including promotions with Tesco, News International and Kellogg's, as well as abroad. We use these methods to strategically drive demand for the Attractions at times when visitors numbers are typically lower, to drive secondary spend and to achieve "low cost" advertising to build Attraction and brand awareness.

Accesso "Passport" ticketing

We are currently implementing the accesso "Passport" ticketing system across our estate. We began rolling out the accesso system, which is a standardized point-of-sale and online ticketing platform, in 2015 and plan to have it implemented at most attractions by the end of 2017. Previously, customers had to purchase tickets for our various Attractions separately using a fragmented ticketing system. Accesso will help standardize ticketing across our estate, giving us greater opportunities to up-sell and cross-sell tickets, which we believe will be of particular benefit for cluster attractions. Accesso will give us benefits in mobile sales and ticketing, Annual Pass management and Queue-busting ticket sales.

Procurement Synergies

Our scale allows us to exploit procurement cost efficiencies within a country or region and across clusters. We expect further benefits from such savings as we continue to increase our global scale by opening and acquiring new Attractions.

Transformation of Theme Parks to Short Break Destinations

While our Theme Parks are currently well positioned to capture local market share with the four most visited theme parks in the U.K., and strong positions for our European parks, we are pursuing a strategy to position our Theme Parks as short break destinations that will benefit from the growing short break tourism market. In particular, we aim to position our Theme Parks as "national destination" parks with the goal that all of the Theme Parks should generate an increasing part of their business from visitors taking short breaks, to complement the business generated by our day visit market. In February 2016, we announced a new "Milestone" involving the development of 2,000 new rooms at our Attractions by the end of 2020. Of these, 210 rooms were added in 2016, including the opening of the 100-room Gardaland "Adventure Hotel".

The LEGOLAND Parks in the U.K., California, Florida, Denmark and Malaysia have themed on-site hotels ranging from 150 to 250 rooms. LEGOLAND Deutschland and LEGOLAND Billund each include a holiday village, both of which have recently been expanded. Chessington World of Adventures Resort, Gardaland and Alton Towers Resort have two hotels and Thorpe Park and Heide Park have one hotel at each site. These hotels and villages provide an integral contribution to the overall customer experience and help drive increases in multi-day ticket sales. We believe that this destination positioning has already extended visitor market reach to over five hours drive time and has enhanced revenues from both primary admissions, including multi-day tickets and second gate admission fees, and secondary spend. The latter is typically comprised of the sale of food and beverages, merchandise and souvenirs as a result of longer average lengths of stay. In 2017, we plan to open a further 381 rooms towards our 2020 Milestone, including a 59-room hotel at LEGOLAND Windsor, a 76-room CBeebies Land hotel at Alton Towers Resort, a 166-room holiday village at LEGOLAND Florida and an 80-room expansion of our holiday village at LEGOLAND Billund. In 2018, we plan to open a 252-room hotel at LEGOLAND Japan a 250-room hotel at LEGOLAND Dubai, which will be operated pursuant to a management contract and in which we will hold a 40 per cent. interest, as well as a 59-room second hotel at LEGOLAND California and a 142-room hotel at LEGOLAND Deutschland.

We are also continuing our strategy of investing in second gate and up-sell attractions, where appropriate, to lengthen overall visitor times and enhance revenues. Second gates are visitor attractions situated alongside Theme Parks with a separate entrance and for which additional admission fees are charged. We have opened four second gate attractions at our Theme Parks in Europe and the United States.

Roll-out of Midway Attractions

We have developed a disciplined programme, focused on strict investment criteria, to roll-out additional Midway Attractions in suitable locations across the globe. In February 2016, we announced another "Milestone" pursuant to which we intend to open 40 new Midway Attractions by 2020. By the end of 2016, 20 of these additional Midway Attractions have been opened or are under development. Historically, we have a track record of expanding our Midway Attractions brands into new locations with 18 new Midway Attractions opened from the beginning of the 2014 financial year to the end of the 2016 financial year in six different countries.

Due to the comparatively small size, self-contained, simple layout and standardised indoor format of most Midway Attractions, relatively limited investment is typically required to open a new site and deliver a high quality visitor experience. New Midway Attractions are often profitable within the first full year of operation. In addition, there is a relatively low requirement for ongoing investment in marketing due to our strong brands, which need a relatively lower budget for promotions. Midway Attractions are capable of being located in most major cities in the world, as well as smaller urban locations, creating a significant opportunity for future growth.

Destination shopping malls are also an important opportunity for Midway Attractions, providing high traffic destinations in large residential catchment areas where the Midway Attractions can act as the key leisure anchor tenant and consequently we may benefit from low rent deals. We currently have Midway Attractions in 20 mall locations. Through building relationships with major mall developers, particularly in the United States and Asia, we are able to identify and develop additional opportunities to roll-out Midway Attractions.

An integral and expanding part of our Midway Attractions strategy includes the clustering of Midway Attractions to exploit our marketing leverage. We aim to continue to build clusters of Midway Attractions within cities, resorts or malls where appropriate in order to benefit from strong cross-promotional and operational synergies. In particular, clusters give us the ability to sell tickets to visitors for multiple Midway Attractions thereby increasing visitor numbers within the resulting cluster and enhancing revenue. Clustered sites also benefit from economies of scale and reduced management and operating costs. See "Presentation of Financial Information—Non-IFRS Financial Information".

LEGOLAND Park Developments

We have a proven track record of developing and operating LEGOLAND Parks globally. We opened a new LEGOLAND Park in Florida in 2011 and in Malaysia in 2012, pursuant to a management contract. In February 2016, we announced another "Milestone" pursuant to which we intend to open four new

LEGOLAND Parks by 2020. LEGOLAND Dubai was the first of these parks to be opened in 2016, which we operate under a management contract. We also plan to open a LEGOLAND Park in Japan in 2017 and in South Korea in 2019. We have further development plans in the United States and China. Given the strength of the LEGO and LEGOLAND brands and the success of our existing LEGOLAND Parks, we see significant scope for new LEGOLAND Parks, particularly in Asia, and we are committed to ensuring that future expansion is carefully planned and executed in order to maintain core brand values. The success of LEGOLAND Parks may also be beneficial to KIRKBI, raising the profile of the LEGO brand as well as contributing to increased sales of LEGO products in the relevant locations.

We have three operating and investment models with respect to the development of LEGOLAND Parks.

Firstly, in more proven locations, we follow an "operated and owned" model. Under this approach, we make the necessary capital investment to acquire the land and develop the infrastructure ourselves. We have used this model in our European and North American LEGOLAND parks.

Second, in new and unproven locations, we use a low capital commitment model, whereby the capital investment is provided by a third party and we operate the park pursuant to a management agreement arrangement and are paid annual operating fees. We operate LEGOLAND Malaysia under this model. We do not own the park but instead operate it pursuant to a development and management contract with our partners. The Malaysian government provided the funds to develop LEGOLAND Malaysia. We own a 20 per cent. interest in the company that owns LEGOLAND Malaysia. LEGOLAND Dubai is operated under a similar management contract model, whereby LL Dubai Theme Park LLC, a wholly owned subsidiary of DXB Entertainments, owns the assets and we operate the park. We do not have an equity interest in LEGOLAND Dubai.

Third, we plan to operate certain parks under an "operated and leased" model. Under this approach, the acquisition of the park site, the development of the infrastructure and the basic construction will be funded by a third party partner. We will fund and build the rides and the necessary theming, lease the site on a long term basis, and operate the LEGOLAND Park. Our planned LEGOLAND Parks in Japan and South Korea will be developed using this approach.

Strategic Acquisitions

We continue to actively 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. We have demonstrated a track record of identifying, implementing and integrating both large and small acquisitions and delivering significant value uplift through improving the acquired operations. Examples of this strategy include the original acquisition of LEGOLAND Billund, LEGOLAND California, LEGOLAND Deutschland and LEGOLAND Windsor as well as the more recent acquisitions of Gardaland, the Tussauds Group, the Sydney Attractions Group and Living and Leisure Australia. In 2016, we acquired a minority interest in BIG BUS Tours and entered into co-promotion agreements with them in certain city centre locations. We believe that there remain further attractive acquisition opportunities that would meet our investment criteria in the future.

Our Brands and Attractions

Midway Attractions

We have recognisable and well-regarded brands in the industry, including SEA LIFE, Madame Tussauds, The Dungeons, LEGOLAND Discovery Centre and the Eye. The Midway Attractions operating group consists of highly chainable, branded, predominantly city centre and coastal visitor attractions, which draw tourists as well as visitors from the local markets. As of 31 December 2016, we operated 104 Midway Attractions across 21 countries.

Each individual Midway Attraction is a self-contained, mainly indoor facility ranging from approximately 10,000 to 100,000 square feet and averaging approximately 30,000 square feet. As a result, the initial investment required for each Midway Attraction to produce a high quality visit is significantly lower than in the Resort Theme Parks and LEGOLAND Parks operating groups.

Midway Attractions are also typically less reliant on repeat visitors than our Theme Parks, require lower ongoing capital expenditure to maintain guest satisfaction and require lower marketing expenditure to attract visitors, as a result of their locations in city centres, coastal towns and destination malls, and focus on attracting tourists in addition to visitors from the local markets. The integrated nature of each Midway Attraction and resulting ability to control visitor flow also contributes to each Midway Attraction's low ongoing operating costs. With relatively low visitor length of stay of generally up to two hours, each Midway

Attraction can accommodate a high turnover of visitors each day, enhancing their revenue generating potential.

Midway Attractions generate revenue at both the start and conclusion of each visit, through admission fees and merchandise sales, respectively, and tend to generate a relatively high cash spend given the short length of stay. In 2016, 79 per cent. of visitor revenue at our Midway Attractions was generated by admissions, with 20 per cent. generated by secondary and commercial spend. At larger sites, we offer evening corporate events and functions to increase site usage. In aggregate, our Midway Attractions attracted 41.7 million visitors in the 2016 financial year. From the 2014 financial year to the 2015 financial year, like-for-like revenue for the Midway Attractions operating group grew by two per cent. From the 2015 financial year to the 2016 financial year, like-for-like revenue for the Midway Attractions operating group fell by 0.2 per cent.

In the 2016 financial year, we opened five Midway Attractions across North America, Europe and Asia, comprising two Madame Tussauds attractions and three LEGOLAND Discovery Centres. We have nine Midway Attractions currently under development, which we plan to open by the end of 2017, including a LEGOLAND Discovery Centre in Philadelphia, a LEGOLAND Discovery Centre in Shenyang, China, a Madame Tussauds in New Dehli and a SEA LIFE Centre in Chongqing, China. In addition, we intend to open a new Little Big City Midway Attraction in Berlin in 2017.

SEA LIFE

SEA LIFE is our largest and most visited Midway Attraction brand and combines theming and marine biology expertise to provide an educational and entertaining family experience. The first SEA LIFE Centre was opened in Oban, Scotland in 1979 and as of 31 December 2016 there were 47 SEA LIFE attractions across the globe, including three operated as second gates at Gardaland, as part of the Resort Theme Park operating group, at LEGOLAND California, as part of the LEGOLAND Park operating group and the Jurassic Skyline attraction, which is a second gate at SEA LIFE Weymouth.

SEA LIFE Centres are able to attract repeat visitors by refreshing their displays and by regularly opening new displays which can be rotated across all of our SEA LIFE Centres. We are also continuously improving our existing SEA LIFE Centres with new attractions such as our “Penguin Expedition” feature at SEA LIFE, Sydney, which we launched in early 2017.

SEA LIFE Centres target families with young children and schools and we believe their easily communicated concept is ideal for entering new markets through new developments and infill acquisitions. We plan to open new SEA LIFE Centres in Chongqing, China in 2017 and we have a SEA LIFE in Shenyang, China under development.

We operate four of the SEA LIFE Centres as marine sanctuaries for seals, turtles and otters, including the U.K.’s National Seal Sanctuary at Gweek in Cornwall and the Manly Sanctuary in Sydney. SEA LIFE champions the cause of marine conservation through education and awareness. This is emphasised by the “Breed, Rescue, Protect” programme that is at the heart of SEA LIFE business models across the estate and demonstrates to visitors the conservation values of the brand.

Madame Tussauds

Madame Tussauds is one of our most famous brands and has provided entertainment through the display of life size wax figures to visitors for over 200 years. Madame Tussauds has strong relevance to today’s culture of celebrity in both mature and emerging markets and is frequently endorsed by celebrities, providing significant public relations opportunities. The first Madame Tussauds was established in London in 1835 and it has been at its present location since 1884. It has become an iconic London tourist attraction. There are now 21 Madame Tussauds attractions in eleven countries worldwide, of which fourteen have been opened since our acquisition of the Tussauds Group in 2007, including Madame Tussauds Istanbul and Madame Tussauds Chongqing, which opened in 2016. Madame Tussauds are currently located in Amsterdam, Bangkok, Beijing, Berlin, Blackpool, Chongqing, Hollywood, Hong Kong, Istanbul, London, Las Vegas, New York, Orlando, San Francisco, Shanghai, Singapore, Sydney, Tokyo, Vienna, Washington and Wuhan. We plan to open a Madame Tussauds in each of New Dehli and Nashville in 2017.

Madame Tussauds’ attractions target a broad visitor demographic, in particular females (with a particular trend towards 30–40 year olds), teens and young adults. The brand also targets discreet audiences, with particular figures proving very successful with particular audiences. In 2016, we launched a “Ghostbusters” attraction at Madame Tussauds New York and a Sherlock Holmes feature in London.

The Eye Brand

We currently operate four observation attractions under the Eye brand: the Coca-Cola London Eye, situated on the South Bank of the River Thames in central London; the Sydney Tower Eye in downtown Sydney overlooking Darling Harbour and the Sydney Opera House with views to the outlying suburbs; the Blackpool Tower Eye in the U.K and the Orlando Eye in Florida. The Orlando Eye is operated under a management contract.

Revenue from our Eye brand is generated through ticket sales, as well as sales of a range of value added products such as private capsules, river cruises, food and beverages, photographic souvenirs and themed merchandise and, in the case of the Orlando Eye, which is operated by us under management contract, revenue is generated through a fee paid by the owners of the attraction.

The London Eye opened in March 2000 as part of London's millennium building programme. The Coca-Cola London Eye consists of a rotating wheel with 32 clear glass capsules, each capable of holding approximately 25 passengers, that turns at a rate of approximately two rotations per hour. The capsules give 360° panoramic views over London and rise over 135 metres above the ground, making it the tallest observation wheel in Europe. The Cola-Cola London Eye has become one of the iconic sights of London and has won over 40 awards for national and international tourism and engineering achievement. In addition, each of the four Eye Attractions have 4D pre-shows, which complement the Attractions.

LEGOLAND Discovery Centre

The LEGOLAND Discovery Centre attractions have a focus on "playful learning", offering a combination of indoor LEGO-based rides and activities centred around the main "*Miniland*" attraction, which contains reduced scale models built from LEGO bricks, featuring landmarks from the host country and surrounding countries, typically situated in the middle of the park. These experiences include a factory tour, "Build and Test" and 4D cinema, with the overall visitor experience focused on hands-on LEGO play.

The first LEGOLAND Discovery Centre was launched in Berlin in March 2007. LEGOLAND Discovery Centres are typically located in shopping malls and city centres and offer fun, interactive and learning experiences for children between the ages of three and 12 years. A typical visit to a LEGOLAND Discovery Centre lasts approximately two hours. At the end of the 2016 financial year, there were sixteen LEGOLAND Discovery Centres open in Arizona, Atlanta, Berlin, Boston, Chicago, Dallas, Istanbul, Kansas City, Manchester, Michigan, Oberhausen, Osaka, Shanghai, Tokyo, Toronto and Westchester. We plan to open new LEGOLAND Discovery Centres in Melbourne, Philadelphia and Shenyang in 2017.

The Dungeons

The Dungeons are themed indoor attractions with strong historical and irreverent horror references, rides and live entertainment targeting teenagers and young adults. There are eight standalone Dungeons, in Amsterdam, Berlin, Blackpool, Edinburgh, Hamburg, London, San Francisco and York and one at Warwick Castle which is an up-sell attraction. The London Dungeon is the best known in the portfolio and has been in operation since 1976. We relocated the London Dungeon in 2013 to the South Bank, adjacent to the London SEA LIFE and the Coca-Cola London Eye Attractions, which has enabled it to benefit from increased cluster sales and synergistic operational savings.

Little Big City

In 2017, we are scheduled to open a new Midway Attraction brand in Berlin called Little Big City. This will be our take on a model village with a unique fusion of miniature models and modern technology to make the history of the city come alive. We intend to launch further Little Big City attractions in other cluster cities.

Other

In 2015, we opened "DreamWorks Tours' Shrek's Adventure!",, an interactive experience based around DreamWorks characters on the London South Bank site, close to the Coca-Cola London Eye.

Following the Living and Leisure Australia acquisition in February 2012, we own and operate two ski fields in Victoria, Australia and two Treetop Walk experiences in Victoria and New South Wales, Australia. In the 2013 financial year, we acquired Rays Ski Shop in Victoria.

In addition, we acquired two WILD LIFE Australian animal adventure attractions in Sydney and Hamilton Island as part of the Sydney Attractions Group acquisition.

LEGOLAND Resorts and Parks

The LEGOLAND Parks operating group consists of seven interactive LEGO-themed parks across six countries and three continents. Our LEGOLAND Parks are targeted at families with children aged two to 12 years. We use the LEGO and LEGOLAND trademarks to develop and operate the parks pursuant to the LCA with KIRKBI. We own, operate and are responsible for the maintenance and future development of the LEGOLAND Parks, except for LEGOLAND Malaysia and LEGOLAND Dubai, both of which are managed but not owned, including the development of LEGOLAND Parks and LEGOLAND Discovery Centres into new territories. We manage LEGOLAND Malaysia and LEGOLAND Dubai, and will manage any future development of LEGOLAND Malaysia and LEGOLAND Dubai, but are not required to fund any capital expenditure. Our proposed new LEGOLAND Parks in Japan and South Korea will be "operated and leased". The LEGOLAND Parks benefit from a very high brand awareness level as a result of their affiliation with LEGO which was announced as the "World's Most Powerful Brand" in the Brand Finance Global 500 report in 2015.

The LEGOLAND Parks received an aggregate of 12.8 million visitors in the 2016 financial year. Like-for-like revenue for the LEGOLAND Parks increased by eight per cent. from the 2014 financial year to the 2015 financial year and by two per cent. from the 2015 financial year to the 2016 financial year. The original LEGOLAND Park was opened in Billund in 1968 to showcase the LEGO brand and provide an enhanced experience to visitors to the LEGO plant. Based on the success of the concept, the LEGOLAND brand was rolled out by KIRKBI into the U.K. in 1996, the U.S. in 1999 and Germany in 2002. We opened a fifth LEGOLAND Park just outside Orlando, Florida, United States in 2011, a sixth LEGOLAND Park in Malaysia, close to the border with Singapore, in 2012 and our seventh in Dubai in 2016. We have announced plans to open LEGOLAND Parks in Japan in 2017 and South Korea in 2019.

The following table sets out certain details of each of our LEGOLAND Parks:

Name	Date Opened	Country	Other Amenities
LEGOLAND Billund	1968	Denmark	Hotel and Holiday Village
LEGOLAND Windsor	1996	U.K.	Hotel
LEGOLAND California	1999	US	Hotel, SEA LIFE Centre, LEGO Chima Waterpark
LEGOLAND Deutschland	2002	Germany	Holiday Village (including hotel accommodation)
LEGOLAND Florida	2011	US	LEGOLAND Waterpark, Hotel
LEGOLAND Malaysia(1)	2012	Malaysia	Hotel, LEGOLAND Waterpark
LEGOLAND Dubai(2)	2016	UAE	LEGOLAND Waterpark

(1) LEGOLAND Malaysia is operated under a management contract and we hold up to a 20 per cent. equity interest in the project company that owns the park assets.

(2) LEGOLAND Dubai is operated under a management contract.

All LEGOLAND Parks are based on a similar concept that is adapted to local visitor tastes. Each park comprises a "*Miniland*", reduced scale models built from LEGO bricks, featuring landmarks from the host country and surrounding countries, typically situated in the middle of the park, with themed clusters containing interactive rides, shows and food and beverage facilities surrounding the Miniland.

LEGOLAND Parks generate revenue through both admission fees and secondary spend on priority ride access passes, merchandise, food and beverages, souvenir photography, participation games and parking fees. Each park's LEGOLAND branding permits a high level of cross-promotion with LEGO merchandise and results in correspondingly strong secondary spend with a relatively high average revenue per capita of £35.50 in the 2016 financial year. In 2016, 55 per cent. of visitor revenue at our LEGOLAND Parks was generated by admissions, with 45 per cent. generated by secondary and commercial spend.

The LEGOLAND Parks have been able to capitalise on the growth of the LEGO brand association by using well known LEGO characters and brands. In particular, the LEGO Star Wars exhibits and the Ninjago and Chima brands have each been applied to create strongly aligned theme park attractions across the portfolio.

The LEGOLAND Parks target families with children aged two to 12 years and the majority of visitors to our LEGOLAND parks fall within this demographic. This demographic does not demand expensive, large format "thrill" rides and LEGOLAND Parks enjoy high repeat visitor numbers of up to 75 per cent.

We plan to open a LEGOLAND Park in Nagoya, Japan in 2017. The site is located an hour from Osaka's city centre and two hours from Tokyo. The park will be opened under our "operated and leased" model, in which we will invest approximately one third of the value of the park, predominantly in branded assets. We have also announced plans to open a LEGOLAND Park in South Korea in 2019. Similarly, we plan to invest approximately one third of the value of the park, predominately in branded assets, and lease the remainder of the assets from a company owned by a consortium of local public and private investors. Further, we have identified sites for potential LEGOLAND Parks in the United States and China. In 2016, we invested approximately £31 million in LEGOLAND Parks development and expect to invest a similar amount in 2017.

LEGOLAND California

LEGOLAND California is our most visited LEGOLAND Park and is located on a 128 acre site in San Diego County, United States, close to the Pacific Ocean. Since it opened in 1999, we have added substantial capacity to the park through new rides and attractions and food, beverage and retail outlets. The park has more than 50 rides, shows and other attractions and a variety of shops and restaurants. Signature features include "LEGO "Ninjago The Ride", "Bionicle Blaster", "Lost Kingdom Adventure" and "LEGO TECHNIC® Coaster" LEGOLAND California operates year-round, with the park closed on Tuesdays and Wednesdays in the off-peak season. Combined with Southern California's moderate climate, this provides the park with a smoother seasonality profile, compared to most of the other Theme Parks. In August 2008, we opened a SEA LIFE Centre as a second gate at LEGOLAND California. We have since added the themed LEGOLAND waterpark, opened in 2010 and expanded in 2014, which can be accessed by park visitors for an additional fee. We also developed a 250 room on-site themed hotel, opened in 2013. In 2016, our LEGOLAND California hotel had a 81 per cent. occupancy rate and guest satisfaction of 96 per cent. Further, this hotel had an average room rate of $273 and incremental ROIC of 30 per cent.

LEGOLAND Billund

LEGOLAND Billund opened in 1968. It began as a nine acre Miniland which attracted 625,000 visitors in the first year and has since grown to a park of approximately 38 acres with an additional 15 acres owned and 20 acres rented for car parking and support services. LEGOLAND Billund is open from March to October and consists of more than 50 rides, shows and other attractions and a variety of shops and restaurants. Attractions include "Atlantis by SEA LIFE", "Ninjago Land" and the "Polar X-plorer" rides. LEGOLAND Billund also has a 223 room hotel, with a conference centre facility and a holiday village, which includes a large, 250 pitch campsite, 110 lodges, 48 family rooms and 30 "barrels", which we lease and manage. Also located at the Billund resort is a chalet-style holiday village with 850 lodges and a waterpark, each of which is managed by Lalandia.

LEGOLAND Billund is located in the middle of Jutland on the mainland of Denmark and benefits from good transport links being close to Billund International Airport. In the 2016 financial year, domestic Danish visitors accounted for more than 52 per cent. of the total visitors, with the remainder visiting mostly from Germany, Norway, Sweden and The Netherlands, and increasing numbers from Finland, Poland and other Eastern European countries.

LEGOLAND Windsor

LEGOLAND Windsor, the United Kingdom's most visited theme park, opened in 1996 as the first LEGOLAND Park outside Denmark. The park is located on a 215 acre site close to Windsor, United Kingdom. In 2016, over 86 per cent. of visitors to the park were domestic U.K. visitors and it is open from March to late October or early November. The park has more than 55 rides, shows and other attractions and a variety of shops and restaurants. Signature rides and attractions include the "Miniland", "Atlantis by SEA LIFE", "Laser Raiders", "LEGO City Driving School" and the "Dragon coaster".

In March 2012, we opened a 150-room LEGO-themed hotel and conference centre to enhance the resort's appeal to the short break market. and it achieved in excess of 95 per cent. occupancy rates for the 2016 peak season (being July and August). A second hotel, the LEGOLAND Windsor Castle Hotel is under development and scheduled to open in 2017.

LEGOLAND Windsor is located within a one hour drive from London and benefits from good transport links.

LEGOLAND Deutschland

LEGOLAND Deutschland opened in May 2002 in Günzburg, Bavaria, Germany. LEGOLAND Deutschland has more than 55 rides, shows and attractions in nine themed areas, and a variety of shops and restaurants, and is open from March to October. Signature rides and attractions include a Miniland, a LEGO Ninjago 4D ride, “Canoe X-pedition”, “Jungle X-pedition” and “LEGOLAND Atlantis by SEA LIFE”.

Approximately 67 per cent. of visitors in the 2016 financial year were German. The park is serviced by good transport links and is within 1.5 hours’ drive from both Munich and Stuttgart.

In 2008, we opened our first holiday village at LEGOLAND Deutschland, initially with 48 chalets, a refectory, a playground and a 177-space campsite. Since then, there have been further phases of development, including the addition of a Knight’s Castle and a King’s castle extension, additional chalets and barrel-style accommodations. At the end of the 2016 financial year, the park had 144 chalets, 136 rooms in the castle hotels, 39 barrels and a 165-space campsite.

LEGOLAND Florida

LEGOLAND Florida was built on the site of the former Cypress Gardens theme park and opened to the public in October 2011. It exceeded its business case visitor numbers in the first full year of operation. Due to the site’s history and pre-existing infrastructure, we believe the development cost was substantially below the “standard” cost to develop a comparable theme park.

The park is located on a 150-acre site on the shores of Lake Eloise in the city of Winter Haven, Florida and is an approximately 45 minute drive from Orlando and downtown Tampa. The park has more than 50 rides, shows and attractions, restaurants, shopping, and a botanical garden, and is based on ten themed zones, including Miniland USA, the Imagination Zone, LEGO City and “Heartlake City”. LEGOLAND Florida operates all year round, with the park closed on Tuesdays and Wednesdays during off- peak periods. In May 2012, we added a themed LEGOLAND waterpark which can be accessed by park visitors for an additional fee. In 2015, we opened a 152-room LEGOLAND Florida hotel.

LEGOLAND Malaysia

LEGOLAND Malaysia was developed on a greenfield site in southern Malaysia close to the Singapore border. We do not own the park but instead operate it pursuant to a development and management agreement with Malaysian partners with funds provided by the Malaysian government under which we were paid an initial development fee and receive an annual operating and management fee, based on the revenue and EBITDA of the LEGOLAND Malaysia park. We hold 20 per cent. of the issued share capital of the project company that owns the park. The park, which opened in September 2012, is located on a 76-acre site and has more than 70 rides, slides, shows and attractions. The attractions are grouped into seven themed areas of which the centrepiece is MINILAND, where Asian landmarks have been recreated using more than 30 million LEGO bricks. LEGOLAND Malaysia operates year-round, with the park closed on Wednesdays during specific periods.

In 2013, we opened a LEGOLAND Waterpark at LEGOLAND Malaysia and in 2014, we opened a 249 room LEGO-themed hotel, located on a 2.4 acre plot adjacent to the LEGOLAND Malaysia park. We manage the waterpark and the hotel pursuant to management contracts. See “—Material Contracts”.

LEGOLAND Dubai

LEGOLAND Dubai opened in 2016. The park is located between Dubai and Abu Dhabi on Sheikh Zayed Road as an integral component of Dubai Parks and Resorts. We do not own the park but instead operate it pursuant to a management agreement with the owner, LL Dubai Theme Park LLC, a subsidiary of DXB Entertainments. The park has more than 40 interactive rides, shows and attractions, grouped into six themed areas with approximately 15,000 LEGO model structures, including a 17-metre tall Burj Khalifa LEGO model. Adjacent to LEGOLAND Dubai is LEGOLAND Water Park with over 20 slides and attractions. LEGOLAND Dubai and LEGOLAND Water Park operate all year round. We are scheduled to open a 250-room hotel in 2019, which we will operate pursuant to a management contract and in which we will hold a minority interest.

Resort Theme Parks

The Resort Theme Parks operating group consists of six national resort theme parks each of which has at least one on-site accommodation offering. They target large populations in European markets, typically catering to the domestic market where each site is located, but with an increasing international audience at certain of the parks, particularly Gardaland. Five of the Resort Theme Parks have existing associated hotels or holiday villages which enable those parks to attract a wider range of visitors who live further from the parks. Resort Theme Parks generate revenue through both admission fees and secondary spend on sales of priority ride access passes, food and beverages, merchandise and souvenir photographs, participation games and car parking. In 2016, 59 per cent. of visitor revenue at our Resort Theme Parks was generated by admissions, with 41 per cent. generated by secondary and commercial spend. Multi-day stays by visitors at attached and off- site hotels increase this secondary spend and targeting such stays has been a growing part of the operating group's strategy. Some Resort Theme Parks have second gates, a concept that management plans to develop at other Resort Theme Parks.

The Resort Theme Parks received an aggregate of 10.5 million visitors in the 2016 financial year. Like-for-like revenue for the Resort Theme Parks fell by 12 per cent. between the 2014 financial year and the 2015 financial year, primarily due to the impact of the June 2015 accident at Alton Towers Resort, but grew four per cent. between the 2015 financial year and the 2016 financial year. See "Business—Health and Safety—The Alton Towers Resort Accident".

The following table sets out the location, target demographic and facilities of each of our Resort Theme Parks:

Name	Date Opened	Country	Target Demographic	Other Amenities include
Alton Towers Resort	1980	U.K.	Families, Teens and Young Adults	Two Hotels, Indoor Waterpark, Conference Centre, Lodge accommodation, Tree Top Quest and Spa
Chessington World of Adventures Resort	1931	U.K.	Families	Two Hotels, Conference Centre, "Go Ape" Attraction, Camping Facilities and Spa
Thorpe Park	1979	U.K.	Teens, Young Adults and Older Families	Hotel, Conference Facilities
Warwick Castle	1978	U.K.	Families and Tourists	The Castle Dungeon, Camping Facilities
Gardaland	1975	Italy	Families, Teens and Young Adults	Two Hotels, SEA LIFE Centre, Conference Facilities
Heide Park	1978	Germany	Families, Teens and Young Adults	Hotel, Conference Centre and Holiday Village

Each Resort Theme Park offers a range of rides and activities, attracting stays of between one and three days, with multi-day stays encouraged by unique "resort-style" hotel and holiday village accommodation on-site and partner hotels off-site. The ability to plan multi-day stays increases the pool of potential visitors, as visitors are generally more likely to drive further distances for a multi-day visit compared to a typical single day visit due to time constraints. The target visitor demographic ranges from families with young children to teenagers and young adults to adults and families.

Alton Towers Resort

Alton Towers Resort was the U.K.'s second most visited theme park in 2015. The attraction is close to the Peak District National Park, Birmingham and the West Midlands to the south and Manchester/Liverpool and Leeds/Sheffield to the north. The park, originally the seat of the Earl of Shrewsbury, was opened as a theme park in 1980, attracts a broad mix of families, teenagers and young adults and is open from late March until early November. The park includes over 40 rides and attractions arranged in themed areas with a variety of restaurants, bars and shops. Signature attractions include the "CBeebies land", a combination of rides, attractions and live entertainment based on the BBC's "CBeebies" television shows aimed at the pre-school demographic and opened in 2014, "TH13TEEN", "Galactica", "Nemesis", "Oblivion" and "Rita". The grounds also include the Grade II listed Towers building and the Grade I listed historic landscaped gardens. Second gates include a themed waterpark and an Alton Towers Resort-themed "Extraordinary Golf" course.

Alton Towers Resort attracts visitors from across the U.K. including local and regional residents and domestic tourists. It benefits from good transport links, being close to rail links with Derby, Nottingham and Stoke-on-Trent, and is within one hour's drive of two major roadways.

The Alton Towers Resort also contains the Alton Towers hotel, a 175-room Alton Towers-themed hotel and spa, Splash Landings Hotel, a 216-room hotel, waterpark, and a conference centre for 500 delegates, an "Enchanted Village" comprised of 120 lodges and five premium tree houses and a further second gate "high ropes" attraction, located close to the "Enchanted Village".

Chessington World of Adventures Resort

Chessington World of Adventures Resort, the U.K.'s fourth most visited theme park in 2015, is situated 12 miles from Central London in approximately 130 acres of land in Chessington, Surrey. Chessington World of Adventures Resort originally opened in 1931 as Surrey Zoological Gardens incorporating a variety of animals as its main attraction. The site was converted into a theme park in 1987. Chessington World of Adventures Resort is focused on quality family attractions primarily targeting younger families and offering a mix of ride and animal experiences. The park is fully open from March to October and open for "Zoo only" days in the off season during weekends and school holidays. The park includes over 40 rides and attractions and in excess of 1,000 animals, over ten themed areas, as well as a variety of restaurants, bars and shops. Signature attractions include "Zufari: Ride into Africa", "Dragon's Fury" and "Vampire" as well as the zoo and a SEA LIFE Centre.

Chessington World of Adventures Resort benefits from good transport links, is close to a major London motorway and is within 40 minutes of London Waterloo train station.

The Chessington World of Adventures Resort Hotel is a 150 room hotel situated adjacent to the park, which we own and manage. The hotel was relaunched in 2014 as the Safari Hotel with views of our "Wanyama Village and Reserve" in which guests are able to see zebra, giraffe and antelope roam freely on the Reserve. We also completed a new 69 room Azteca hotel in 2014.

Thorpe Park

Thorpe Park is aimed at teenagers, young adults and older families and is located in Chertsey, Surrey. It opened in 1979 and was the U.K.'s third most visited theme park in 2013. It is open from March to October. The site includes several lakes and covers 425 acres and is located 25 miles from Central London. The park itself covers approximately 124 acres, comprising over 25 thrill and family rides and a variety of restaurants and shops. Signature attractions include "Derren Brown's Ghost Train", "The Swarm", "Colossus", "Nemesis Inferno", "SAW – the Ride" and "Stealth".

Thorpe Park benefits from good transport links and is close to two major London motorways. In 2014, we opened the 90 room "THORPE SHARK Hotel" at Thorpe Park. To support the resort positioning, a calendar of club nights and evening entertainment extends Thorpe Park's offering into the evening and night during certain weekends.

Warwick Castle

Warwick Castle offers a broad mix of historic and family attractions and dates back to the late 11th century. The castle is a Grade I listed building and the grounds are a Grade I registered park comprising 104 acres, including the Island and Rose Garden, which are open all year round. The primary attraction is the castle itself, with a focus on "fun learning", interactive family activities and themed entertainment such as jousting displays and a birds of prey exhibit.

The attraction now benefits from additional up-sell opportunities such as the Castle Dungeon, Princess Tower, The Time Tower and special themed events such as "Horrible Histories".

The castle rooms contain a variety of exhibits, many using wax figures that have been produced by the Merlin Magic Making team at the Merlin Studios, depicting various aspects of the castle's history. The grounds surrounding the castle are also popular due to the gardens and scenic walks which connect the castle with the River Avon.

The site is located close to the town centre of Warwick, just north of Stratford-upon-Avon, Birmingham and Birmingham International Airport. It is approximately 2.5 hours' drive from central London. The castle also attracts an increasing interest from Far East tourists.

There are two restaurants on the site with a combined seating capacity of around 200 people. The castle also hosts special events including corporate hospitality functions, and up to 2,000 people can be accommodated within marquees and the banqueting hall. During the summer classical and pop concerts are held in the castle grounds. The site also hosts up to three major concerts each year attracting up to 20,000 guests per concert.

Gardaland

Gardaland, our most visited Resort Theme Park, was Italy's most visited theme park in 2015. It is set within a 231 acre site in the region of Veneto, Italy, within one hour's drive of Verona and Brescia and within two hours' drive of Milan and Piacenza. Built on the eastern shore of Lake Garda at Castelnuovo del Garda, the park opened in 1975. The park has a mix of thrill rides and family experiences, attracting a broad range of demographic groups. Gardaland is open from March to October and during weekends in December. The park comprises 30 rides, 12 major shows including characters and brands such as Ice Age 4D and Madagascar, and a variety of restaurants, bars and shops. Signature attractions include "Raptor", "Blue Tornado", "Fuga da Atlantide", "Mammut" and "Oblivion". We also operate a SEA LIFE Centre as a second gate close to Gardaland.

Gardaland benefits from good transport links, being just over one mile from a major Milan Venice Highway, and within 18 miles of Valerio Catullo airport. The nearest theme park of a similar scale to Gardaland is Europa Park, south west Germany, over five hours' drive away. In the summer the park opens for night admissions from 6:00 pm to 11:00 pm to take advantage of the warm weather. The resort includes the Gardaland Hotel, which opened in 2004 and which is within one mile of the park complex. We operate the 247 room hotel, which includes 11 suites, restaurants, bars, conference facilities and an outdoor pool. Long- term plans for a second hotel, which is scheduled to open in 2016, are well advanced. We currently operate a waterpark, which is located outside of Milan, as part of Gardaland, and are considering options for a possible divestiture of that Attraction.

Heide Park

Heide Park was the largest and most visited theme park in Northern Germany in 2015. The park, opened in 1978, is located just outside the town of Soltau, in the Lower Saxony region of Germany and is equidistant between Hanover and Hamburg, each of which is within 50 miles of the park. The park's visitors are primarily local, as opposed to foreign, tourists. Heide Park provides large, exciting thrill rides and family attractions, attracting a broad mix of families, teenagers and young adults. Signature attractions include the new "Flight of Demons" winged coaster, "Krake", "Colossos", "Desert Race", "Limit" and "Swiss Bob Ride". The park includes over 40 rides in four themed areas with restaurants, bars and shops. Heide Park is open from March to October. The park consists of 490 acres of land in total, with 198 acres used for the theme park and the remainder a combination of woodland and farmland.

Heide Park is in Lower Saxony, which is Germany's fourth largest tourist destination due to the appeal of the northern coastline as a domestic holiday location. Heide Park benefits from good transport links.

Heide Park also includes two accommodation offerings, which we operate: the Holiday Camp, a holiday village with 81 chalets of varying sizes with a total capacity of 158 rooms and primarily targets schools and families, and a 166 room hotel with wedding and conference facilities.

Material Contracts

LCA

We license the LEGOLAND and LEGO trademarks pursuant to a licence and co-operation agreement dated 24 August 2005 (as subsequently amended and restated) with KIRKBI (then named LEGO Holding A/S). See "—Intellectual Property".

LEGOLAND Malaysia

We operate LEGOLAND Malaysia pursuant to a development and management agreement with Malaysian partners with funds provided by the Malaysian government. Under the agreement, we were paid an initial development fee and receive an annual operating fee and other fees based on the revenue and EBITDA of the LEGOLAND Malaysia park. We were required to contribute half of our initial development fee to the capital of the project company (IDR) that owns the park assets and were required to contribute future revenue and EBITDA related fees to the capital of IDR until we held approximately 20 per cent. of the issued share capital of that company. That level has now been reached and thus we are no longer required to contribute management fees to IDR. The Malaysian government has invested in the development of LEGOLAND Malaysia. See "Certain Relationships and Related Party Transactions".

LEGOLAND Dubai

We operate LEGOLAND Dubai pursuant to a development and management contract. Our local partner, LL Dubai Theme Park LLCs and Resorts, owns the assets and we operate the park. Under the contract, we were paid an initial development fee and receive an annual operating fee and other fees based on the revenue and EBITDA of LEGOLAND Dubai.

LEGOLAND Japan

LEGOLAND Japan, which is expected to open in 2017, will be funded through an "operated and leased" model, in which we invest approximately one third of the value of the park, with the balance of the assets, primarily park infrastructure assets, funded and owned by one of KIRKBI's subsidiaries, through a combination of equity, and external debt provided by Sumitomo Mitsui Banking Corporation. We will lease the park and associated assets on arm's length commercial terms, paying a turn-over based rent with an approximate £5 million (equivalent) annual floor on a 50 year fully repairing and insuring lease. See "Certain Relationships and Related Party Transactions".

LEGOLAND Korea

We have announced plans to open a LEGOLAND Park in Chuncheon, Gangwon Province, South Korea in 2019, which we intend to fund through an "operated and leased" model, similar to LEGOLAND Japan, in which we will invest approximately one third of the value of the park, predominantly in the branded assets, with the balance of assets funded by a property company owned by a consortium of local public and private investors. We intend to lease the balance of the assets, primarily park infrastructure, from the property company. We intend to lease the park and associated assets on arm's length commercial terms, paying a turn-over based rent on an initial 50 year lease. The terms of this agreement, however, remain subject to change.

Coca-Cola London Eye

We hold the property on which the Coca-Cola London Eye Attraction is located pursuant to three lease agreements and a River Works licence agreement. The main ticket hall and 4D cinema are in the sub-basement, basement and ground floor of the County Hall on London's South Bank and held pursuant to a lease dated 30 December 2003, valid until 31 December 2051. The main paved landscape and queue line area adjoining Jubilee Gardens, next to the Coca-Cola London Eye, is held under a lease dated 30 December 2003, valid until 31 December 2101. We also hold a third lease for further land at Jubilee Gardens, dated 8 February 2006, which is valid for 26 years from 1 January 2005.

Further, part of the Coca-Cola London Eye site is operated pursuant to a River Works licence granted to us by the Port of London Authority, dated 10 August 1999. The licence does not have a contractual expiry date but can be revoked by the Port of London Authority on three months' notice, subject to the right of appeal to the U.K. Government. Circumstances for cancellation include an unremedied breach of the licence, the insolvency of the licensee or if the Port of London Authority exercises its statutory powers for navigational or river regime reasons.

Sale and Leaseback Transactions

In July 2007, we entered into sale and leaseback arrangements with the predecessor in title of Secure Income REIT plc in respect of substantially all land and buildings at Alton Towers Resort and Hotel, Heide Park Theme Park and Hotel, Madame Tussauds London, Thorpe Park and Warwick Castle. Secure Income REIT plc subsequently sold the freehold of Madame Tussauds to Fubon MTL Property (Jersey) Ltd. See "Description of Certain Financing Arrangements—Sale and Leaseback Transactions".

Intellectual Property

Our principal intellectual property rights are the various trademarks comprising the Key Brands. With the exception of the LEGOLAND and LEGO trademarks, which are licensed to us under an agreement with KIRKBI, we have pursued a programme of registering trademarks relevant to the Key Brands in those territories in which we operate under the Key Brands, including the U.K., member states of the European Union, the U.S. and various countries in the Asia Pacific region.

We also leverage third-party intellectual property such as “The Ghostbusters Experience “ at Madame Tussauds, New York, “CBeebies Land” at Alton Towers Resort, and “Horrible Histories” at Warwick Castle. We also use third-party intellectual property as part of our joint development with DreamWorks Animation at “DreamWorks Tours’ Shrek’s Adventure!” in London, which opened in 2015.

Pursuant to the LCA, we have an exclusive and worldwide right to use: (i) certain LEGOLAND registered trademarks, including the word “LEGOLAND” and LEGOLAND-associated logos; and (ii) various LEGO-related registered trademarks, until at least 2047 for the purpose of operating and promoting the LEGOLAND Parks and LEGOLAND Discovery Centres and for use in the construction, operation and promotion of new LEGOLAND Parks and LEGOLAND Discovery Centres including in connection with hotels and other accommodation facilities and smaller LEGOLAND attractions such as merchandise.

We pay KIRKBI a quarterly royalty, calculated as a percentage of gross qualifying revenue generated by the operation of the LEGOLAND Parks and attractions. The royalty rates are, in normal circumstances, fixed but can (i) reduce if LEGO’s worldwide turnover falls below specified levels; and (ii) increase, (a) in relation to any LEGOLAND Park whose qualifying revenue falls below a specified floor (being a percentage of that LEGOLAND Park’s first year’s qualifying revenue); and (b) if, but only for so long as, the number of LEGOLAND Parks that we operate falls below three. If an increase in royalty is triggered by a fall in qualifying revenue at a particular LEGOLAND Park, this increase applies to the qualifying revenue of the affected LEGOLAND Park only and continues only until the required revenue is achieved again.

The LCA requires us to develop the LEGOLAND business and the continuation of the LCA is subject to the development of a certain number of LEGOLAND Parks. Our opening of three LEGOLAND Parks (Florida, Dubai and Malaysia) and LEGOLAND Discovery Centres since 2007, confer worldwide exclusivity until at least the end of 2047. We also have a right of first refusal under the LCA to open a new LEGOLAND Park in any country or U.S. state that becomes non-exclusive. Once the new park opens, our exclusive rights under the LCA are restored for the country or U.S. state in question. No new LEGOLAND attractions are permitted within 100 miles of the Disneyland Resort at Anaheim in California before 31 December 2020. The LCA also includes certain operational requirements for the operation of the LEGOLAND attractions, confirming their family orientation, the requirement of a LEGO theme, a list of minimum components for each attraction, requirements for any new rides or attractions at any LEGOLAND venue and a requirement to monitor customer satisfaction and to include a retail area to sell LEGO merchandise.

The LCA includes rights for each party to terminate the agreement in specified circumstances, for example, if visitor satisfaction survey results fall below a specified level, subject to specified cure periods. KIRKBI also has the right to terminate the LEGOLAND Licence and Co-operation Agreement upon the change of control, but only where such change of control would result in the control of any of the LEGOLAND companies by a LEGO competitor or an inappropriate person, as determined in accordance with the agreement.

Industry Expertise and Commitment to Visitor Satisfaction

Merlin Annual Passes

We currently offer a Merlin Annual Pass that is purchased for a one-off price that enables our customers to visit all Attractions within a particular country for one year for no additional admission fee. Merlin Annual Passes are currently available in the U.K., the United States, Germany and Australia. We plan to launch Merlin Annual Passes in other jurisdictions where we own or operate multiple Attractions. We use the Merlin Annual Pass to drive visitor loyalty and brand awareness, to provide us with revenue visibility, to secure cash flows in advance and to increase levels of secondary spending at the Attractions.

Merlin Magic Making

Merlin Magic Making (“*MMM*”) is a specialist group within Merlin which consists of over 300 people. Any project with a cost of over £1 million is managed by MMM project managers. In particular, MMM provides the following services:

- “Finding the Magic”: a small business development team that leads our expansion into new and existing territories by identifying and negotiating for new sites for Midway Attractions.
- “Creating the Magic”: a creative team that creates and delivers new visitor attractions and compelling propositions, hotels and major investment projects within our existing businesses. This team is based in the Merlin Studios in west London.

- “Producing the Magic”: delivering Merlin “product” and appropriate theming for each new visitor attraction, including:
  - creating LEGO models in one of the five LEGO model building facilities at our LEGOLAND Parks in Florida, Malaysia, Windsor, Billund or Germany;
  - the Madame Tussauds’ creative builders, modellers, sculptors and “themers” who can now deliver in excess of 100 Madame Tussauds’ wax figures in a year, each of which take nine months to complete; and
  - a highly experienced professional team of marine biologists supporting the SEA LIFE portfolio.
- “Delivering the Magic”: a team of experienced project managers and support staff that deliver capital projects in excess of £1 million across the globe. In the 2016 financial year, this team worked on 48 major projects across 11 countries, representing capital investment of over £245 million.

With respect to our ride-based attractions, MMM sources new rides from established third-party manufacturers, generally buying proven rides which are in operation in other attractions as opposed to higher risk prototypes. In each case, MMM works with the established third-party manufacturer to add content, theming and technology to give the ride its distinctiveness.

Continuing Commitment to Deliver the Highest Quality Experience for Customers

Our focus on guest experiences and visitor satisfaction is key to generating growth in visitor numbers and extending the length of stay across all our Attractions. Visitor satisfaction is an important determinant of repeat visits and customer loyalty and also forms part of our employee incentivisation arrangements. We measure visitor satisfaction levels through continuous monitoring processes, which assist management in identifying opportunities to support pricing and to help direct capital investment to improving or replacing our product offering. We have a target overall satisfaction level of at least 90 per cent. at each of the Attractions, and most of our Attractions consistently achieve scores above this target. Our Group Product Excellence Director, who reports directly to the Group’s Chief Executive Officer, is tasked with ensuring that our quality of service key performance indicators remain high across the portfolio. We have implemented specific and sophisticated processes at each Attraction to measure visitor satisfaction and give performance feedback on at least a weekly basis. Touch-screen machines have been installed in most Attractions and these provide instant feedback to the relevant visitor attraction and the Group Product Excellence Director. Paper surveys are also used at many Attractions and provide visitor responses are provided directly to the Group Product Excellence Director. We conduct regular mystery shopper visits to test each Attraction against key metrics and to gauge visitor satisfaction. We also carry out regular mystery shopper visits on our key competitors to ensure our own Attractions competitive and of a high standard.

We regularly use league tables to encourage further improvement and we view complaints, where they occur, as a real opportunity to exceed visitor expectations through effective resolution. Product Excellence Managers at most Attractions are tasked (under the leadership of their respective Divisional Directors or General Managers) with resolving the sources of visitor complaints. The fact that a component of our bonus scheme is contingent on meeting our satisfaction target also helps to support our culture of exceeding visitor expectations.

Employees

Our average number of permanent employees for the 2014, 2015 and 2016 financial years was 8,536, 7,958 and 8,515, respectively. The number of permanent staff fell in 2015 primarily due to a change in the definition of what constitutes a permanent employee in the LEGOLAND Parks operating group. Our average number of total employees for the 2014, 2015 and 2016 financial years was 17,327, 18,821 and 19,489 respectively, with the difference reflecting seasonal or temporary employees. Our workforce increased to almost 27,000 employees during the 2016 peak season. During the 2016 financial year, approximately 95 per cent. of our permanent employees comprised staff at our Attractions and approximately 5 per cent. comprised head-office staff.

Employee engagement

Every summer we run our online employee survey, “The Wizard Wants to Know”, to assess how engaged our staff are. In 2016, of 21,700 respondents, 95 per cent. responded that “they enjoy working here”. Our employee engagement score is one of Merlin’s Key Performance Indicators, measuring whether our teams think we are a “Great Place to Perform”, a “Great Place for Customers”, and a “Great Place to Work”. In

2016, our engagement score was 89 per cent., which is above the global average for this type of survey. In addition, we were ranked 14th in the Sunday Times' "Top 25 Best Big Companies to work for".

Diversity

Diversity is a crucial part of our people strategy and we are committed to ensuring that diverse groups are fully and properly represented at all levels of our organisation. We've launched our "Managing Inclusively" programme for all our line managers to ensure we have the best people for every role, regardless of gender, race, disability, sexual orientation, or any other factor. In recent years one of our primary aims has been to increase gender diversity through our "Women at Merlin" programme. 20 per cent. of our Executive Committee are now women, up from nine per cent. in 2015.

Talent and development

Our future growth depends on recruiting and developing the Team Merlin of the future. We seek out people who have a genuine love of fun and a natural ability to inject magic into the lives of our guests whenever they visit one of our attractions and once recruited, we commit to develop and promote people within Merlin by offering promising careers by encouraging employees to move across disciplines and brands.

Recruitment

We operate in a sector with high employee turnover and so it requires effort to maintain our existing employee base. On top of this, as we grow each year, we need an ever-greater variety of roles and skills and offer an increasingly wide range of opportunities. As a result, we have been working closely with our recruiters to give them the skills, knowledge and creativity they need to find and select candidates who have the right skills and attitudes for long and successful careers with us. Technology plays a key role in our hiring strategy and application process so we continue to put special emphasis on our social media activities and how we present our internal employer brand and values to the outside world.

Training

Our goal is to allow everyone to have the right skills to be the best at what they do and fulfil their potential in their career with us. We provide an abundance of learning opportunities to further enhance their careers. These include a fast-track graduate programme, called "Accelerate", leadership development programmes, including our flagship "XCalibre" programme, run in conjunction with Kingston University and the Merlin Leadership Programme, which is run regionally to ensure it reaches all our leaders.

Compensation and Benefits

In certain markets we see pressure on the cost line from external factors such as legislation-driven wage pressures. Recognising this, we will seek to drive productivity through resource efficiencies and more motivated, better-rewarded employees.

We encourage our colleagues to take up shares in Merlin and 39 per cent. of permanent employees are currently enrolled in our Sharesave plans. We also made more than 400 share awards to colleagues at executive, senior and middle management levels under our long-term incentive plans.

We also seek to incentivise and reward employees through the payment of periodic performance-related bonuses. Annual bonuses are paid when Attraction or profit targets are achieved and where personal objectives are met.

Property

Our principal real estate interests are as follows:

Midway Attractions

- SEA LIFE Centres: *Our SEA LIFE Centres are predominantly* leasehold properties, with five located on freehold sites. We also have second gate SEA LIFE attractions at LEGOLAND California and Gardaland and one located within Chessington World of Adventures, which all sit within the freehold of those attractions.
- Madame Tussauds: We hold leases in respect of all of the Madame Tussauds' sites other than Madame Tussauds Blackpool, which is operated under a 20-year management agreement and

Madame Tussauds, London, which formed part of the 2007 sale and leaseback arrangement with Prestbury (now known as Secure Income REIT plc), which subsequently sold the freehold to Fubon MTL Property (Jersey) Ltd.

- The Dungeons: We hold leases in respect of all of the Dungeons sites, with the exception of the Blackpool site which we operate under a 20 year management agreement.
- The Coca-Cola London Eye: We retain and operate part of Coca-Cola London Eye pursuant to an indefinite licence from the Port of London Authority and we hold the remainder pursuant to three leasehold interests. See "—Material Contracts". We also operate observation attractions at Sydney, Weymouth, both under leasehold arrangements, and Blackpool, as part of the 20 year management agreement.
- LEGOLAND Discovery Centres: We hold leases in respect of all LEGOLAND Discovery Centre sites.
- We hold a lease in respect of "DreamWorks Tours' Shrek's Adventure!"
- "Little Big City", which is expected to open in Berlin in 2017 will be operated under a lease arrangement.
- We operate two ski field resorts and two treetop walks in Australia. The ski fields are held under a leasehold agreement while the Treetop walks are freehold sites.
- We lease WILD LIFE Australian animal adventure attractions in Sydney and Hamilton Island, Australia.

LEGOLAND Parks

- We own the freehold interest of all the LEGOLAND Parks and associated accommodation sites with the exception of (a) Malaysia, which is managed pursuant to a long term management agreement; (b) Dubai, which is managed pursuant to a long term management agreement; (c) the Japan and South Korea sites, expected to open in 2017 and 2019, respectively, which will be leased and operated; (d) the botanical gardens at LEGOLAND Florida, which we lease pursuant to a perpetual lease from the State of Florida; (e) certain parking and back-of-house areas at LEGOLAND Billund, which we lease; (f) the LEGOLAND Billund holiday village, which we lease from the Lego Foundation; and (g) the initial hotel at LEGOLAND Windsor, which we lease from Richie Properties pursuant to a sale and leaseback arrangement. See "—Material Contracts".

Resort Theme Parks

- We lease the Alton Towers Resort, Heide Park, Thorpe Park and Warwick Castle sites, including their associated accommodation sites, from Secure Income REIT plc pursuant to a sale and leaseback arrangement entered into in July 2007 with the predecessor in title of Secure Income REIT plc. See "Description of Certain Financing Arrangements".
- We own the freehold title to the Gardaland and Chessington World of Adventures Resort sites including their respective hotels.

Other

- We own the freehold of the Merlin Magic Making Studios in Acton, west London.
- We have support offices in the U.K., Germany, Hong Kong and Australia, all of which are held under leasehold agreements.

Health and Safety

Our number one priority is delivering safe and memorable experiences to our guests. Central to this is our commitment to achieving high standards in Health, Safety and Security ("*HSS*"). Every day we remain focused on ensuring our operations and business activities remain safe. The Committee in charge of HSS (the "*HSS Committee*") assists the Board in ensuring that HSS risks are managed effectively across the Group.

The Alton Towers Resort Accident

In June 2015, two carriages collided on one of our rides at our Alton Towers Resort, resulting in the injury of 16 people (the "*Alton Towers Resort Accident*"). This incident received widespread media attention and was followed by a criminal prosecution, in which the Company pled guilty, resulting in a fine of £5 million. During the sentencing hearing, the presiding judge found that there were serious shortcomings in our safety arrangements for this specific ride, but accepted that the Company did generally have a good health and safety record and procedures in place and noted our "wholly exceptional" co-operation with the U.K.'s Health & Safety Executive during their investigation and that "extensive steps" had been taken to ensure no such incident occurs again.

Our response included a "root and branch" review of all our safety procedures and protocols. We have made a number of changes to the way that ride, and others like it, are operated, including the installation of new CCTV cameras that allow operators to see the entirety of the track, manual overrides that require engineers to walk the length of the track in order to activate, updated safety guides, a new focus on central oversight, and a new engineering function that allows best practices to be shared across the Group.

Independent Reviews

Following the Alton Towers Resort Accident, the HSS Committee commissioned an independent review of ride safety across the business. No major or systemic areas of concern were identified during the extensive audit. Furthermore, the safety culture within the business was described as "strong". Nevertheless a number of recommendations were made and these are being duly actioned.

The Committee also commissioned an independent review of the Company's corporate governance arrangements for HSS. Existing governance arrangements at Board and Executive committee levels were assessed to determine whether they were sufficiently robust and if they could be strengthened. Confirmation was provided that the governance arrangements in place were of a suitably rigorous standard, especially given the Company's size. A small number of recommendations were made and these are also being duly implemented.

Risk control

Our fundamental goal is to ensure the effective prevention or mitigation of HSS risks through robust management systems and programmes that are supported by the right organisational structure and a genuine commitment from all staff. 'Protecting the Magic' is the name of our on-going commitment to controlling HSS risks. This branding provides us with a high-profile communication platform through which we drive workforce engagement and a proactive safety culture.

Performance reporting

Our performance reporting has evolved during 2016. We now report on both a 'leading indicators' basis (those activities such as inspections and audits we perform to manage risk), as well as a 'lagging indicators' (the incident frequency type reporting that has traditionally been the Group's primary reported KPI) basis.

Information Technology

The primary role of our Information Technology ("*IT*") systems is to ensure that the necessary applications and underpinning infrastructure are available to support our business. We have a specific operating group ("*Group IT*") which is responsible for providing support to the Attractions and delivering IT related projects. In order to provide a responsive service to our larger Attractions, Group IT is supported locally by on-site staff. Key IT systems used at many of the Attractions have specialist support teams based in the U.K. An IT Steering Group has also been established, headed by Anne-Françoise Nesmes, our Group Chief Financial Officer, whose role is to formulate IT strategies by business function.

We have an extensive IT systems which support a wide range of areas of our business, including marketing, sales, admissions, maintenance and retail operations, as well as finance and human resources. Our IT systems comprise a combination of centralised and decentralised technology, with the larger Attractions having their own dedicated IT support resources.

Corporate Social Responsibility

As one of the leading entertainment companies in the world, Merlin defines its values not just by the passionate way we do business but also the way we treat our people, our visitors, our suppliers, the creatures in our charge and the communities and environment in which we operate. We call this "Being a Force for Good" and focus our efforts in the following key areas: Sustainability and the Environment; Marine and Wildlife conservation; Merlin's Magic Wand Children's Charity; and Accessibility.

Sustainability and the Environment

Merlin manages resources responsibly. We recognise that our operations have an impact upon the environment and that effective management of this impact is essential for sustainable business success. We are committed to regular monitoring, auditing and review of our activities and identifying opportunities for sustainable environmental improvement, in line with our strategic business goals and in order to minimise the potentially harmful effects of such activity.

We have budgets set aside to test and implement environmentally focused initiatives and an annual "Environmental Award". We have developed groupwide sustainability management and carbon reduction plans and a number of water and waste management initiatives that have been developed to encourage sites and build on examples of best practice across the Group through 2017 and beyond.

We participate in the U.K. Carbon Reduction Commitment (CRC) energy efficiency scheme, EU Energy Efficiency Directives and other applicable environmental regulations globally.

Some examples of environmental initiatives in the 2016 financial year are:

- Lighting optimization at Sydney cluster Harbour Australia;
- Pump optimization at SEA LIFE Blackpool, U.K.;
- Solar Photovoltaic at Gardaland Hotel, Italy.

Marine and Wildlife Conservation

We promote the protection of wildlife across the globe by supporting projects and campaigns that make a real difference. In doing this we leverage our reputation for the ethical and responsible care, preservation and conservation of animals and the marine environment.

We established the SEA LIFE Trust (the "*Trust*") in 2013, a registered charity dedicated to protecting our oceans and the wildlife within them. We engage our staff across the SEA LIFE estate to support these activities, such as our beach clean events where SEA LIFE teams go out into the local community to keep their local beaches free of litter and we engage our staff and our guests to support the Trust's campaigns.

In 2016, the Trust campaigned on marine protection in three territories:

- In the U.K., and working together with the Marine Conservation Society, we have more than 53,000 signatures so far in our efforts to protect 34 priority coastal areas;
- In the U.S., we campaigned to support President Obama's creation of two more marine protected areas in the U.S., including his expansion of the world's biggest marine protected area in Hawaii;
- In Australia, we gathered over 10 per cent. of the total submissions to the Australian Government in support of 26 marine protected areas.

Alongside these initiatives, the Trust donated over £115,000 to support projects and campaigns that support wildlife and habitat across the world. In 2017, the Trust will launch a major campaign and fund projects that help to protect sea turtles, which are increasingly in danger from fishing bycatch and plastic pollution.

Merlin Magic Wand Children's Charity

We established the Merlin Magic Wand Children's Charity in 2008 to enable children who are disadvantaged through ill health, disability, abuse or poverty to have a memorable experience at one of our Attractions around the world. These trips are made possible by the provision of attraction tickets (which come directly from us at no cost to the charity) and travel grants which are provided by Merlin Magic Wand's fundraising. In the 2016 financial year, the charity helped over 86,000 children and their families to enjoy days out.

In circumstances that prevent children from having a day out due to the nature of their illness or disability, the charity invests in "Merlin's Magic Spaces", which are local outreach projects within the localities of our Attractions, such as a SEA LIFE themed sensory room at the Royal Alexandra hospital in Brighton or a themed playroom at the Randwick Children's hospital in Sydney. In the 2016 financial year, fifteen Merlin's Magic Spaces projects were launched, taking the total to 31 worldwide.

Accessibility

We aim to provide experiences and environments that are accessible to all. We want to provide industry leading facilities and experiences. The cornerstones of our approach are:

- Guest Information—to provide clear, accurate, consistent and accessible information to enable visitors to make informed choices;
- Accessible Environments—to make our environments as accessible as possible, continually improving our estate;
- Team Engagement—to ensure employees have the tools and training to deliver memorable experiences to accessibility challenged guests.

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

Insurance

We maintain insurance policies for property damage and business interruption, public and product liability, employer's liability, motor insurance, engineering, travel insurance, marine insurance, pension fund liabilities, construction, professional indemnity, crime and directors and officers liabilities, as well as terrorist acts worldwide. In addition, we maintain insurance policies at a local level based on legislative requirements. We do not maintain any keyman insurance cover.

We believe that our insurance coverage is in accordance with industry custom, including the terms of and the coverage provided by such insurance. Our policies are subject to standard limitations and therefore insurance may not necessarily cover all losses that we incur. We cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies.

Legal Proceedings

At any given time, we may be a party to litigation or be subject to non-litigated claims arising out of the normal operations of our business. We do not expect any liability arising from any of these legal proceedings to have a material impact on our results of operations, liquidity, capital resources or financial position. See "Risks Related to Our Market and Our Business—We are exposed to the risk of serious accidents and other safety incidents" and "Business—Health and Safety—Alton Towers Resort Accident".

In June 2015, two carriages collided on one of our rides at our Alton Towers Resort, resulting in the injury of 16 people. This incident received widespread media attention and was followed by a criminal prosecution of our relevant subsidiary, Merlin Attraction Operations Ltd, which the Company pleaded guilty to. The resulting fine of £5 million was settled in 2016. We are currently in the process of settling civil claims related to the accident and we expect the resulting awards to be covered by our liability insurance.

MANAGEMENT

The Issuer was incorporated as a public limited company under the laws of England and Wales on 20 September 2013, with registration number 08700412. The registered address of the Issuer is 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Directors and Senior Management of the Issuer

Our board of directors, and their representative ages, are as follows:

Name	Position	Age as of 31 December 2016
Sir John Sunderland	Non-Executive Chairman	71
Nick Varney	Group Chief Executive Officer	54
Anne-Françoise Nesmes	Group Chief Financial Officer	45
Charles Gurassa	Senior Independent Non-Executive Director	60
Ken Hydon	Non-Executive Director	72
Trudy Rautio	Non-Executive Director	64
Fru Hazlitt	Non-Executive Director	53
Yun Chiang	Non-Executive Director	46
Søren Thorup Sørensen	Non-Executive Director	51

Set forth below is a short biography of each member of our board of directors.

Sir John Sunderland, Non-Executive Chairman

Sir John was appointed Chairman of Merlin Entertainments in December 2009. Sir John is currently Chairman of Cambridge Education Group, Chancellor of Aston University and an Associate Member of BUPA. He is also an adviser to CVC Capital Partners. Previously, Sir John was Chairman of Cadbury Schweppes from 2003 to 2008 and Chief Executive Officer from 1996 to 2003. Sir John was also President of the CBI from 2004 to 2006, President of the Chartered Management Institute from 2006 to 2007 and President of the Food and Drink Federation from 2002 to 2004.

Sir John was a Non-Executive Director of the Rank Group from 1998 to 2006 and a Director of the Financial Reporting Council from 2004 to 2011. Sir John was a Non-Executive Director of Barclays Bank PLC from 2005 to 2015 and of AFC Energy plc from 2012 to 2015.

Nick Varney, Group Chief Executive Officer

Mr. Varney has over 25 years' experience in the visitor attractions industry and was appointed Chief Executive Officer of Merlin Entertainments in 1999. Prior to Merlin, Mr. Varney was 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. In 2005 he initiated the process which led to its acquisition by Blackstone and subsequent rapid expansion, taking the Company to its 2013 Listing on the London Stock Exchange. Before joining Vardon Attractions, Mr. Varney held senior positions within The Tussauds Group (then a part of Pearson plc), including Marketing Director of Alton Towers Resort and Head of Group Marketing. He started his career in FMCG marketing first with Rowntree and then Reckitt & Colman.

Anne-Françoise Nesmes, Group Chief Financial Officer

Ms. Nesmes was appointed Chief Financial Officer in August 2016. With over 23 years' experience in finance across international organisations, Ms. Nesmes brings a strong focus on strategy execution, M&A, process improvement and governance. Ms. Nesmes started her career in the U.K. as a Finance Graduate Trainee at John Crane, before moving to Tetra Pak, then ADP and later Caterpillar U.K. In 1997, she joined GlaxoSmithKline and held a variety of increasingly senior roles across the organisation in the UK and overseas, including Senior Vice President of Finance for Vaccines. In April 2013, Ms. Nesmes joined Dechra Pharmaceuticals PLC as Chief Financial Officer, where she was instrumental in transforming Dechra into a successful pharmaceutical company specialising in animal health. She led the expansion of its international footprint through acquisitions and delivered significant efficiencies through modernising Finance and R&D processes.

Charles Gurassa, Senior Independent Non-Executive Director

Mr. Gurassa was appointed Senior Independent Non-Executive Director of Merlin Entertainments and Chairman of the Remuneration Committee in 2013. Mr. Gurassa is the Non-Executive Chairman of Channel 4, Deputy Chairman at EasyJet plc and a trustee of English Heritage and the Migration Museum. Until January 2017 Mr. Gurassa was the Non-Executive Chairman of Genesis Housing Association, a position he held since 2010. He is a former Chairman of Virgin Mobile plc, LOVEFiLM, Phones4U, MACH, Tragus, NetNames, Parthenon Entertainments and Alamo/National Rent a Car and the former Deputy Chairman of the National Trust. His executive career included roles as Chief Executive of Thomson Travel Group plc, Executive Chairman TUI Northern Europe, Director TUI AG and as Director, Passenger & Cargo business at British Airways. He is a former Non-Executive Director at Whitbread plc, trustee of the children's charity Whizz-Kidz and a member of the development board of the University of York.

Ken Hydon, Non-Executive Director

Ken was appointed a Non-Executive Director and Chairman of the Audit Committee of Merlin Entertainments in 2013. Ken is currently a Non-Executive Director of Reckitt Benckiser Group plc. Previously, he was CFO of Vodafone Group Plc. Ken was also a Non-Executive Director of Tesco Plc from 2004 to 2013, a Non-Executive Director of Royal Berkshire NHS Foundation Trust from 2005 to 2012 and a Non-Executive Director of Pearson Plc from 2006 to 2015.

Yun (Rachel) Chiang, Non-Executive Director

Rachel was appointed a Non-Executive Director of Merlin Entertainments with effect from 1 January 2016 She has extensive experience of the Asian consumer and property markets, having held a number of senior executive and Non-Executive roles in the region. Rachel is currently Partner and founding member of the private equity activities of Pacific Alliance Group (PAG), one of the region's largest Asia-focused alternative investment managers with over $16 billion in funds under management across Private Equity, Real Estate and Hedge Funds. She currently holds Non-Executive positions with Hong Kong-listed Sands China (a majority-owned subsidiary of Las Vegas Sands), Hong Kong-listed Pacific Century Premium Developments (PCPD) which specializes in the development and management of premium property and infrastructure projects in the Asia Pacific region and Hong Kong-listed Goodbaby International Ltd a leading manufacturer of children's durable products.

Fru Hazlitt, Non-Executive Director

Fru was appointed a Non-Executive Director of Merlin Entertainments in 2014. Fru was formerly Managing Director, Commercial, Online and Interactive at ITV, and previously Chief Executive Officer at GCap Media plc and Virgin Radio. Prior to that Fru spent six years at Yahoo! where her roles included Managing Director, UK and Ireland, and Sales and Marketing Director, Europe. She is now a Governor of Downe House School and has also served as a Non-Executive Director on the Boards of Betfair Plc and Woolworths Plc.

Søren Thorup Sørensen, Non-Executive Director

Søren was appointed a Non-Executive Director of the Company in 2013, representing KIRKBI. Søren is currently the Chief Executive Officer of KIRKBI, following his appointment in March 2010. Søren was formerly a Partner, Chief Financial Officer and member of the Group Executive Board of A.P. Moller – Maersk Group between 2006 and 2009. Prior to this he was Managing Partner of KPMG Denmark, having been a Partner at KPMG since 1997. Outside the KIRKBI Group, Søren is currently Non-Executive Chairman of Topdanmark A/S and holds Non-Executive Director positions at LEGO A/S and Falck Holding A/S.

Trudy Rautio, Non-Executive Director

Trudy was appointed a Non-Executive Director of Merlin Entertainments in 2015. Trudy retired on 1 May 2015 from the position of Chief Executive Officer of Carlson, a privately held global hospitality and travel company. Trudy had been a senior executive with Carlson since 1997, having served as Executive Vice President and Chief Financial and Administrative Officer of Carlson preceding her appointment as CEO. Prior to joining Carlson, Trudy served as Senior Vice President and Chief Financial Officer of Jostens, Inc., and served as Vice President of Finance for Minneapolis-based Pillsbury Co. Trudy is the Chair of The Rezidor Hotel Group Board, and also serves on the Board of Directors for Cargill, The Donaldson Company, Inc., and Securian Holding Company.

Senior Managers

The following table sets forth the individuals who serve in the capacity as the Group's senior managers:

Name	Position	Age as of 31 December 2016
Nick Varney	Group Chief Executive Officer	54
Anne-Françoise Nesmes. . .	Group Chief Financial Officer	45

In addition to our Chief Executive Officer and Chief Financial Officer, we have various managerial and administrative roles within our company to assist in overseeing our business operations and implement our strategies.

Board Committees

The Nomination Committee assists the board in discharging its responsibilities relating to the composition of the board. The Committee is responsible for evaluating and providing recommendations to the board regarding the balance of skills, knowledge and experience on the board, the size, structure and composition of the board and retirements, re-elections and appointments of additional and replacement Directors considering succession planning for both Executive and Non-Executive Directors, considering the term required for Directors to fulfil their roles, developing a policy on diversity and making recommendations to the Board in relation to matters within its remit. The Chairman of the Nomination Committee is Sir John Sunderland and consist of the Chairman and three independent Non-Executive Directors.

The Remuneration Committee assists the board in determining its responsibilities in relation to remuneration, including making recommendations to the board on our policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and the fees of the Chairman and recommending and monitoring the remuneration of senior management below the board level. The Committee considers all material elements of our remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice and makes recommendations to the board on the framework for executive remuneration and its cost. The board is then responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. The Committee is also responsible for making recommendations for the grants of awards under our share incentive plans. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to his own terms and conditions of remuneration. Non-Executive Directors' fees are determined by the full board. The committee consists of four independent Non-Executive directors and the Chairman. The chairman of the Remuneration Committee is Charles Gurassa.

The Audit Committee assists the board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing our annual financial statements, whistleblowing and fraud, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of our internal audit activities, internal controls, risk management systems and considers the processes supporting the assessment of the Group's longer-term solvency and liquidity. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remain with the board. The Committee meets at least four times during the financial year and consists of four Non-Executive directors. In addition, it meets at such other times as the board or the Committee Chairman requires, or if requested by the external auditors. The chairman of the Audit Committee is Ken Hydon.

The HSS Committee assists the board in ensuring that matters of all risk including HHS are managed effectively and proactively throughout the Group. The HSS Committee consists of the Chairman, the Group Chief Executive Officer, the Group Chief Financial Officer, independent Non-Executive Directors, the Director of Health and Safety and Risk Management and the Managing Directors of the Resort Theme Parks and Midway Attractions operating groups. The Committee's primary areas of focus are to oversee the Group's policies and procedures for ensuring the HHS of guests, employees, contractors and operating assets, to monitor the Group's processes for identifying and managing risks and to monitor the skills, effectiveness and levels of resource within the Company's health, safety and security teams. The chairman of the HSS Committee is Sir John Sunderland.

Service Contracts

Key terms of the current Executive Directors' service agreements and Non-Executive Directors' letters of appointment (other than Non-Executive Directors whose appointment is in respect of their position as representatives of the pre-IPO major shareholders) are summarised in the table below. It is envisaged that any future appointments would have equivalent contractual arrangements.

Provision	Policy
Notice Period	Executive Directors—twelve months' notice by either the Company or the Executive Director. Non-Executive Directors—three months' notice by either the Company or the Non-Executive Director or no notice period if terminated by shareholders.
Termination Payment	There is no payment in lieu of notice clause in the Executive Directors' service agreements. Any payments of compensation on termination would be subject to negotiation in line with general principles which include a duty for the individual to mitigate loss. Non-Executive Directors are entitled to receive any fee accruing in respect of their notice period.
Expiry Date	Executive Directors have rolling twelve months' notice periods so have no fixed expiry date. All Non-Executive Directors have rolling three months' notice periods so have no fixed expiry date.

Compensation

In the 2016 financial year, the aggregate compensation paid to our Executive and Non-Executive Directors of the board and the members of the executive committee was £7.8 million. Of this aggregate compensation, £4.8 million was paid as salaries (including social security costs), £0.2 million was paid in pension contributions and £2.8 million was paid in share-based payments or other related payments.

PRINCIPAL SHAREHOLDERS

The Issuer is a public limited company under the laws of England and Wales and is listed on the London Stock Exchange. As of 6 March 2017, we had 1,015,809,266 Ordinary Shares outstanding.

The following table sets forth certain information regarding the holders of 5 per cent. or more of the Issuer's share capital as notified to the Issuer under the U.K. Listing Authority's Disclosure and Transparency Rules, and the number and percentage owned by such shareholders as of 17 February 2017:

Name	Ordinary Shares	Per Cent. Share Capital
KIRKBI	302,971,529	29.83
Blackrock Investment Management (UK) Limited	87,937,149	8.66

Transactions with Shareholders

During the 2014 to 2016 financial years, we entered into transactions with KIRKBI Invest A/S, which was a pre-IPO major shareholder. We also entered into transactions with the LEGO Group, a related party of KIRKBI. Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding, are as follows:

2016	Sales	Amounts owed by related party	Purchases	Amounts owed to related party
		(in £ millions)		(in £ millions)
KIRKBI	1	2	11	5
LEGO Group	1	1	51	3
Total	2	3	62	8

2015	Sales	Amounts owed by related party	Purchases	Amounts owed to related party
		(in £ millions)		(in £ millions)
KIRKBI	—	—	9	2
LEGO Group	1	1	47	2
Total	1	1	56	4

2014	Sales	Amounts owed by related party	Purchases	Amounts owed to related party
		(in £ millions)		(in £ millions)
KIRKBI	1	—	7	2
LEGO Group	1	—	37	2
Total	2	—	44	4

We plan to open a LEGOLAND Park in Japan in 2017, which will be funded through an "operated and leased" model. The park infrastructure assets will be funded and owned by one of KIRKBI's subsidiaries through a combination of equity and external debt provided by Sumitomo Mitsui Banking Corporation. We will lease the park and associated assets on arm's length commercial terms, paying a turn-over based rent with an annual floor on a 50 year lease. We expect to open the park in the first half of 2017.

Transactions with Key Management Personnel

As of 31 December 2016, the Executive Directors, Non-Executive Directors, members of our executive committee and their immediate relatives control 1.2 per cent. (2015: 1.7 per cent.) of our voting shares. In the 2016 financial year, compensation to these key managers was £7.8 million. See "Management—Compensation".

Transactions with Other Related Parties

As part of an agreement for the development and operation of LEGOLAND Malaysia, we have subscribed for share capital in IDR Resorts Sdn. Bhd. ("*IDR*") which, together with its subsidiaries, owns LEGOLAND Malaysia and its assets. At 31 December 2016, we held approximately 20 per cent. of the issued share capital of IDR.

Contingent Liabilities

As of 31 December 2016, we have no material contingent liabilities. As at 26 December 2015, we disclosed a contingent liability relating to the accident at our Alton Towers Resort, which was settled in 2016.

Shareholder Agreements

(1) The Company entered into a relationship agreement with KIRKBI dated 30 October 2013 (the "*KIRKBI Relationship Agreement*"), which remains in force. Under the KIRKBI Relationship Agreement, KIRKBI is entitled to appoint one director to the board and, if it holds more than 10 per cent. of the issued share capital of the Company (together with its respective affiliates), it may appoint an observer (with the right to attend and speak but not vote) to the board and each of the Audit Committee, Remuneration Committee and Nomination Committee.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following summary of certain provisions of the documents listed below governing certain of our indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Existing Notes

On 19 March 2015, the Issuer issued €500 million aggregate principal amount of 2¾% Senior Notes due 2022 (the "*Existing Notes*"). Interest is payable on the Existing Notes semi-annually in arrear on each 15 September and 15 March, commencing on 15 September 2015.

The terms and conditions of the Existing Notes are the same as those of the Additional Notes, which are described under the heading "Description of Notes".

Senior Facilities Agreement

The Issuer and the Note Guarantors entered into the Senior Facilities Agreement (as defined herein) on 25 February 2015. The Senior Facilities Agreement provides for (i) a term loan facility (the "*Term Facilities*") comprised of tranches of €50 million, £250 million and $540 million and (ii) the £300 million Revolving Credit Facility (as defined herein). The Revolving Credit Facility may be utilised by way of loans or ancillary facilities. The Senior Facilities Agreement also permits us, subject to certain conditions set out in the Senior Facilities Agreement, to increase the commitments under the Revolving Credit Facility by a total aggregate amount of not more than £200 million (the "*Incremental Facility*") on terms to be agreed with existing lenders under the Senior Facilities Agreement and/or new lenders. The Revolving Credit Facility may be utilised in sterling, euro, U.S. dollars, Australian dollars, Japanese Yen and other currencies approved by the relevant lenders, subject to the requirements of the Senior Facilities Agreement.

Repayments and Prepayments

The Term Facilities will mature on the date that is five years from the date of first utilisation under the Senior Facilities Agreement, which was 19 March 2015, and the Revolving Credit Facility will mature on the date which is five years from the date of first utilisation, which was 19 March 2015. Subject to certain conditions, we may voluntarily prepay our utilisations under the Term Facilities and Revolving Credit Facility in whole or in part in a minimum amount of £5 million on three business days' notice to the Agent. We may not reborrow any amounts repaid under the Term Facilities but may, subject to the requirements of the Senior Facilities Agreement, borrow amounts repaid under the Revolving Credit Facility.

The Senior Facilities Agreement also contains a change of control clause which is triggered if any person or group or persons acting in concert gains control of the Issuer (with control defined as (i) owning more than 50 per cent. of the issued and registered voting share capital of the Issuer or (ii) having the power to direct the management and policies of the Company). In such circumstances the Senior Facilities Agreement provides for a negotiation period with a view to agreeing terms and conditions that are acceptable to the Issuer and the lenders for continuing the facilities. If no agreement is reached, individual lenders can require that all amounts owing to them are repaid at par within agreed time periods.

Interest and Fees

The interest rate on advances under the Term Facilities and Revolving Credit Facility will be the rate per annum equal to the aggregate of the applicable margin plus LIBOR or, in relation to any loan in euro, EURIBOR or, in relation to any loan in a Non-LIBOR Currency, the Benchmark Rate for that currency (as each term is defined in the Senior Facilities Agreement). The margin varies according to our net leverage ratio as certified in compliance certificates delivered every six months (with the range in margins being from 2.50 per cent. per annum to 1.25 per cent. per annum under the Term Facilities and from 2.25 per cent. per annum to 1.00 per cent. per annum under the Revolving Credit Facility), with the highest margin applying when an event of default is continuing under the Senior Facilities Agreement. The margin in respect of the Incremental Facility will be determined at the time such facility is made available.

We are also required to pay a commitment fee, quarterly in arrear, on available but unused commitments under the Revolving Credit Facility at a rate of 35 per cent. of the applicable margin per annum. The Issuer is also required to pay a utilisation fee at a rate of (i) 0.20 per cent. per annum on the amount of the Revolving Credit Facility loans outstanding for each date that the amount of Revolving Credit Facility loans outstanding is higher than 33⅓ per cent. of the Revolving Credit Facility commitments but less than or equal to 66⅔ per cent. of the total Revolving Credit Facility commitments and (ii) 0.40 per cent. per annum on the amount of Revolving Credit Facility loans outstanding for each date that the amount of the Revolving Credit Facility loans outstanding is higher than 66⅔ per cent. of the total Revolving Credit Facility commitments. For these purposes, the commitments are calculated excluding any commitments which have been allocated to ancillary facilities.

We are also required to pay certain agency, ticking, participation and other fees in connection with the Term Facilities and Revolving Credit Facility.

Covenants

The Senior Facilities Agreement contains customary affirmative and negative covenants for financing of this nature subject to certain agreed exceptions, including a negative pledge, a restriction on disposals, a restriction on mergers and other corporate reconstructions, a restriction on acquisitions which constitute class one transactions (as defined in the UK Listing Authority rules) and a guarantor coverage test (set at 80 per cent. of our Consolidated EBITDA (as defined in the Senior Facilities Agreement) subject to certain exceptions).

In addition, the Senior Facilities Agreement monitors our financial and operating performance by two financial covenants, which require us to ensure that (i) the ratio of the Group's consolidated total net debt to the Adjusted Consolidated EBITDA (as such term is defined in the Senior Facilities Agreement) shall not exceed 3.75:1.00, and (ii) the ratio of Adjusted Consolidated EBITDA (as such term is defined in the Senior Facilities Agreement) to the Group's net finance charges shall not be less than 3.00:1.00. These financial covenants will be tested by reference to each of the annual and semi-annual financial statements delivered pursuant to the Senior Facilities Agreement (the Senior Facilities Agreement contains various customary informational obligations to the lenders thereunder).

Events of Default

The Senior Facilities Agreement contains customary events of default (subject in certain cases to agreed grace periods, thresholds and other qualifications), including a cross default in respect of indebtedness where the aggregate amount of indebtedness that has not been paid or is declared or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described) is or exceeds £30 million (or its equivalent in any other currency or currencies). Other events of default include failure to pay, breach of the financial covenants described above, breach of other undertakings, misrepresentation, insolvency and certain insolvency related events, unlawfulness and repudiation.

Governing Law

The Senior Facilities Agreement is governed by and construed and enforced in accordance with English law.

Hedging Agreements

We currently maintain certain derivatives, including interest rate swaps and foreign exchange contracts to manage our exposure to interest rate movements on our financial debt. On a *pro forma* basis, giving effect to the Transaction, approximately 79 per cent. of our long-term indebtedness is expected to be fixed rate over the next three years, which includes the impact of new hedges that we currently intend to enter into to manage exposure in connection with the Senior Facilities on or about the Issue Date. We also hold certain unsecured foreign exchange hedges that will remain in place following the Transaction. From time to time, we may enter into additional unsecured foreign exchange hedges to manage exposure unrelated to the Senior Facilities. The valuation of our interest rate and foreign exchange hedges as of 31 December 2016 was a net liability of £2 million.

Finance Leases

We are party to a number of finance leases primarily related to rental payments on our estate. As of 31 December 2016, the amount outstanding under these leases was £88.0 million.

Sale and Leaseback Transactions

In July 2007, we entered into sale and leaseback arrangements with the predecessor in title of Secure Income REIT plc in respect of substantially all land and buildings at Alton Towers Resort and Hotel, Heide Park Theme Park and Hotel, Madame Tussauds London, Thorpe Park and Warwick Castle. Secure Income REIT plc subsequently sold the freehold of Madame Tussauds to Fubon MTL Property (Jersey) Ltd. As a result of this arrangement, we have paid rent for these Attractions during the periods under review.

In May 2012, we sold the LEGOLAND Windsor Hotel for £19 million to Richie Properties in a sale and leaseback transaction, resulting in rent being payable on this site. The term of the lease is 35 years with the option, but not the contractual requirement, to extend the lease agreement for two further terms of 35 years, subject to an adjustment to market rates at the time of renewal.

DESCRIPTION OF NOTES

You can find the definitions of certain terms used in this description under the subheading "—Certain Definitions." In this description, the word "*Issuer*" refers only to Merlin Entertainments plc and not to any of its subsidiaries.

The Issuer will issue an additional €200.0 million aggregate principal amount of 2¾% Senior Notes due 2022 (the "*New Notes*") under the indenture (the "*Indenture*") dated as of March 19, 2015, among itself, the Note Guarantors, Deutsche Trustee Company Limited, as trustee (the "*Trustee*"), Deutsche Bank AG, London Branch, as principal paying agent, and Deutsche Bank Luxembourg S.A., as registrar and transfer agent, pursuant to which the Issuer issued €500 million aggregate principal amount of its 2¾% Senior Notes due 2022 (the "*Original Notes*") on March 19, 2015. The New Notes constitute "Additional Notes" (as defined below), and will constitute a single class of debt securities with the Original Notes and any other Additional Notes issued in the future under the Indenture for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Original Notes and the New Notes offered hereby will collectively be referred to in this "Description of Notes," together with any Additional Notes issued after the date hereof, as the "Notes." The New Notes will be issued in a private transaction that is not subject to the registration requirements of the Securities Act. See "Notice to Investors." The Indenture is not required to be, nor will it be, qualified under or be subject to the United States Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture and the Notes. It does not restate those agreements in their entirety. We urge you to read the Indenture because it, and not this description, defines your rights as Holders of the Notes. Copies of the Indenture are available as set forth below under "—Additional Information." Certain defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the Indenture.

Brief Description of the Notes and the Note Guarantees

The Notes

The Notes:

- are or will be senior unsecured obligations of the Issuer;
- rank or will rank *pari passu* in right of payment with all of the Issuer's existing and future senior unsecured obligations that are not subordinated in right of payment to the Notes, including obligations under the New Senior Facilities Agreement and certain hedging obligations;
- rank or will rank senior in right of payment to all of the Issuer's existing and future obligations that are expressly subordinated in right of payment to the Notes, if any;
- are or will be effectively subordinated to any existing and future secured obligations of the Issuer to the extent of the value of the property and assets securing such obligations;
- are or will be structurally subordinated to all obligations of the Issuer's Subsidiaries that do not guarantee the Notes; and
- are or will be guaranteed by the Note Guarantors, subject to contractual limitations that reflect limitations under applicable law.

The Note Guarantees

The Notes are, or will be, as applicable, subject to contractual limitations that reflect limitations under applicable law, guaranteed, jointly and severally, on a senior basis by each Note Guarantor and each existing and future Subsidiary of the Issuer that is required to become a Note Guarantor in accordance with the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries." The Notes are, or will be, as applicable, guaranteed by the following Subsidiaries of the Issuer: Madame Tussauds Touring Exhibition Limited, Merlin Attractions Operations Limited, Merlin Entertainments (Dungeons) Limited, Merlin Entertainments Group Holdings Limited, Merlin Entertainments (SEA LIFE) Limited, LEGOLAND ApS, Dungeon Deutschland GmbH, Heide-Park Soltau GmbH, LEGOLAND Deutschland Freizeitpark GmbH, LEGOLAND Deutschland GmbH, Madame Tussauds Deutschland GmbH, Sea Life Deutschland GmbH, Gardaland S.r.l., LEGOLAND California, LLC, LEGOLAND Discovery Centre US, LLC, Madame Tussaud Las Vegas LLC, Madame Tussaud's New York LLC, Merlin Entertainments Group Florida LLC, Merlin Entertainments Group U.S. Holdings Inc., Merlin Entertainments North America LLC, SEA LIFE Minnesota LLC, SEA LIFE US LLC.

Each Note Guarantee of each Note Guarantor:

- is or will be a senior unsecured obligation of such Note Guarantor;
- ranks or will rank *pari passu* in right of payment with all existing and future senior unsecured obligations of such Note Guarantor that are not subordinated in right of payment to such Note Guarantor's Note Guarantee, including obligations under the New Senior Facilities Agreement and certain hedging obligations;
- ranks or will rank senior in right of payment to all existing and future obligations of such Note Guarantor that are expressly subordinated in right of payment to such Note Guarantor's Note Guarantee, if any; and
- is or will be effectively subordinated to all existing and future secured obligations of such Note Guarantor to the extent of the value of the property and assets securing such obligations.

Not all of the Issuer's Subsidiaries have or will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to their parent entity. During the 53 week period ended December 31, 2016, the Issuer and the Note Guarantors accounted for 77 per cent. of the consolidated revenue and 87 per cent. of the consolidated EBITDA of the Issuer and its subsidiaries, and as of December 31, 2016, the Issuer and the Note Guarantors accounted for 65 per cent. of the consolidated assets (excluding goodwill) of the Issuer and its subsidiaries.

The operations of the Issuer are conducted through its Subsidiaries and, therefore, the Issuer depends on the cash flow of Subsidiaries to meet its obligations, including obligations under the Notes. The Notes are or will be, as applicable, effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of the Issuer's Subsidiaries that do not guarantee the Notes. Any right of the Issuer or any Note Guarantor to receive assets of any of its non-guarantor Subsidiaries upon that non-guarantor Subsidiary's liquidation or reorganization (and the consequent right of the Holders of the Notes to participate in those assets) are or will be, as applicable, effectively subordinated to the claims of that non-guarantor Subsidiary's creditors, except to the extent that the Issuer or such Note Guarantor is itself recognized as a creditor of the non-guarantor Subsidiary, in which case the claims of the Issuer or such Note Guarantor, as the case may be, would still be subordinate in right of payment to any security in the assets of the non-guarantor Subsidiary and any Indebtedness of the non-guarantor Subsidiary senior to that held by the Issuer or such Note Guarantor. As of December 31, 2016 on a *pro forma* basis after giving effect to the Offering, our non-Note Guarantor subsidiaries had no financial Indebtedness and £245 million of other liabilities, including trade payables but excluding intercompany obligations, all of which would have ranked structurally senior to the Notes and the Note Guarantees.

Principal, Maturity and Interest

The Issuer will issue in the Offering £200.0 million in aggregate principal amount of New Notes on the 2017 Issue Date. The Issuer may issue additional Notes (the "*Additional Notes*") under the Indenture from time to time after this offering. The Original Notes, the New Notes and any Additional Notes subsequently issued under the Indenture are treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. For all purposes herein unless expressly stated otherwise, the term "Notes" shall include references to the New Notes, the Original Notes and any Additional Notes.

The Issuer will issue the New Notes in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will mature on March 15, 2022.

Interest on the Notes will accrue at the rate of 2.75% per annum. Interest on the New Notes will be payable semi-annually in arrear on September 15, and March 15, in each year, commencing on September 15, 2017, to the Holders of record of the New Notes on the immediately preceding September 1 and March 1. Interest on the New Notes will accrue from March 15, 2017. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

Methods of receiving payments on global Notes are governed by provisions described under "Book-Entry; Delivery and Form—Payments on Global Notes." In the case of certificated Notes, if a Holder has given wire transfer instructions to the Issuer, the Issuer will pay all interest, premium, if any, and Additional Amounts, if any, on that Holder's Note in accordance with those instructions. In all other cases, the Issuer may elect to make payment of interest, premium, if any, and Additional Amounts, if any, by check mailed to the Holders at their addresses set forth in the register of Holders. Payments on Notes will be made through the office or agency of a Paying Agent for the Notes (which, subject to the provisions in "—Paying Agent and Registrar for the Notes," will be in London, England).

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "*Paying Agent*") for the Notes, including one Paying Agent in the City of London (the "*Principal Paying Agent*"). As of the date hereof, the Principal Paying Agent for the Notes is Deutsche Bank AG, London Branch.

The Issuer will also maintain one or more registrars (each, a "*Registrar*") for so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require. As of the date hereof, the Registrar for the Notes is Deutsche Bank Luxembourg S.A. The Issuer will also maintain a transfer agent (the "*Transfer Agent*") in Luxembourg. As of the date hereof, the Transfer Agent for the Notes is Deutsche Bank Luxembourg S.A.

The Issuer may change the Paying Agent, the Registrar or the Transfer Agent without prior notice to the Holders of the Notes. The Issuer or any of its subsidiaries may act as Paying Agent, Registrar or Transfer Agent in respect of the Notes; *provided*, *however* that if and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Transfer and Exchange

A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar, the Trustee and any Paying Agent may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any Note selected for redemption. Also, the Issuer is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed. No service charge will be made for any registration of transfer or exchange of the Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange.

The Holder of a Note will be treated as the owner of it for all purposes.

Note Guarantees

The Notes are or will be, as applicable, subject to contractual limitations that reflect limitations under applicable law, guaranteed, jointly and severally, on a senior basis by the Note Guarantors. As of the 2017 Issue Date, the Note Guarantors will be the entities set forth above under the caption "—Brief Description of the Notes and the Note Guarantees—The Note Guarantees." Subject to certain limitations under applicable law, each existing and future Subsidiary of the Issuer that thereafter guarantees any Indebtedness of the Issuer under any Public Indebtedness will be required to provide a Note Guarantee in accordance with the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries."

The Indenture limits the obligation to grant guarantees in favor of obligations under the Notes. The Indenture includes restrictions on the granting of guarantees where, among other things, such grant would be restricted by general statutory limitations, financial assistance, capital maintenance, corporate benefit, fraudulent preference, thin capitalization rules, retention of title claims and similar principles. The obligations of the Note Guarantors are or will be, as applicable, contractually limited under the applicable Note Guarantees to reflect these limitations and other legal restrictions applicable to the Note Guarantors and their respective shareholders, directors and general partners. See "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Note Guarantees" and "Risk Factors—Risks Related to the Notes and Our Structure—Insolvency laws and other limitations on the Note Guarantees, including fraudulent conveyance statutes, may adversely affect their validity and enforceability."

Note Guarantees Release

The Note Guarantee of a Note Guarantor will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Note Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Subsidiary;

(2) in connection with any sale or other disposition of Capital Stock of that Note Guarantor or its direct or indirect parent entity to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Subsidiary, if the Note Guarantor ceases to be a Subsidiary as a result of the sale or other disposition;

(3) upon the release of its guarantee by a Note Guarantor under the New Senior Facilities Agreement (including, without limitation, upon repayment of obligations outstanding under the Senior Facilities Agreement); provided that no other Indebtedness is at that time guaranteed by the relevant Note Guarantor that would have otherwise given rise to an obligation to guarantee the Notes pursuant to the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries" had the relevant Subsidiary not already been a Note Guarantor; provided further that should such Note Guarantor thereafter guarantee obligations under the New Senior Facilities Agreement (or such guarantee under the New Senior Facilities Agreement is reinstated or renewed), then such Note Guarantor will guarantee the Notes on the terms and conditions set forth in the Indenture;

(4) as described under "—Amendment, Supplement and Waiver";

(5) upon repayment of the Notes;

(6) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—Legal Defeasance and Covenant Defeasance" and "—Satisfaction and Discharge"; or

(7) upon the release of the guarantee that gave rise to the requirement to guarantee the Notes pursuant to the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries," so long as no Event of Default would arise as a result and no other Indebtedness is at that time guaranteed by the relevant Note Guarantor that would have otherwise given rise to an obligation to guarantee the Notes pursuant to such covenant had the relevant Subsidiary not already been a Note Guarantor.

Upon any occurrence giving rise to a release as specified above, the Trustee will execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such guarantee. Neither the Issuer nor any Note Guarantor will be required to make a notation on the Notes to reflect any such release, termination or discharge.

Optional Redemption

At any time prior to December 15, 2021 (three months prior to the maturity of the Notes), the Issuer may redeem the Notes in whole or in part on any one or more occasions, upon giving not less than 10 nor more than 60 days' notice to the Holders of the Notes, at a redemption price equal to the greater of (a) 100% of the principal amount thereof and (b) the present value as of such date of redemption of (i) the redemption price of 100% for such Note on December 15, 2021, *plus* (ii) all required interest payments due on such Note through December 15, 2021 (excluding accrued but unpaid interest to the date of redemption) computed using a discount rate equal to the Bund Rate as of such date of redemption *plus* 50 basis points calculated by the Issuer, *plus* accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

At any time on or after December 15, 2021 (three months prior to the maturity of the Notes), the Issuer may redeem the Notes in whole or in part on any one or more occasions, upon giving not less than 10 nor more than 60 days' notice to the Holders of the Notes, at a redemption price equal to 100% of the principal amount thereof, *plus* accrued and unpaid interest and Additional Amounts, if any, thereon, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Any such redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent, and such notice may state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied.

Except pursuant to the preceding paragraphs and except as described below under "—Redemption for Taxation Reasons," none of the Notes will be redeemable at the Issuer's option. Nothing in the Indenture prohibits the Issuer from acquiring the Notes by means other than a redemption, whether pursuant to an issuer tender offer or otherwise, assuming such acquisition does not otherwise violate the terms of the Indenture.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee or the Registrar will select Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, and in compliance with the requirements of Euroclear or Clearstream, as applicable, or if the Notes are not so listed or such exchange prescribes no method of selection and the Notes are not held through Euroclear or Clearstream, or Euroclear or Clearstream prescribes no method of selection, on a *pro rata* basis; *provided*, *however*, that no Note of €100,000 in aggregate principal amount or less, or other than in an integral multiple of €1,000 in excess thereof, shall be redeemed in part.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, not less than 10 nor more than 60 days prior to the redemption date, the Issuer will, if the Notes are in certificated form, mail notice of redemption to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar. The Trustee and the Registrar shall not be liable for selections of Notes made in accordance with this paragraph.

For Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, any such notice to the Holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*) and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. In the case of a certificated Note, a new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. In the case of a global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

Redemption for Taxation Reasons

The Issuer may, at its option, redeem the Notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders of the Notes (which notice will be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a "*Tax Redemption Date*") (subject to the right of Holders of record of certificated Notes on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (see "—Withholding Taxes"), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Issuer or a successor of the Issuer (a "*Payor*") reasonably determines that, as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation or

(2) any change in, or amendment to, or the introduction of, a position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in administrative practice) (each of the foregoing in clauses (1) and (2), a "Change in Tax Law"),

the Payor or any Note Guarantor is, or on the next interest payment date in respect of the Notes would be, required to pay Additional Amounts, and the Payor or the relevant Note Guarantor (as appropriate) cannot avoid such obligation by taking reasonable measures available to it. In the case of the Issuer or any Note Guarantor as of the Issue Date, the Change in Tax Law must become effective on or after the date of the 2015 Offering Memorandum. In the case of a Successor Issuer or any Person who becomes a Note Guarantor after the Issue Date or any successor of any Note Guarantor, the Change in Tax Law must become effective on or after the date that the Issuer first makes payment on the Notes or on or after the date on which such Person became a Note Guarantor or a successor of any Note Guarantor, as applicable. Notice of redemption for taxation reasons will be published in accordance with the procedures under "—Notices." Notwithstanding the foregoing, no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Payor or Note Guarantor, as applicable, would be obligated to make such payment or withholding if a payment in respect of the Notes were then due. Prior to the publication or mailing of any notice of redemption of the Notes pursuant to the foregoing, the Payor will deliver to the Trustee an opinion of an independent tax counsel of recognized standing qualified under the laws of the Relevant Taxing Jurisdiction to the effect that the circumstances referred to above exist. The Trustee will accept such opinion as sufficient existence of the satisfaction of the conditions precedent described above, in which event it will be conclusive and binding on the Holders of the Notes.

Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Withholding Taxes

All payments made by or on behalf of the Payor with respect to the Notes or any Note Guarantor or successor Note Guarantor (as applicable) with respect to its Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, levies, imposts, assessments or other governmental charges of whatever nature including penalties, interest and any other additions thereto ("*Taxes*") imposed or levied by or on behalf of (1) any jurisdiction in which the Payor or any Note Guarantor or successor Note Guarantor is incorporated, organized, engaged in business or otherwise considered resident for tax purposes or any political subdivision or governmental authority thereof or therein having power to tax, or (2) any jurisdiction from or through which payment with respect to the Notes or any of the Note Guarantees is made by or on behalf of the Payor or any Note Guarantor or successor Note Guarantor (as applicable) or any political subdivision or governmental authority thereof or therein having the power to tax (each of clause (1) and (2), a "*Relevant Taxing Jurisdiction*"), unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes of any Relevant Taxing Jurisdiction will at any time be required from any payments made by or on behalf of the Payor with respect to the Notes or any Note Guarantor with respect to the Note Guarantees, including, without limitation, payments of principal, redemption price, interest or premium, if any, the Payor or the relevant Note Guarantor or successor Note Guarantor, as applicable, will pay (together with such payments) such additional amounts (the "*Additional Amounts*") as may be necessary in order that the net amounts received in respect of such payments by the Holders of the Notes after such withholding or deduction (including any such deduction or withholding from such Additional Amounts) equal the amounts which would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been imposed but for the Holder (or a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of power over, the relevant Holder, if the relevant Holder is an estate, nominee, trust, partnership, limited liability company or corporation) or beneficial owner having any present or former connection with such Relevant Taxing Jurisdiction (including, without limitation, being resident for tax purposes, being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, such Relevant Taxing Jurisdiction) other than a connection arising from the acquisition, ownership or holding of such Note or enforcement of rights thereunder or the receipt of payments in respect of the Notes or with respect to any Note Guarantee;

(2) any Taxes that would not have been imposed if the Holder or beneficial owner had made a declaration of non-residence or any other certification, claim or filing for exemption to which it is entitled (provided that (x) such declaration of non-residence or other certification, claim or filing for exemption is required by the applicable law of the applicable Relevant Taxing Jurisdiction as a precondition to exemption from, or reduction in the rate of deduction or withholding of, such Taxes and (y) at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other certification, claim or filing for exemption is required under the applicable law of the applicable Relevant Taxation Jurisdiction, the relevant Holder has been notified in writing by the Payor or any other person through whom payment may be made that such declaration of non-residence or other certification, claim or filing for exemption is required to be made);

(3) any Taxes imposed as a result of the presentation of any Note for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(4) any Taxes that are payable otherwise than by deduction or withholding from payments made under or with respect to the Notes or any Note Guarantee;

(5) any estate, inheritance, gift, sales, excise, transfer, personal property or similar Tax;

(6) a Tax imposed on a payment to or for an individual and required to be made pursuant to European Council Directive 2003/48/EC, or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, any such directive;

(7) a Tax imposed in connection with a Note presented for payment by or on behalf of a Holder or beneficial owner who would have been able to avoid such Tax by presenting the relevant Note to, or otherwise accept payment from, another paying agent in a member state of the European Union;

(8) any Taxes imposed, deducted or withheld pursuant to section 1471(b) of the Code or otherwise imposed pursuant to sections 1471 through 1474 of the Code, in each case, as of the Issue Date (and any amended or successor version that is substantively comparable), any current or future regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental agreement relating thereto; or

(9) any combination of clauses (1) through (8) above.

Such Additional Amounts will also not be payable where, had the beneficial owner of the Note been the Holder of the Note, it would not have been entitled to payment of Additional Amounts by reason of clauses (1) to (9) inclusive above.

The Payor and each Note Guarantor or successor Note Guarantor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. Upon written request, the Payor and each Note Guarantor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes and will provide such certified copies to the Paying Agent. The Payor and each Note Guarantor or successor Note Guarantor will attach to each certified copy a certificate stating (x) that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Notes then outstanding and (y) the amount of such withholding Taxes paid per €1,000 principal amount of the Notes.

Wherever in the Indenture or this Description of Notes there is mentioned, in any context, the payment of (1) principal, (2) purchase prices in connection with a purchase of Notes, (3) interest or (4) any other amount payable on or with respect to the Notes or the Note Guarantees, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor and the Note Guarantors (or successor Note Guarantors) will pay and indemnify the Holder for any present or future stamp, issue, registration, transfer, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including any penalties, interest and any other reasonable expenses related thereto) which arise in any jurisdiction from the execution, delivery, issuance or registration of any Notes or any other document or instrument referred to therein (other than a transfer of the Notes subsequent to this offering), or the receipt of any payments with respect to the Notes (limited to any such taxes, charges or similar levies that are not excluded under clauses (1) through (3) or (5) through (8) above or any combination thereof), excluding, in each case, any such taxes, charges or similar levies imposed by any jurisdiction outside a Relevant Taxing Jurisdiction, other than those resulting from, or required to be paid in connection with, the enforcement of the Notes, the Note Guarantees or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture.

Repurchase at the Option of Holders

Change of Control Repurchase Event

If a Change of Control Repurchase Event occurs, each Holder of the Notes will have the right to require the Issuer to repurchase all or any part (equal to €100,000 and integral multiples of €1,000 in excess thereof in the case of Notes that have denominations larger than €100,000) of that Holder's Notes pursuant to an offer (the "*Change of Control Offer*") on the terms set forth in the Indenture. In the Change of Control Offer, the Issuer will offer a payment (the "*Change of Control Payment*") in cash equal to 101% of the aggregate principal amount of each of the Notes repurchased *plus* accrued and unpaid interest and Additional Amounts, if any, thereon, to the date of purchase. Within 30 days following any Change of Control Repurchase Event, the Issuer will mail a notice to each Holder and the Trustee describing the transaction or transactions that constitute the Change of Control Repurchase Event and offering to repurchase Notes on a date (the "*Change of Control Payment Date*") specified in such notice, which date shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Section 14(e) of the Exchange Act to the extent applicable and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Repurchase Event provisions of the Indenture by virtue of such conflict.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the relevant Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of such Notes or portions thereof being purchased by the Issuer.

The Paying Agent will promptly deliver to each Holder of Notes so tendered the Change of Control Payment for such Notes and the Trustee or the Registrar will, upon receipt of an Issuer order, promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount of €100,000 or an integral multiple of €1,000 in excess thereof.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer in a leading newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

In the case of certificated Notes, if the Change of Control Payment Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest and Additional Amounts, if any, will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest or Additional Amounts will be payable to Holders who tender pursuant to the Change of Control Offer; in the case of global Notes, the Issuer will pay accrued and unpaid interest to the Change of Control Payment Date to the Holder on such date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control Repurchase Event apply regardless of whether any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control Repurchase Event, the Indenture does not contain provisions that permit the Holders of the Notes to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer following a Change of Control Repurchase Event if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (ii) a notice of redemption for all of the outstanding Notes has been given pursuant to the Indenture under the caption "—Optional Redemption" unless and until there is a default in the payment of the applicable redemption price, *plus* accrued and unpaid interest to the proposed redemption date. Notwithstanding anything to the contrary contained in the Indenture or the Notes, a Change of Control Offer may be made in advance of a Change of Control Repurchase Event, conditional upon the consummation of the Change of Control, so long as a definitive agreement has been executed that contains terms and provisions that would otherwise result in a Change of Control upon completion of the transactions contemplated thereby.

The Issuer's ability to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. The occurrence of certain of the events that constitute a Change of Control may constitute a default under the New Senior Facilities Agreement. In addition, certain events that may constitute a change of control under the New Senior Facilities Agreement and cause a default may not constitute a Change of Control under the Indenture. In addition, future Indebtedness of the Issuer and its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control Repurchase Event. The exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

Even if sufficient funds were otherwise available, the terms of other Indebtedness may prohibit the Issuer's prepayment of Notes prior to their scheduled maturity. Consequently, if the Issuer is not able to prepay such Indebtedness or obtain requisite consents, the Issuer will be unable to fulfill its repurchase obligations if Holders of Notes exercise their repurchase rights following a Change of Control Repurchase Event, thereby resulting in a default under the Indenture. A default under the Indenture may result in a cross-default under such other Indebtedness.

The Change of Control Repurchase Event provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Issuer by increasing the capital required to effectuate such transactions. The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Issuer and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Issuer to repurchase such Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Certain Covenants

Negative Pledge

The Issuer will not, and will not permit any of its Subsidiaries to, secure any Indebtedness for money borrowed by placing a Lien (other than a Permitted Lien) on any Principal Property now or hereafter owned or leased by the Issuer or any Subsidiary of the Issuer or on any shares of stock of any Subsidiary of the Issuer (a "*Restricted Lien*") without equally and ratably securing (or securing on a senior basis, in the case of a Lien securing Indebtedness for money borrowed that is by its terms expressly subordinated to the Notes or any Note Guarantee) all of the Notes. The restrictions set forth in the preceding sentence will not apply to any Permitted Lien, and all Indebtedness secured by a Permitted Lien shall be excluded in computing the amount of Indebtedness secured by a Lien outstanding for purposes of this covenant.

Any Lien created for the benefit of the Holders of the Notes pursuant to the preceding paragraph shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Lien relating to such Indebtedness that gave rise to the obligation to so secure the Notes.

Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries

The Issuer will not cause or permit any of its Subsidiaries that is not a Note Guarantor, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of any Indebtedness of the Issuer or any Note Guarantor (a) under the New Senior Facilities Agreement or (b) that constitutes Public Indebtedness unless such Subsidiary executes and delivers a supplemental indenture to the Indenture providing for a Note Guarantee of payment of the Notes by such Subsidiary on the same terms as the guarantee of such Indebtedness within 30 business days thereof; *provided* that if such Indebtedness is by its terms expressly subordinated to the Notes or any Note Guarantee, any such guarantee, assumption or other liability of such Subsidiary with respect to such Indebtedness shall be subordinated to such Subsidiary's Note Guarantee of the Notes at least to the same extent as such Indebtedness is subordinated to the Notes or any other Note Guarantee; *provided further* (x) that this covenant shall not be applicable to any guarantee of intercompany Indebtedness and (y) such Subsidiary shall not be obliged to become a Note Guarantor to the extent and for so long as the granting of such Note Guarantee could give rise to or result in: (i) any breach or violation of general statutory limitations, financial assistance, capital maintenance, corporate benefit, fraudulent preference or thin capitalization rules, retention of title to claims or the laws, rules or regulations (or analogous restriction) of any applicable jurisdiction; or (ii) any risk or liability for the officers, directors or shareholders of such Subsidiary (or, in the case of a Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (iii) any cost, expense, liability or obligation (including with respect to any Taxes) to the extent such cost, expense, liability or obligation are disproportionate to the benefit obtained by the Holders with respect to the receipt of the guarantee (as determined in good faith by the Issuer).

To the extent any Subsidiary of the Issuer is required to provide a Note Guarantee, such Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Merger, Consolidation or Sale of Assets

The Issuer may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, convey, lease or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:

(1) either: (a) the Issuer is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance, lease or other disposition shall have been made (the "Successor Issuer") is a company organized or existing under the laws of the United States, any state thereof or the District of Columbia or any member of the European Union;

(2) the Successor Issuer (if other than the Issuer) assumes all the obligations of the Issuer under the Notes and the Indenture pursuant to agreements reasonably satisfactory to the Trustee;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) each Note Guarantor (unless it is the other party to the transactions above, in which case clause (1) shall apply) shall have by supplemental indenture confirmed that its Note Guarantee shall apply to such Person's obligations in respect of the Indenture and the Notes (unless such Note Guarantee shall be released in connection with the transaction and otherwise in compliance with the Indenture).

For purposes of this covenant, the sale, assignment, transfer, conveyance, lease or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of a Person, which properties and assets, if held by such Person instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of such Person on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of such Person.

Reports

For so long as any Notes are outstanding and subject to the paragraphs that follow, the Issuer will provide to each of the Trustee and the Holders of Notes and potential purchasers of Notes:

(1) within four months after the end of the Issuer's fiscal year, annual reports containing the following information: (a) audited consolidated balance sheet of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; (c) a description of the industry, business, management and shareholders of the Issuer, all material affiliate transactions, Indebtedness and material financing arrangements and a description of all material contractual arrangements, including material debt instruments; and (d) risk factors and material recent developments;

(2) within two months following the end of the second quarter in each of the Issuer's fiscal years, reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such semi-annual period and unaudited condensed statements of income and cash flow for the year-to-date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for the Issuer, together with condensed footnote disclosure; (b) an operating and financial review of the unaudited financial statements, including a discussion of the consolidated financial condition and results of operations of the Issuer and any material change between the current period and the corresponding period of the prior year; (c) material developments in the business of the Issuer and its Subsidiaries; (d) financial developments and trends in the business in which the Issuer and its Subsidiaries are engaged; and (e) material recent developments; and

(3) promptly after the occurrence of (a) any senior management change at the Issuer; (b) any change in the auditors of the Issuer; (c) any resignation of a member of the Board of Directors of the Issuer as a result of a disagreement with the Issuer; (d) the entering into an agreement that will result in a Change of Control; or (e) any material events that the Issuer or any of its Subsidiaries announces publicly, in each case, a report containing a description of such events.

The Issuer will furnish to the Trustee such other information that it is required to make publicly available under the requirements of the London Stock Exchange as a result of having its ordinary shares admitted for trading on such exchange. Notwithstanding the first paragraph of this covenant, upon the Issuer complying with the public reporting requirements of the London Stock Exchange (regardless of whether the Issuer's ordinary shares are admitted for trading on such exchange), to the extent that such requirements include an obligation to prepare and make publicly available annual reports, information, documents and other reports with the London Stock Exchange, the Issuer will be deemed to have complied with the provisions contained in clauses (1) through (3) of the preceding paragraph.

Notwithstanding the foregoing, the Issuer will be deemed to have provided such information to the Trustee, the Holders of the Notes and prospective purchasers of the Notes if such information referenced above in clauses (1) through (3) of the first paragraph above or alternatively, in the preceding paragraph, has been posted on the Issuer's website.

Events of Default and Remedies

Each of the following is an "*Event of Default*" under the Indenture:

(1) default for 30 days in the payment when due of interest on, or Additional Amounts with respect to, the Notes;

(2) default in payment when due of the principal of, or premium, if any, on the Notes;

(3) failure by the Issuer or any of its Subsidiaries for 60 days after notice by the Trustee or by the Holders of at least 25% in principal amount of the Notes to comply with any of the other agreements in the Indenture;

(4) default under any mortgage, indenture or instrument under which there is issued and outstanding any Indebtedness for money borrowed by the Issuer or any of its Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, if that default:

   (a) is caused by a failure to pay principal at the final stated maturity of such Indebtedness (after giving effect to any applicable grace period provided in the Indebtedness) (a "*Payment Default*"); or

   (b) results in the acceleration of such Indebtedness prior to its express maturity;

   and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates £30.0 million or more; and

(5) certain events of bankruptcy or insolvency with respect to the Issuer or any of its Significant Subsidiaries.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to the Issuer or a Significant Subsidiary of the Issuer, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee (upon request of Holders of at least 25% in principal amount of Notes then outstanding) shall, by notice in writing to the Issuer or the Holders of at least 25% in principal amount of the then outstanding Notes may, by notice in writing to the Issuer and the Trustee, declare all Notes to be due and payable and such notice shall specify the respective Event of Default and that such notice is a "notice of acceleration" (the "*Acceleration Notice*"), and the Notes shall become immediately due and payable. In the event of any Event of Default specified in clause (4), above, such Event of Default and all consequences thereof (including, without limitation, any acceleration or resulting payment default) shall be annulled, waived and rescinded automatically and without any action by the Trustee or the Holders, if within 30 days after such Event of Default arose, (1) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged, (2) the creditors on such Indebtedness have rescinded or waived the acceleration, notice or action, as the case may be, giving rise to such Event of Default or (3) if the default that is the basis for such Event of Default has been cured.

Holders of Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee shall be obligated to notify the Holders of Notes of all Defaults actually known to the Trustee within 60 days after receiving notice from the Issuer of the occurrence of a Default unless the applicable Default shall have been cured. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest or Additional Amounts) if it determines that withholding notice is in their interest.

Subject to conditions specified in the Indenture, the Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of principal, interest, premium, if any, and Additional Amounts, if any with respect to the Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, interest when due, and Additional Amounts, if any, no Holder may pursue any remedy with respect to the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

In the case of any Event of Default occurring by reason of any wilful action (or inaction) taken (or not taken) by or on behalf of the Issuer in bad faith with the intention of avoiding payment of the premium that the Issuer would have had to pay if the Issuer then had elected to redeem the Notes pursuant to the optional redemption provisions of the Indenture or was required to repurchase the Notes, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Notes.

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture within 120 days after the end of each fiscal year. Upon becoming aware of any Default or Event of Default, the Issuer is required to promptly deliver to the Trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Note Guarantor, as such, shall have any liability for any obligations of the Issuer or any Note Guarantor under the Notes, the Note Guarantees or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the United States federal or other applicable securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Note Guarantors discharged with respect to their Note Guarantees ("*Legal Defeasance*") except for:

(1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest, premium and Additional Amounts, if any, on such Notes when such payments are due (including on a redemption date) from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Note Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

If the Issuer exercises its Legal Defeasance option, payment of the Notes may not be accelerated because of an Event of Default. In addition, the Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Note Guarantors released with respect to certain covenants that are described in the Indenture ("*Covenant Defeasance*") and thereafter payment on the Notes may not be accelerated because of an Event of Default relating to any omission to comply with those covenants. In the event Covenant Defeasance occurs, payment on the Notes may not be accelerated because of an Event of Default relating to certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "—Events of Default and Remedies" with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee or its designee, in trust, for the benefit of the Holders of the Notes, cash in euro, European Government Obligations or a combination of cash and European Government Obligations in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay the principal of, interest, premium and Additional Amounts, if any, on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States in form and substance reasonably satisfactory to the Trustee confirming that (i) the Issuer has received from, or there has been published by, the United States Internal Revenue Service a ruling or (ii) since the date of the Indenture, there has been a change in

the applicable United States federal income tax law, in either case, to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such Legal Defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States in form and substance reasonably satisfactory to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such Covenant Defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;

(6) the Issuer must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an Officers' Certificate and an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next three succeeding paragraphs, the Indenture, the Notes or the Note Guarantees may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default, an Event of Default or its consequences or compliance with any provision thereof may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless consented to by Holders of at least 90% of the aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note;

(3) reduce the rate of or change the time for payment of interest on any Note;

(4) reduce the premium or amount payable upon the redemption of any Note or change the time at which any Note may be redeemed as described under "—Optional Redemption" or "—Redemption for Taxation Reasons";

(5) waive a Default or Event of Default in the payment of principal of, or interest, premium or Additional Amounts, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);

(6) make any Note payable in money other than that stated in the Notes;

(7) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders to receive payments of principal of, interest, premium or Additional Amounts, if any, on the Notes or the rights of any Holders to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or any guarantee in respect thereof;

(8) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described under "—Repurchase at the Option of Holders—Change of Control");

(9) make any change in the provisions of the Indenture described under "—Withholding Taxes" that adversely affects the rights of any Holder or amends the terms of the Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Payor agrees to pay Additional Amounts, if any, in respect thereof; or

(10) make any change in the preceding amendment and waiver provisions.

Without the consent of the Holders of at least 66⅔% in aggregate principal amount of the Notes then outstanding, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder) release any Note Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture.

Notwithstanding the preceding, without the consent of any Holder, the Issuer, the Note Guarantors and the Trustee may amend or supplement the Indenture, the Notes or the Note Guarantees:

(1) to cure any ambiguity, defect, error or inconsistency;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to provide for the assumption of the Issuer's or a Note Guarantor's obligations to Holders in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Note Guarantor's assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any Holder;

(5) to allow any Note Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes;

(6) to evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(7) to conform the text of the Indenture, the Notes or the Note Guarantees to any provision of this Description of Notes to the extent such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Note Guarantees;

(8) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture; or

(9) to the extent necessary to provide for the granting of a Lien to secure the Notes and/or any Note Guarantee as contemplated under the caption "—Certain Covenants—Negative Pledge."

Notwithstanding anything to the contrary in the paragraph above, in order to effect an amendment authorized by clause (5) above, it shall only be necessary for the supplemental indenture to be duly authorized and executed by the Issuer, such additional Note Guarantor and the Trustee. Any other amendments permitted by the Indenture need only be duly authorized and executed by Issuer and the Trustee.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust and thereafter repaid to the Issuer) have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee or the Registrar for cancellation have become due and payable by reason of the making of a notice of redemption or otherwise or will become due and payable at their stated maturity within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or such other entity designated by it for this purpose) in trust for the benefit of the Holders of Notes cash in euro, European Government Obligations or a combination of cash and European Government Obligations in such amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee or the Registrar for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default shall have occurred and be continuing on the date of such deposit or shall occur as a result of such deposit;

(3) the Issuer and/or a Note Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(4) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied. If requested by the Issuer, the Trustee may distribute any amounts deposited in trust to the Holders prior to maturity or the redemption date, as the case may be.

Concerning the Trustee

The Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes, may make loans to, accept deposits from, and perform services for the Issuer or any of its Affiliates and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee. The Trustee will be permitted to engage in other transactions. However, if it acquires any conflicting interest of which it has actual knowledge it must eliminate such conflict within 90 days or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur and be continuing that is actually known to a trust officer of the Trustee, the Trustee will be required, in the exercise of its power, to use the same degree of care and skill a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless the conditions enumerated in "—Events of Default and Remedies," above, are met.

Listing

Application has been made to list the New Notes on the Official List of the Luxembourg Stock Exchange and to admit the New Notes to trading on the Euro MTF Market. Deutsche Bank Luxembourg, S.A. will initially act as the Listing Agent for the New Notes. There can be no assurance that the application to list the New Notes on the Official List of the Luxembourg Stock Exchange and to admit the New Notes on the Euro MTF Market will be approved and settlement of the New Notes is not conditioned on obtaining this listing.

Additional Information

Anyone who receives this Offering Memorandum may, subject to a customary confidentiality undertaking, obtain a copy of the Indenture without charge by writing to Merlin Entertainments plc, 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom, Attn: Matt Jowett. Subject to certain exceptions, the Indenture contains provisions for the indemnification of each of the Trustee, the Principal Paying Agent and any Registrar, co-Registrar, Paying Agent, authenticating agent or Transfer Agent in connection with their respective actions taken under the Indenture.

Notices

In the case of certificated Notes, all notices to Holders of the Notes will be validly given if mailed to them at their respective addresses in the register of the Holders of such Notes, if any, maintained by the Registrar. And, so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, all notices will be published in a newspaper having a general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*). Each such notice shall be deemed to have been given on the date of such publication, or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of publication and the seventh day after being so mailed. For so long as any Notes are represented by global Notes, all notices to Holders of the Notes will be delivered to Euroclear and Clearstream, each of which will give notice of such notice to the holders of beneficial interests in the Notes. Any notice or communication mailed to a Holder shall be mailed to such Person by first- class mail or other equivalent means and shall be sufficiently given to such Person if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Issuer or any Note Guarantor for the payment of principal or Additional Amounts, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or any Note Guarantor for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Currency Indemnity and Calculation of Euro-Denominated Restrictions

The euro is the sole currency of account and payment for all sums payable by the Issuer and the Note Guarantors under or in connection with the Notes and the Note Guarantees, including damages. Any amount received or recovered in a currency other than euro whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Note Guarantor or otherwise, by any Holder or by the Trustee, as the case may be, in respect of any sum expressed to be due to it from the Issuer or a Note Guarantor will only constitute a discharge to the Issuer or the Note Guarantor, as applicable, to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that euro amount is less than the euro amount expressed to be due to the recipient under any Note, any Note Guarantee or to the Trustee, the Issuer and the Note Guarantors will indemnify them on a joint and several basis against any loss sustained by such recipient as a result. In any event, the Issuer and the Note Guarantors will indemnify the recipient on a joint and several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be sufficient for the Holder of a Note or the Trustee to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of euro been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the Issuer’s and the Note Guarantors’ other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Holder of a Note or the Trustee and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, any Note Guarantee or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any euro-denominated restriction herein, the euro-equivalent amount for purposes hereof that is denominated in a non-euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-euro amount is incurred or made, as the case may be.

Enforceability of Judgments

Since a substantial portion of the assets of the Issuer and the Note Guarantors incorporated in non-U.S. jurisdictions are outside the United States, any judgment obtained in the United States against the Issuer or any non-U.S. Note Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any redemption price and any purchase price with respect to the Notes or the Note Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture, the Notes and the Note Guarantees, the Issuer and each Note Guarantor have in the Indenture irrevocably submitted to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States of America.

Governing Law

Each of the Indenture, the Notes and the Note Guarantees and the rights and duties of the parties thereunder are or will be governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*2015 Offering Memorandum*" means the offering memorandum dated March 11, 2015, related to the issuance of the Issuer's Original Notes.

"*2017 Issue Date*" means March 17, 2017.

"*Additional Amounts*" has the meaning ascribed thereto under "—Withholding Taxes."

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "*control*," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "*controlling*," "*controlled by*" and "*under common control with*" shall have correlative meanings.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" shall be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "*Beneficially Owns*" and "*Beneficially Owned*" shall have a corresponding meaning.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors (or analogous governing body) of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the board of directors of the general partner of the partnership;

(3) with respect to any limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Bund Rate*" means, with respect to any relevant date, the rate per annum equal to the equivalent yield to maturity as of such date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(1) "*Comparable German Bund Issue*" means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to December 15, 2021, and that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of euro- denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to December 15, 2021; *provided*, *however*, that, if the period from such redemption date to December 15, 2021 is less than one year, a fixed maturity of one year shall be used;

(2) "*Comparable German Bund Price*" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(3) "*Reference German Bund Dealer*" means any dealer of German Bundesanleihe securities appointed by the Issuer in good faith; and

(4) "*Reference German Bund Dealer Quotations*" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Issuer of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany, time on the third business day in Frankfurt preceding the relevant date.

"*Capital Lease Obligation*" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with IFRS (as in effect on the Issue Date for purposes of determining whether a lease is a capitalized lease).

"*Capital Stock*" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of a company, shares of such company;

(3) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(4) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(5) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person;

provided that debt securities convertible into interests specified in (1) through (5) above shall not be deemed "Capital Stock."

"*Change in Tax Law*" has the meaning ascribed thereto under "—Redemption for Taxation Reasons."

"*Change of Control*" means the occurrence of any of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger, consolidation or transfer of the Issuer's Voting Stock), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act) other than any such direct or indirect sale, transfer, conveyance or other disposition of all or substantially all of the properties or assets of the Issuer and its Subsidiaries to an Affiliate of the Issuer for the purpose of reincorporating the Issuer in another jurisdiction, changing domicile or changing corporate form; *provided* that such transaction complies with the covenant described under "— Certain Covenants—Merger, Consolidation or Sale of Assets";

(2) the adoption of a plan relating to the liquidation or dissolution of the Issuer; or

(3) the consummation of any transaction (including without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Issuer, measured by voting power rather than number of shares; *provided* that for the purposes of this clause (3), no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Parent Holdco.

"*Change of Control Offer*" has the meaning ascribed thereto under "—Repurchase at the Option of Holders—Change of Control."

"*Change of Control Payment*" has the meaning ascribed thereto under "—Repurchase at the Option of Holders—Change of Control."

"*Change of Control Payment Date*" has the meaning ascribed thereto under "—Repurchase at the Option of Holders—Change of Control."

"*Change of Control Repurchase Event*" means a Change of Control and a Rating Event.

"*Clearstream*" means Clearstream Banking, *société anonyme*, as currently in effect or any successor securities clearing agency.

"*Code*" means the United States Internal Revenue Code of 1986, as amended.

"*Commission*" means the United States Securities and Exchange Commission, or any successor entity thereof from time to time.

"*Contingent Obligations*" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness ("*primary obligations*") of any other Person (the "*primary obligor*"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds: (a) for the purchase or payment of any such primary obligation; or (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Escrowed Proceeds*" means the proceeds from the offering of any debt securities or other Indebtedness paid into escrow accounts with an independent escrow agent on the date of the closing of the applicable offering or incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow accounts upon satisfaction of certain conditions or the occurrence of certain events. The term "Escrowed Proceeds" shall include any interest earned on the amounts held in escrow.

"*Euroclear*" means Euroclear Bank SA/NV or any successor securities clearing agency.

"*European Government Obligations*" means direct obligations of, or obligations guaranteed by, a member state of the European Union, and the payment for which such member state of the European Union pledges its full faith and credit; *provided* that such member state has a long-term government debt rating of "A1" or higher by Moody's or "A+" or higher by S&P or the equivalent Rating Category of another internationally recognized rating agency.

"*Event of Default*" has the meaning ascribed thereto under "—Events of Default and Remedies."

"*Exchange Act*" means the United States Securities Exchange Act of 1934, as amended.

"*guarantee*" means a guarantee, contingent or otherwise, of all or any part of any Indebtedness (other than by endorsement of negotiable instruments for collection in the ordinary course of business), including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements; and

(2) other similar agreements or arrangements designed to enable such Person to manage fluctuations in interest rates.

"*Holder*" means the Person in whose name a Note is registered on the Registrar's books.

"*IFRS*" means International Financial Reporting Standards as adopted by the European Union, International Financial Reporting Interpretations Committee as in effect as of the date of the Indenture; *provided*, *however*, that all reports and other financial information provided by the Issuer to the Holders and/or the Trustee shall be prepared in accordance with IFRS as in effect on the date of such report or other financial information. All computations based on IFRS contained in the Indenture will be computed in conformity with IFRS.

"*Indebtedness*" means, with respect to any specified Person, any Indebtedness of such Person, whether or not contingent, in respect of:

(1) borrowed money;

(2) bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) banker's acceptances, letters of credit and similar instruments;

(4) Capital Lease Obligations;

(5) the deferred balance of the purchase price of any property which remains unpaid more than one year after such property is acquired, except any such balance that constitutes an operating lease payment, accrued expense, trade payable or similar current liability; or

(6) any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by the specified Person of any Indebtedness of any other Person. Notwithstanding the foregoing and for the avoidance of doubt, the term "*Indebtedness*" shall not include: (1) any lease, concession or license of property which would be considered an operating lease under IFRS as in effect on the Issue Date and any guarantee given by the Issuer or any of its Subsidiaries in the ordinary course of business solely in connection with, and in respect of, the obligations of the Issuer or any of its Subsidiaries under any operating lease; (2) Contingent Obligations in the ordinary course of business; (3) in connection with the purchase by the Issuer or any of its Subsidiaries of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; and (4) any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage taxes.

The amount of any Indebtedness outstanding as of any date shall be:

(1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and

(2) the principal amount thereof in the case of any other Indebtedness.

"*Investment Grade Rating*" means:

(1) with respect to S&P any of the Rating Categories from and including "AAA" to and including "BBB−"; and

(2) with respect to Moody's any of the Rating Categories from and including "Aaa" to and including "Baa3".

"*Issue Date*" means March 19, 2015.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement.

"*Moody's*" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"*New Senior Facilities Agreement*" means (1) the senior facilities agreement dated February 25, 2015, among, *inter alios*, Merlin Entertainments plc as the company, the entities listed therein as original borrowers, the company and the Note Guarantors as original guarantors, The Royal Bank of Scotland plc, Barclays Bank plc, BNP Paribas, London Branch, Lloyds Bank plc, HSBC Bank plc, Société Générale, London Branch and Unicredit Bank AG, London Branch, as mandated lead arrangers; and UniCredit Bank AG, London Branch, as agent, as the same may be amended, supplemented or otherwise modified from time to time and (2) for the purposes of the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries" only, any Syndicated Facilities which are exchanged for, or the proceeds of which are used to refinance, the senior facilities agreement referred to in the preceding clause (1).

"*Note Guarantee*" means any guarantee by a Note Guarantor of the Issuer's obligations under the Indenture and the Notes pursuant to the terms of the Indenture.

"*Note Guarantors*" means each existing and future Subsidiary of the Issuer that provides a Note Guarantee in accordance with the covenant described under "—Certain Covenants—Limitation on Issuance of Note Guarantees of Indebtedness by Subsidiaries" in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"*Officer*" means the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer or the Secretary of the Issuer.

"*Officers' Certificate*" means a certificate signed by any Officer of the Issuer.

"*Opinion of Counsel*" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of, or counsel to, the Issuer or its Subsidiaries.

"*Other Hedging Agreements*" means any foreign exchange contracts, currency swap agreements, futures contract, option contract, commodity futures contract, commodity option, commodity swap, commodity collar agreement, commodity cap agreements or other similar agreements or arrangements designed to enable such Person to manage the fluctuations in currency or commodity values.

"*Parent Holdco*" means any Person (other than a natural person) which legally and beneficially owns more than 50% of the Voting Stock and/or Capital Stock of another Person, either directly or through one or more Subsidiaries.

"*Payor*" has the meaning ascribed thereto under "—Redemption for Taxation Reasons."

"*Permitted Interest*" means any Securitization Lien or other Lien that arises in relation to any securitization or other structured finance transaction where:

(1) the primary source or payment of any obligations of the issuer is linked or otherwise related to cash flow from particular property or assets (or where payment of such obligations is otherwise supported by such property or assets); and

(2) recourse to the issuer in respect of such obligations is conditional on cash flow from such property or assets.

"*Permitted Liens*" means:

(1) Liens created for the benefit of or to secure the Notes or the Note Guarantees;

(2) Liens in favor of the Issuer or any Subsidiary of the Issuer;

(3) Liens on property or assets or shares of stock of a Person existing at the time such Person is merged with or into or consolidated with the Issuer or any Subsidiary of the Issuer; provided that such Liens were not incurred in contemplation of such merger or consolidation and do not extend to any Principal Property other than such property of the Person merged into or consolidated with the Issuer or the Subsidiary;

(4) Liens on property or assets or shares of stock existing at the time of acquisition thereof by the Issuer or any Subsidiary of the Issuer and purchase money or similar Liens; provided that such Liens were not incurred in contemplation of such acquisition and do not extend to any other property, assets or shares of stock, as applicable;

(5) Liens (a) to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature or (b) arising by operation of law incurred in the ordinary course of business;

(6) Liens (a) to secure certain development, construction, alteration, repair or improvement costs, or to secure any purchase money obligations or mortgage financings incurred for the purpose of financing or refinancing all or any part of the purchase price or cost of design, construction, lease, installation or improvement of property (real or personal), plant or equipment or other assets, or to secure Indebtedness incurred to provide funds for the reimbursement or refinancing of funds expended for the foregoing purposes, *provided* that the Liens securing such costs or Indebtedness shall not extend to any Principal Property other than that being so developed, constructed, altered, repaired, improved, purchased, designed, leased or installed, (b) on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets, and (c) arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Issuer or any Subsidiary of the Issuer in the ordinary course of business;

(7) Liens existing on the date of the Indenture;

(8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith;

(9) statutory mechanics', workmen's, materialmen's, operators' or similar Liens arising by operation of law and in the ordinary course of business;

(10) Liens incurred in connection with government contracts, including the assignment of moneys due or to become due thereon;

(11) Liens securing Hedging Obligations or Other Hedging Agreements, in each case, not for speculative purposes;

(12) Liens arising in the ordinary course of business and not in connection with the borrowing of money or Liens to secure the payment of pension, retirement or similar obligations;

(13) Liens securing judgments or orders, or securing appeal or other surety bonds related to such judgments or orders, against the Issuer or any Subsidiary of the Issuer relating to litigation being contested in good faith by appropriate proceedings;

(14) Liens securing any Permitted Interest;

(15) extensions, substitutions, replacements or renewals of Liens permitted by the Indenture; provided that (a) such Indebtedness (including Indebtedness to renew, refund, refinance, replace, defease or discharge any Indebtedness that such Liens initially secured) is not increased (other than any increase for all accrued interest on the Indebtedness and the amount necessary to repay all fees and expenses, including premiums, incurred in connection therewith) (b) if the assets securing any such Indebtedness are changed in connection with any such extension, substitution, replacement or renewal, the value of the assets securing such Indebtedness is not increased;

(16) Liens on assets or property of a Subsidiary (other than a Note Guarantor) securing Indebtedness of such Subsidiary or another Subsidiary (other than a Note Guarantor);

(17) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer and its Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer and its Subsidiaries;

(18) (a) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case, entered into in the ordinary course of business and (b) Liens on assets located on a leased premises and deposits in each case in respect of obligations relating to real estate leased or licensed by the Issuer or any Subsidiary of the Issuer;

(19) any interest or title of a lessor under, or any Lien as a consequence of, any Capital Lease Obligation, finance lease obligation or operating lease obligation (including, for avoidance of doubt, any interest or title of a lessor in any Principal Property);

(20) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the incurrence of any Indebtedness or government securities purchased with such cash, in either case, to the extent such cash or government securities are held in escrow accounts or similar arrangement;

(21) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Subsidiaries securing obligations of such joint ventures;

(22) any Lien arising over any bank accounts or custody accounts or other clearing banking facilities held with any bank or financial institution under the standard or usual terms and conditions of such bank or financial institution;

(23) any cash pooling, netting or set-off arrangement entered into by the Issuer or any Subsidiary of the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Issuer and its Subsidiaries (including an ancillary facility, which is an overdraft comprising more than one account);

(24) any Lien created over a deposit in connection with a back- to-back loan facility agreement where (a) the deposit is in the same currency as the outstanding advances under the loan facility to which it relates and (b) the aggregate amount of all deposits subject to such Lien does not exceed £50.0 million (equivalent) at any time;

(25) any Lien over assets the subject of a sale and leaseback not in contravention of the Indenture;

(26) any Lien arising as a result of a disposal which is permitted in accordance with the terms of the Indenture;

(27) Liens under netting or set-off arrangements under treasury transactions permitted in accordance with the terms of the Indenture;

(28) Liens over documents of title and goods as part of a documentary credit transaction entered into in the ordinary course of business;

(29) any Liens created in connection with pension liabilities or partial retirement liabilities (*Altersteilzeitverpflichtungen*) pursuant to the German Partial Retirement Act (*Altersteilzeitgesetz*) or in connection with time credits (*Wertguthaben*) pursuant to section 7 (e) of the German Social Code (*Sozialgesetzbuch IV*);

(30) any Lien required to be granted under mandatory law in favor of creditors as a consequence of a merger or a conversion permitted under the Indenture; and

(31) Liens securing obligations that does not exceed the greater of (a) £100.0 million (equivalent) and (b) 10% of the consolidated net assets of the Issuer and its Subsidiaries.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Principal Property*" means any property, plant or equipment (including any leasehold interest therein), which relates to any visitor attraction or theme park which is owned by the Issuer or a Subsidiary of the Issuer (including any property, plant or equipment owned by the Issuer or any Subsidiary of the Issuer which is located on or situated within any visitor attraction or theme park which the Issuer or a Subsidiary of the Issuer leases pursuant to a long-term lease), in each case, to the extent that such property, plant or equipment has a net book value on the books of the Issuer in excess of £15.0 million as of the date of determination thereof, other than any property, plant or equipment which, in the opinion of a responsible financial or accounting officer of the Issuer, is not of material importance to the total business conducted by the Issuer and its Subsidiaries taken as a whole.

"*Public Indebtedness*" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the Commission for public resale. The term "Public Indebtedness" for the avoidance of doubt, shall not be construed to include any Indebtedness issued to institutional investors in a direct placement of such Indebtedness that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than ten Persons (*provided* that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall not be deemed underwritten), or any Indebtedness under the New Senior Facilities Agreement, commercial bank or similar Indebtedness, Capital Lease Obligation or recourse transfer of any financial asset or any other type of Indebtedness Incurred in a manner not customarily viewed as a "securities offering" or in connection with any securitization or other structured finance transaction.

"*Rating Agencies*" means S&P and Moody's or if S&P or Moody's or both shall not make a rating on the Notes publicly available, a nationally recognized statistical rating agency or agencies, as the case may be, selected by the Issuer (as certified by a resolution of its Board of Directors) which shall be substituted for S&P or Moody's, or both, as the case may be.

"*Rating Category*" means (1) with respect to S&P, any of the following categories: AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's any of the following categories: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (+ and − for S&P; 1, 2 and 3 for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account but changes in outlook shall not.

"*Rating Event*" means (1) if on the date of first public announcement of an event that constitutes a Change of Control the Notes are then rated by both Rating Agencies as having an Investment Grade Rating, there is a decrease in the rating of the Notes by one of the Rating Agencies on or within 90 days of the date of the Change of Control (which period shall be extended so long as any Rating Agency has publicly announced that it is considering a possible downgrade of the Notes) which causes the Notes to no longer have an Investment Grade Rating from both Rating Agencies or (2) if on the date of first public announcement of an event that constitutes a Change of Control the Notes are not then rated by both Rating Agencies as having an Investment Grade Rating, there is a decrease in the Rating Category of the Notes by at least one of the Rating Agencies on or within 90 days of the date of the Change of Control (which period shall be extended so long as any Rating Agency has publicly announced that it is considering a possible downgrade of the Notes) which decrease results in the rating on the Notes by such Rating Agency to be at least one Rating Category below the rating of the Notes issued by such Rating Agency immediately preceding the public announcement of the event that continues the relevant Change of Control.

"*Relevant Taxing Jurisdiction*" has the meaning ascribed thereto under "—Withholding Taxes."

"*S&P*" means Standard & Poor's Ratings Group or any successor to the rating agency business thereof.

"*Securities Act*" means the United States Securities Act of 1933, as amended.

"*Securitization Lien*" means a customary back-up security interest granted as part of a sale, lease, transfer or other disposition of assets by the Issuer or any of its Subsidiaries to, either directly or indirectly, any issuer in a securitization or other structured finance transaction.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"*Subsidiary*" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof);

provided, *however*, that the term "Subsidiary," including for purposes of the covenant described under "—Certain Covenants—Negative Pledge" and clause (5) under the caption "Events of Default and Remedies," shall exclude (i) any Subsidiary which is principally engaged in leasing or in financing installment receivables or which is principally engaged in financing the operations of the Issuer and its Subsidiaries or (ii) any financial entity whose accounts as of the date of determination are not required to be consolidated with the accounts of the Issuer in its audited consolidated financial statements or (iii) any Subsidiary that is an issuer in a securitization or other structured financing transaction, so long as in the case of clauses (ii) or (iii) such Subsidiary does not own any Principal Property.

"*Successor Issuer*" shall have the meaning ascribed thereto under "—Certain Covenants—Merger, Consolidation or Sale of Assets."

"*Syndicated Facilities*" means one or more debt facilities with banks or other institutional lenders providing for revolving credit loans and/or term loans that are primarily syndicated to institutional investors in connection with the initial distribution, issuance or syndication. For the avoidance of doubt, bilateral credit facilities will not be deemed to be Syndicated Facilities for purposes of this definition.

"*Tax Redemption Date*" has the meaning ascribed thereto under "—Redemption for Taxation Reasons."

"*Taxes*" has the meaning ascribed thereto under "—Withholding Taxes."

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

BOOK-ENTRY; DELIVERY AND FORM

General

Additional Notes sold to non-U.S. persons in reliance on Regulation S under the U.S. Securities Act will be represented by a global note in registered form without interest coupons attached (the "*Regulation S Global Note*" and, together with the global notes representing the Existing Notes, the "*Global Notes*"). The Regulation S Global Note will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Regulation S Global Note (the "*Regulation S Book-Entry Interests*" and, together with the ownership interests in the Existing Notes, the "*Book-Entry Interests*") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Regulation S Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, the common depositary for the accounts of Euroclear and/or Clearstream, as applicable or its nominee, will be considered the sole holder of Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and/or Clearstream, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book- Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture.

Neither the Issuer, the Note Guarantor, the Trustee nor any of their respective agents will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

The Additional Notes will have a different ISIN and common code from, and will not trade fungibly with, the Existing Notes sold pursuant to Regulation S during the Distribution Compliance Period (as defined in "Summary—The Offering"). Following the Distribution Compliance Period, the Additional Notes will become fully fungible with, and have the same ISIN and common code as, the Existing Notes sold pursuant to Regulation S.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and/or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate, provided, however, that no Book-Entry Interest of less than €100,000 principal amount may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to the common depositary or its nominee for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their customary procedures. The Issuer expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (e.g., the nominee of the common depositary for the accounts of Euroclear and Clearstream, as applicable) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any of its or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book- Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid in euros.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, Euroclear and Clearstream reserves the right to exchange the Global Notes for definitive registered Notes in certificated form ("*Definitive Registered Notes*"), and to distribute Definitive Registered Notes to its participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of securities or to pledge such securities, such holder must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Indenture governing the Notes.

The Regulation S Global Note will bear a legend to the effect set forth in "Notice to Investors". Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "Notice to Investors".

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a book-entry interest held pursuant to Rule 144A (a "*Rule 144A Book-Entry Interest*") denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Notice to Investors" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the global note representing the Existing Notes sold pursuant to Rule 144A (the "*Rule 144A Global Note*").

Any Book-Entry Interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the Rule 144A Global Note will, upon transfer, cease to be a Book-Entry Interest in the Regulation S Global Note and become a Book-Entry Interest in the Rule 144A Global Note, and accordingly will thereafter be subject to all transfer restrictions and other procedures applicable to Rule 144A Book-Entry Interests for as long as it remains such a Book-Entry Interest.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days; or
- if the owner of a Book-Entry Interest so requests such an exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such note by surrendering it to the Registrar or a transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than €100,000 will be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

The Issuer will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer or asset sale offer. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. The Issuer may require a holder to pay any transfer taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such a Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of a transfer agent, the Issuer will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee's and the Issuer's requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect themselves, the Trustee or the paying agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by the Issuer in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See "Notice to Investors".

So long as the Notes are listed on the Official List of and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any issuance of Definitive Registered Notes in a newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the paying agent in Luxembourg so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Issuer, the Trustee, the initial purchasers nor any of their respective agents are or will be responsible for those operations or procedures.

The Issuer understands as follows with respect to Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited.

Global Clearance and Settlement under the Book-Entry System

The Additional Notes represented by the Regulation S Global Note are expected to be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or the paying agent will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Additional Notes will be made in euros. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

Certain United Kingdom Tax Considerations

The following is a general description of certain U.K. tax consequences relating to the Additional Notes and is based on current U.K. tax law and HM Revenue & Customs ("*HMRC*") published practice, both of which may be subject to change, possibly with retrospective effect. It does not purport to be a complete analysis of all U.K. tax considerations relating to the Additional Notes, relates only to persons who are the absolute beneficial owners of Additional Notes and who hold Additional Notes as a capital investment, and does not deal with certain classes of persons (such as dealers in securities and persons connected with the Issuer) to whom special rules may apply.

This description does not purport to constitute legal or tax advice and any holders who are in any doubt as to their tax position should consult their independent professional advisors. Further, these comments do not address the tax consequences for holders of Additional Notes who are individuals treated as non- domiciled and resident in the U.K. for U.K. tax purposes. If you are subject to tax in any jurisdiction other than the U.K. or if you are in any doubt as to your tax position, you should consult an appropriate professional adviser.

Provision of Information

Noteholders who are individuals may wish to note that HMRC has power to obtain information (including, in certain cases, the name and address of the beneficial owner of the interest) from any person in the U.K. who either pays certain amounts in respect of the Additional Notes to, or receives certain amounts in respect of the Additional Notes for the benefit of, an individual. HMRC also has power in certain circumstances to obtain information from any person in the U.K. who either pays amounts payable on the redemption of Additional Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to, or receives such amounts for the benefit of, an individual. Such information may include the name and address of the beneficial owner of the amount payable on redemption. However, in relation to amounts payable on redemption of such securities, HMRC's published practice indicates that HMRC will not exercise its power to obtain information, although this practice may change in the future. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

Interest on the Additional Notes

While the Additional Notes are and continue to be listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007, payments of interest on the Additional Notes may be made without withholding or deduction for or on account of U.K. income tax. The Luxembourg Stock Exchange is a recognised stock exchange for these purposes. The Additional Notes will be treated as listed on the Luxembourg Stock Exchange if they are included in the Official List of the Luxembourg Stock Exchange and are listed, and admitted to trading, on the Euro MTF Market of the Luxembourg Stock Exchange.

If the Additional Notes are not listed on a "recognised stock exchange" or cease to be so listed, interest will generally be paid under deduction of U.K. income tax at the basic rate (currently 20 per cent.) unless: (i) any other exemption or relief applies; or (ii) the Issuer has received a direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

The interest on the Additional Notes has a U.K. source and accordingly may be chargeable to U.K. tax by direct assessment (including self-assessment), even where paid without withholding or deduction. Where the interest is paid without withholding or deduction, the interest will not be assessed to U.K. tax in the hands of holders of the Additional Notes (other than certain trustees) who are not resident in the U.K., except where the holder of the Note carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the U.K., in connection with which the interest is received or to which the Additional Notes are attributable, in which case U.K. tax may be levied on the U.K. branch or agency, or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such holders of Additional Notes.

Any premium paid on redemption of the Additional Notes may be treated as a payment of interest for U.K. tax purposes and may accordingly be subject to the withholding tax treatment described above.

Payments by a Note Guarantor

If a Note Guarantor makes any payments in respect of interest on the Additional Notes (or other amounts due under the Additional Notes other than a repayment of amounts subscribed for the Additional Notes) it is possible that such payments may be subject to U.K. withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by a Note Guarantor may not, however, be eligible for the exemptions from the obligation to withhold tax described in the paragraphs above.

The references to "interest" above are to "interest" as understood for the purposes of U.K. tax law. They do not take into account any different definition of "interest" that may prevail under any other tax law or that may apply under the terms and conditions of the Additional Notes or any related document.

Sale, Exchange and Redemption of Additional Notes

U.K. Corporation Tax Payers

In general, holders of the Additional Notes that are within the charge to U.K. corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Additional Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounts, calculated in accordance with generally accepted accounting practice.

Other U.K. Tax Payers

(1) Taxation of gains

A disposal of the Additional Notes (including a redemption) by an individual holder of the Additional Notes who is resident in the U.K. or who carries on a trade, profession or vocation in the U.K. through a branch or agency to which the Additional Notes are attributable may give rise to either a chargeable gain or allowable loss for the purposes of the U.K. taxation of chargeable gains. These provisions would not apply to Additional Notes that are deemed to be "deeply discounted securities" (please see "—Taxation of Discount" below). Special rules may apply to individuals who have ceased to be resident in the U.K. and who dispose of their Additional Notes before becoming once again resident in the U.K.

(2) Taxation of discount

Dependent, among other things, on the discount (if any) at which the Additional Notes are issued, the Additional Notes may be deemed to constitute "*deeply discounted securities*" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. If the Additional Notes are deemed to constitute "*deeply discounted securities*", an individual holder of the Additional Notes who is resident in the U.K. or who carries on a trade profession or vocation in the U.K. through a branch or agency to which the Additional Notes are attributable will generally be liable to U.K. income tax on any gain made on the sale or other disposal (including a redemption) of the Additional Notes. Holders of Additional Notes are advised to consult their own professional advisers if they require any advice or further information relating to "*deeply discounted securities*".

(3) Accrued Income Scheme

On a disposal of Additional Notes (if they do not constitute deeply discounted securities) by a holder of Additional Notes who is resident in the U.K. or who carries on a trade, profession or vocation in the U.K. through a branch or agency to which the Additional Notes are attributable, any interest which has accrued since the last interest payment date or such amount as HMRC deems just and reasonable may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007.

Stamp Duty and Stamp Duty Reserve Tax

There will be no U.K. stamp duty or stamp duty reserve tax payable on the issue or transfer of the Additional Notes.

Certain Italian Income Tax Considerations—Payments made by an Italian Note Guarantor

With respect to payments on the Additional Notes made to certain Italian resident Noteholders by an Italian resident Note Guarantor, in accordance with an interpretation of Italian tax law, any payment of liabilities equal to interest and other proceeds from the Additional Notes may be subject to a provisional or final withholding tax at a rate of 26 per cent. pursuant to Presidential Decree No. 600 of 29 September 1973, as subsequently amended.

In case of payments to non-Italian resident Noteholders made by an Italian resident Note Guarantor, the withholding tax may be applied as a final tax. Double taxation treaties entered into by Italy may apply allowing for a lower (on, in certain cases, nil) rate of withholding tax.

PLAN OF DISTRIBUTION

Each of the Issuer, the Note Guarantors and the Initial Purchasers will enter into a purchase agreement to be dated the date of this Offering Memorandum (the "*Purchase Agreement*"), pursuant to which the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed, severally and not jointly, to purchase from the Issuer, Additional Notes in an aggregate principal amount of €200 million. The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Additional Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The Additional Notes will initially be offered at the price indicated on the cover page of this Offering Memorandum. After the initial offering, the offering price and other selling terms of the Additional Notes may from time to time be varied by the Initial Purchasers without notice.

The Purchase Agreement provides that the Issuer and each Note Guarantor will indemnify the Initial Purchasers against certain liabilities, including certain liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof.

The Additional Notes have not been and will not be registered under the U.S. Securities Act. The Initial Purchasers have agreed that they will only offer or sell the Additional Notes outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used above have the meanings given to them by Regulation S under the U.S. Securities Act.

In connection with sales outside the United States, the Initial Purchasers will not offer, sell or deliver the Additional Notes to, or for the account or benefit of, U.S. persons (i) as part of the Initial Purchasers' distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering or the date the Additional Notes are originally issued. The Initial Purchasers will send to each distributor, dealer or person to whom it sells such Additional Notes during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the Additional Notes within the United States or to, or for the account or benefit of, U.S. persons.

Each Initial Purchaser has represented that it (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity, within the meaning of section 21 of FSMA, received by it in connection with the issue or sale of any Additional Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and (ii) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Additional Notes in, from or otherwise involving the United Kingdom.

Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to trade the Additional Notes on the Euro MTF. However, we cannot assure you that the Additional Notes will be approved for listing or that such listing will be maintained. The Initial Purchasers (or persons acting on their behalf) have advised the Issuer that they currently intend to make a market in the Additional Notes. However, the Initial Purchasers are not obligated to do so, and may discontinue any market-making activities with respect to the Additional Notes at any time without notice. Accordingly, there can be no assurance as to the liquidity of or the trading market for the Additional Notes. See "Risk Factors—Risks Related to the Notes and Our Structure—The Additional Notes may not become, or remain, listed on the Luxembourg Stock Exchange".

Buyers of the Additional Notes sold by the Initial Purchasers may be required to pay stamp taxes, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the initial offering price set forth on the cover of this Offering Memorandum.

We expect that delivery of the Additional Notes will be made against payment on the Additional Notes on the date specified on the cover page of this Offering Memorandum, which will be four business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Additional Notes (this settlement cycle is being referred to as "*T+4*"). Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Additional Notes on the date of this Offering Memorandum will be required to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Additional Notes who wish to make such trades should consult their own advisors.

In connection with the issue of the Additional Notes, HSBC Bank plc or persons acting on its behalf may over-allot Additional Notes or effect transactions with a view to supporting the market price of the Additional Notes at a level higher than that which might otherwise prevail. However, there is no assurance that HSBC Bank plc or persons acting on its behalf will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of Additional Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Additional Notes and 60 days after the date of the allotment of the Additional Notes.

The Initial Purchasers or their affiliates have performed commercial and investment banking and advisory services for the Issuer, the Note Guarantors and their subsidiaries and affiliates from time to time for which they have received customary fees and expenses. The Initial Purchasers and their affiliates may, from time to time, engage in transactions with, and perform services for, the Issuer, the Note Guarantors and their subsidiaries and affiliates in the ordinary course of their business. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Additional Notes. Certain of the Initial Purchasers and their affiliates may have positions, deal or make markets in the Additional Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Additional Notes. Any such positions could adversely affect future trading prices of the Additional Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the Initial Purchasers or their affiliates acted as mandated lead arrangers for and are lenders under our Senior Facilities, which will be partially repaid in connection with the Transaction, and thus they may receive funds in partial payment thereof from the proceeds of the Offering as part of the Transaction. One or more of the Initial Purchasers may sell through affiliates or other appropriately-licensed entities for sales for the Additional Notes in jurisdictions where they are otherwise not permitted.

CERTAIN INSOLVENCY CONSIDERATIONS AND LIMITATIONS ON THE VALIDITY AND ENFORCEABILITY OF THE NOTE GUARANTEES

Set out below is a summary of certain limitations on the enforceability of the guarantees in each of the jurisdictions in which guarantees are being provided. It is a summary only, and proceedings of bankruptcy, insolvency or a similar event could be initiated in any of these jurisdictions and in the jurisdiction of organisation of a future Note Guarantor. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply, and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the Note Guarantees.

Also set out below is a brief description of certain aspects of insolvency law in England and Wales, Denmark, the European Union, Germany, Italy and the United States. In the event that any one or more of the Issuer, the Note Guarantors or any other of the Issuer's subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

England and Wales

The Issuer and certain of the Note Guarantors are companies incorporated under the laws of England and Wales. Therefore, any insolvency proceedings with respect to the Issuer or an English Note Guarantor would likely be based on English insolvency laws, although (as noted above) insolvency proceedings in respect of the Issuer or the English Note Guarantor could also be based in other jurisdictions if the Issuer's or the English Note Guarantor's centre of main interests for the purposes of Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "*EU Insolvency Regulation*") is located in a member state of the EU ("*Member State*") other than the United Kingdom (except Denmark) in which case the laws of that other Member State will, subject to certain exceptions, govern the relevant insolvency proceedings. There is a rebuttable presumption that the centre of main interests of a company will be located in the jurisdiction of that company's registered office.

Similarly, the U.K. Cross-Border Insolvency Regulations 2006, which implement the UNCITRAL Model Law on Cross-Border Insolvency in England, Scotland and Wales, provide that, in circumstances where that jurisdiction has also adopted legislation implementing the UNCITRAL Model Law, a foreign court may have jurisdiction where any English company has its "center of main interests" in such foreign jurisdiction, or where it has an "establishment" (being a place of operations in such foreign jurisdiction, where it carries out non-transitory economic activities with human means and assets or services). To the extent that the Cross-Border Insolvency Regulations 2006 conflict with an obligation of the United Kingdom under the EU Insolvency Regulation, however, the requirements of the EU Insolvency Regulation will prevail.

English insolvency law may not be as favourable to investors' interests as the laws of the United States or other jurisdictions with which investors are familiar. In the event that the English Guarantor experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Insolvency Proceedings

As a general rule, insolvency proceedings with respect to an English company should be commenced in England and Wales based on English insolvency laws, although (as noted above) insolvency proceedings in respect of English companies could also be based in other jurisdictions under certain circumstances.

Under the EU Insolvency Regulations, territorial or secondary proceedings may be commenced against the Issuer or an English Guarantor in other Member States (except Denmark) even if the center of main interests is in England, provided that the company has an establishment within the territory of that other Member State. The effects of these proceedings would be restricted to the assets of the Issuer or English Guarantor situated in that Member State.

Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, including by the Issuer's or the English Guarantor's directors or a creditor making an application for administration, in or (in the case of the Issuer's or English Guarantor's directors or any creditors holding security over all or substantially all of the Issuer's or English Guarantor's assets under a qualifying floating charge) out of court, or by a creditor filing a petition to wind up the Issuer or the English Guarantor or the Issuer of the English Guarantor's shareholders resolving to do so (in the case of liquidation). A company may be wound up if it is unable to pay its debts, and may be placed into administration if it is, or is likely, to become unable to pay its debts, and the administration is reasonably likely to achieve one of three statutory purposes.

Under the Insolvency Act 1986, as amended (the "*Insolvency Act*"), a company is unable to pay its debts if it is insolvent on a "cash flow" basis (unable to pay its debts as they fall due), if it is insolvent on a "balance sheet" basis (the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities), if it fails to satisfy a creditor's statutory demand for a debt exceeding £750 or if it fails to satisfy in full a judgment debt (or similar court order).

Administration

The Insolvency Act empowers English courts to make an administration order in respect of an English company, in certain circumstances or, as noted above, the company's directors or certain creditors to commence administration through an out of court process (provided that, in the case of the company's directors, the company is not subject to an outstanding winding up petition). During the administration in general no proceedings or other legal process may be commenced or continued against the debtor, or security enforced over the company's property (save for eligible arrangements under the Financial Collateral Arrangements (No. 2) Regulations 2003 (as amended)), except with permission of the court or the consent of the administrator. The administration of a company must achieve one of the following statutory objectives: (1) the rescue of the company (as distinct from the business carried on by the company) as a going concern (the primary objective); (2) the achievement of a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration) (the second objective); or (3) the realisation of some or all of the company's property to make a distribution to one or more secured or preferential creditors (the third objective). An administrator must attempt to achieve the objectives of administration in the prescribed order, unless he thinks either that it is not reasonably practicable to achieve the primary objective, or that the secondary objective would achieve a better result for the company's creditors as a whole. Therefore, the administrator cannot pursue the third objective unless he thinks that it is not reasonably practicable to achieve either the first objective or the second objective and that it will not unnecessarily harm the interests of the creditors of the company as a whole to pursue the third objective.

In limited circumstances a secured creditor will be entitled to appoint an administrative receiver and any already appointed must vacate office on the making of an administration order against the company in administration. If the company is already in administration no other receiver may be appointed. A receiver (including an administrative receiver) does not have duties to the general body of creditors in the same way as an administrator and will act solely to realize the assets over which his appointor has security, for the benefit of such appointor.

If an administrative receiver has been appointed, an administrator can only be appointed by the court (and not by the company, its directors or the holder of a qualifying charge using the out of court procedure) in certain circumstances. If an administrator is appointed, any administrative receiver will vacate office, and any receiver of part of the company's property must resign if required to do so by the administrator.

Liquidation/Winding-Up

Liquidation is a company dissolution procedure under which the assets of the company are realized and distributed by the liquidator to creditors in the statutory order of priority prescribed by the Insolvency Act. At the end of the liquidation process the company will be dissolved. In the case of a liquidation commenced by way of a court order, no proceedings or other actions may be commenced or continued against the company except by leave of the court (although creditors' rights in respect of security enforcement are not affected).

Under English insolvency law, a liquidator has the power to disclaim any onerous property, which is any unprofitable contract and any other property of the company that cannot be sold, readily sold or may give rise to a liability to pay money or perform any other onerous act. A contract may be unprofitable if it gives rise to prospective liabilities and imposes continuing financial obligations on the company that may be detrimental to creditors. However, this power does not apply to a contract all the obligations under which have been performed nor can it be used to disturb accrued rights and liabilities.

Priority of Claims

One of the primary functions of liquidation (and, where the company cannot be rescued as a going concern, one of the possible functions of administration) under English law is to realize the assets of the insolvent company and to distribute the cash realisations made from those assets to its creditors. Under the Insolvency Act, creditors are placed into different classes and, with the exceptions and adjustments noted below, the proceeds from the realisation of the insolvent company's property applied in descending order of priority, as set out below. With the exception of the Prescribed Part (as defined below), distributions cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been repaid in full. Unless creditors have agreed otherwise, distributions are made on a *pari passu* basis, that is, the cash is distributed in proportion to the debts due to each creditor within a class.

The general priority of claims on insolvency is as follows (in descending order of priority):

- First ranking claims: holders of fixed charge security and creditors with a proprietary interest in specific assets in the possession (but not full legal and beneficial ownership) of the debtor but only to the extent of the realisations from those secured assets or with respect to the asset in which they have a proprietary interest;
- Second ranking claims: expenses of the insolvent estate incurred during the relevant insolvency proceedings (there is a further statutory order of priority setting out the order in which expenses are paid);
- Third ranking claims: preferential creditors. Ordinary preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (i) contributions to occupational and state pension schemes; (ii) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; (iii) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date; and (iv) bank and building society deposits eligible for compensation under the Financial Services Compensation Scheme (the "*FSCS*") up to the statutory limit. Secondary preferential debts include bank and building society deposits eligible for compensation under the FSCS to the extent that claims exceed the statutory limit;
- Fourth ranking claims: holders of floating charge security to the extent of the realisations from those secured assets, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realisations to the holders of floating charges, the Prescribed Part (as defined below) must be set aside for distribution to unsecured creditors;
- Fifth ranking claims:
  - firstly, general unsecured creditors and any secured creditor to the extent they are not repaid in full from the realisation of assets subject to their security;
  - secondly, statutory interest that arises on debts after the insolvency at either the contractual or a statutory rate; and
  - thirdly, non-provable liabilities, being liabilities that do not fall into any of the categories above and which are therefore only recovered in the (unusual) event that all categories above are fully paid; and
- Sixth ranking claims: shareholders. If after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Subordinated creditors will be ranked according to the terms of the subordination.

Prescribed Part

An administrator, receiver (including administrative receiver) or liquidator of an English company will be required to ring-fence a certain percentage of the proceeds of enforcement of assets subject to floating charge security for the benefit of unsecured creditors (the "*Prescribed Part*"). Under current law, this applies to 50 per cent. of the first £10,000 of net floating charge realisations and 20 per cent. of the remainder over £10,000, and the Prescribed Part is subject to a maximum aggregate cap of £600,000. The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors. The Prescribed Part will not be available for any shortfall claims of secured creditors.

Challenges to Note Guarantees

There are circumstances under English insolvency law in which the granting by an English company of guarantees can be challenged. In most cases, this will only arise if the company is placed into administration or liquidation within a specified period of the granting of the guarantee. Therefore, if during the specified period an administrator or liquidator is appointed in respect of an English company, the administrator or liquidator may challenge the validity of the guarantee given by such company.

A company will be "unable to pay its debts" if a statutory demand for over £750 is served on the company and remains unsatisfied for three weeks, or an execution on or other process issued on a judgment, decree or order of a court in favor of a creditor is returned unsatisfied in whole or in part, or it is proved to the court's satisfaction that the company is not able to pay its debts as they fall due or that the value of the company's assets is less than the amount of its liabilities (taking into account contingent and prospective liabilities).

The following potential grounds for challenge may apply to guarantees:

Transaction at an Undervalue

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a guarantee if such liquidator or administrator believes that the creation of such guarantee constituted a transaction at an undervalue. It will only be a transaction at an undervalue if at the time of the transaction or as a result of the transaction, the English company was or became unable to pay its debts as a result (as defined in the Insolvency Act). For a challenge to be made, the guarantee must be granted within a period of two years ending with the onset of insolvency (as defined in section 240 of the Insolvency Act). The onset of insolvency is the date of the appointment of an administrator or presentation of an administration application, filing of notice of intention to appoint an administrator or presentation of a winding up petition or passing of a resolution for winding up in a creditors' voluntary liquidation. A transaction might be subject to being set aside as a transaction at an undervalue if the company makes a gift to a person, if the company receives no consideration or if the company receives consideration of significantly less value, in money or money's worth, than the consideration given by such company. A court, however, generally will not intervene if it is satisfied that the company entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit it. If the court determines that the transaction was a transaction at an undervalue, the court can make such order as it thinks fit to restore the position to what it would have been in if the transaction had not been entered into. In any proceedings, it is for the administrator or liquidator to demonstrate that the English company was insolvent unless a beneficiary of the transaction was a connected person (as defined in the Insolvency Act), in which case there is a presumption of insolvency and the connected person must demonstrate the solvency of the English company in such proceedings.

Preference

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a guarantee if such liquidator or administrator believes that the creation of such guarantee constituted a preference. It will only be a preference if at the time of the transaction or as a result of the transaction the English company was or became unable to pay its debts as a result (as defined in the Insolvency Act). For a challenge to be made, the decision to enter into the transaction must be made within the period of six months ending with the onset of insolvency (as defined in section 240 of the Insolvency Act) (if the beneficiary of the guarantee is not a connected person) or two years (if the beneficiary is a connected person). A transaction may constitute a preference if it has the effect of putting a creditor of the English company (or a surety or guarantor for any of the company's debts or liabilities) in a better position (in the event of the company going into insolvent liquidation) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. A court is unlikely to make an order in respect of a preference unless it is satisfied the company was influenced in deciding to give it by a desire to produce the "better position" for the relevant person. Case law suggests there must be a desire to prefer one creditor over another and not just other commercial motives even if they had the inevitable result of producing the better position. If the court determines that the transaction was a preference, the court has very wide powers for restoring the position to what it would have been if that preference had not been given, which could include reducing payments under the Notes and the Note Guarantees in this instance (although there is protection for a third party who enters into a transaction in good faith and without notice). In any proceedings, it is for the administrator or liquidator to demonstrate that the English company was insolvent and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person (other than by being an employee), in which case there is a presumption that the company was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that there was no such desire.

Transaction Defrauding Creditors

Under English insolvency law, where it can be shown that a transaction was at an undervalue and was made for the purposes of putting assets beyond the reach of a person who is making, or may make, a claim against a company, or of otherwise prejudicing the interests of a person in relation to the claim that person is making or may make, the transaction may be set aside by the court as a transaction defrauding creditors. This provision may be used by any person who claims to be a "victim" of the transaction (with leave of the court if the company is in liquidation or administration) and is not therefore limited to liquidators or administrators. There is no time limit in the English insolvency law within which the challenge must be made (although general statutory limitation periods will apply) and the relevant company does not need to be unable to pay its debts (as defined in the Insolvency Act) or become unable to pay its debts as a result of the transaction. If the court determines that the transaction was a transaction defrauding creditors, the court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction.

Limitation on Enforcement

The grant of a guarantee by the English Guarantor in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that these do not allow such an action, there is the risk that the grant of the guarantee is found to be void and the beneficiary's rights in respect of such guarantee will be unenforceable. Some comfort may be obtained for third parties if they are dealing with an English guarantor in good faith; however, the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for each English guarantor in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act 2006 provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the English guarantor for the benefit of its members as a whole. If a company's directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may be vulnerable to being set aside by a court.

Foreign Currency

Under English insolvency law, where creditors are asked to submit formal proofs of claim for their debts, any debt of a company payable in a currency other than pounds sterling (such as euro in the case of the Notes) must be converted into pounds sterling at the "*official exchange rate*" prevailing at the date when the company went into liquidation or administration. This provision overrides any agreement between the parties. The "*official exchange rate*" for these purposes is the middle market rate in the London Foreign Exchange Market at close of business as published for the date in question or, if no such rate is published, such rate as the court determines.

Schemes of Arrangement

Pursuant to Part 26 of the Companies Act 2006, the English courts have jurisdiction to sanction a compromise or arrangement between a company and its creditors (or classes of creditors) where such company is liable to be wound-up under the Insolvency Act. In order for a scheme of arrangement proposed by a non-UK company to be sanctioned by the English courts, the relevant company must have a "sufficient connection" to the English jurisdiction.

In previous cases, a sufficient connection has been found to be satisfied by the English courts where, among other things: the relevant company has assets situated in England or carries on business there; its "center of main interests" is in England; and/or it owes liabilities to creditors based in England or under agreements governed by English law. Notwithstanding that the second limb has been found to be satisfied in such cases previously, this does not necessarily mean that it will be found to be satisfied in all cases where similar circumstances exist as each case will be considered on its particular facts. Ultimately, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not any of the grounds of the second limb are satisfied in the present case.

Before the court considers the sanction of a scheme of arrangement, affected creditors will vote at a creditors' meeting on the proposed compromise or arrangement in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are to be granted under the scheme. Such compromise can be proposed by the company or its creditors. The scheme will be passed at the creditors' meeting if a majority in number representing 75% or more in value of those creditors present and voting at each of the creditors' meeting(s) vote in favor of the proposed scheme, irrespective of the terms and approval thresholds contained in the finance documents, and that scheme will be binding on all affected creditors, including those affected creditors who did not participate in the vote on the scheme and those who voted against the scheme. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made to the scheme or reject the scheme.

Company Voluntary Arrangements

Pursuant to Part I of the Insolvency Act, a company (by its directors or its administrator, as applicable) may propose a company voluntary arrangement to the company's shareholders and creditors which entails a compromise of the company's unsecured debts. The company may propose whatever compromise they consider appropriate in accordance with the duties of the directors or administrator (as applicable) and, provided that compromise is approved by the requisite majority of creditors, it will bind all unsecured creditors of the company who were entitled to vote or would have been entitled to vote had they had notice of the meeting.

In order for the company voluntary arrangement to be passed, it must be approved by both: (a) 75% or more in value of the creditors present and voting at the creditors' meeting called to approve the arrangement; and (b) 50% in value of the creditors that are unconnected with the company.

Denmark

One of the Note Guarantors is a company incorporated under the laws of Denmark. Any insolvency proceedings with respect to the Danish Note Guarantor would be based on Danish insolvency laws. Please note that EU Insolvency Regulation (Council Regulation (EC) no. 1346/2000 on insolvency proceedings) does not apply to Denmark.

Danish insolvency laws may not be as favourable to investors' interests as the laws of the United States or other jurisdictions with which investors are familiar. In the event that the Danish Guarantor experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Insolvency Proceedings

Bankruptcy proceedings may be commenced either at the petition of a debtor or a creditor, however provided that the debtor is insolvent, which pursuant to the Danish Bankruptcy Act is defined as the debtor's inability to pay his debts as they fall due, unless such inability is considered to be temporary.

The petition for bankruptcy must be filed with the bankruptcy court in the district in which the debtor operates his business. The bankruptcy court does not publish information on the receipt of the petition for bankruptcy, but any person having a legal interest is entitled to receive information as to whether and when a debtor has filed a petition for bankruptcy (debtor's own petition). The bankruptcy court does not provide information on a creditor's petition for bankruptcy.

A creditor cannot demand that the debtor be declared bankrupt if the creditor's claim is secured by adequate security. In this context, adequate security means a security right expected to provide full coverage for the creditor. If the security is avoidable in bankruptcy or the act of perfection has not been performed, the creditor does not have adequate security.

The creditor is not required to have a basis of execution for his claim, e.g. a judgment in a civil case, a settlement in court or a signed debt instrument or mortgage. Further, the creditor's claim does not have to be due for payment to form basis of a petition for bankruptcy. However, the creditor must have a legal interest in the debtor's estate being administered in bankruptcy. As a result, not all claims that have not become due for payment may form basis of a petition for bankruptcy. Depending on the circumstances, an overdraft facility still being in force or a repayment arrangement being observed by the debtor may result in the creditor's petition being rejected. The requirement for legal interest also means that in general the bankruptcy court will reject a creditor's petition for bankruptcy if it is clear in advance that he will not receive any dividend in case of bankruptcy. It should be noted, however, that if there is probable cause to believe that the debtor has made avoidable transactions, the creditor may have the required legal interest in the bankruptcy even if the debtor does not have substantial assets. In that case, the creditor must be able to substantiate the avoidable transactions with some degree of certainty.

A creditor having filed a petition for bankruptcy against a debtor will be liable to pay damages if the debtor suffers a loss or to pay compensation for injury to the debtor's reputation if the bankruptcy conditions, e.g. the insolvency requirement, are not fulfilled or if the claim does not exist.

The petitioner must provide security for the expenses relating to the administration of the estate. In practice, the bankruptcy court demands security in the amount of DKK 30,000. If the debtor has filed the petition for bankruptcy, the security must be provided by the funds of the bankruptcy estate.

Bankruptcy Trustee

One or more trustees are appointed at the discretion of the bankruptcy court; however, in practice the request of the major unsecured and unsubordinated creditors have the decisive influence as another liquidator can be appointed at a creditor's meeting.

The trustee is not required to be an attorney, but in practice that is always the case.

The trustee must comply with the disqualification rules of the Bankruptcy Act. Consequently, the trustee must not be the debtor's related party or depending on the debtor, and there must not be any doubt as to whether the trustee is impartial. As a general rule, the debtor's own attorney is prevented from being appointed as trustee due to the disqualification rules. The bankruptcy court may also find that a person being a member of the board of directors of the debtor's business or a person being the debtor's advisor cannot be appointed as trustee.

The trustee will make all decisions concerning the administration of the bankruptcy estate, and he represents the estate in every respect.

Reconstruction

Reconstruction proceedings may be commenced either at the petition of the debtor or a creditor. The petition for reconstruction must be filed with the bankruptcy court in the district in which the debtor operates his business.

Reconstruction proceedings may only be commenced if the debtor is insolvent (same as described above with respect to bankruptcy). If this criterion is fulfilled, the bankruptcy court will immediately appoint a reconstructor and a restructuring accountant to administrate the company. The management continues to operate the company, but any material transactions may not be carried out without the prior approval of the reconstructor. Payment of creditors may only be done in accordance with the priority of claims as described below.

The reconstruction of a company must achieve the following statutory objectives: (1) the rescue of the company as a going concern by means of a compulsory composition; (2) the termination of the business of the company by transferring the business; or (3) a combination of a compulsory composition and a transfer of business.

The reconstructor must try to achieve these objectives in no particular order. If the reconstructor does not realize these objectives, the company will automatically enter bankruptcy proceedings as described above, unless it turns out that the company is not (or no longer is) insolvent.

Liquidation

Liquidation is a company dissolution procedure under which the assets of the company are realized and distributed by the liquidator to creditors and, providing all creditors have been paid in full, the shareholders. In Denmark, liquidation is not an insolvency proceeding, and only companies that are solvent can be liquidated. If a company is insolvent, or if it turns out during the liquidation process that the company cannot pay all its creditors in full, the company must enter bankruptcy proceedings instead. The decision to liquidate a company is made by the shareholders of the company at a general meeting who also appoint a liquidator. At the end of the liquidation process the company will be dissolved.

Challenges to Note Guarantees

Certain Avoidance Rules

Under the Bankruptcy Act, the bankruptcy estate is entitled to under certain circumstances to avoid the debtor's transactions in the period preceding the bankruptcy if such transactions have reduced the assets of the estate or otherwise damaged the estate, or if the transactions have favoured certain creditors without observing the ranking of the creditors.

Transactions damaging the estate are for example gifts, renunciations of inheritance or the payment of excessive salary or pension to related parties. Transactions favouring creditors without observing the ranking of creditors are for example payment by unusual means of payment, payments before due date, payments having deteriorated the debtor's ability to pay decisively or the provision of security for prior debts. Set out herein is the avoidance rule on security for prior debts and the general avoidance rule applicable to various transactions.

Any security interest which has not been created prior to, or simultaneously with, the debt obligations which it secures and which is not perfected without undue delay after the creation of such debt obligations will be subject to a three months hardening period, if insolvency proceedings are commenced against the provider of the security during the three month period starting from the latter of the date of the relevant act of perfection and the creation of the security interest.

Danish law operates with a general avoidance rule, which stipulates that a disposition which unduly favours a creditor to the detriment of the other creditors, or whereby the company's property is prevented from serving the purpose of satisfying the creditors, or whereby the company's debt is increased to the detriment of the creditors, may be declared void if the company was or because of the disposition became insolvent, and the favoured party knew or ought to have known about the company's insolvency and the circumstances that made the disposition improper. Generally, only transactions which are contrary to common norms of correct and decent business behaviour will be deemed improper. Improper behaviour is normally related to a breach of the purpose of insolvency proceedings, which typically is the situation where a creditor should have realised that a given transaction would deprive the other creditors of their right to fulfilment of their claims.

The usual hardening period is three months prior to the filing date, which is extended to up to 24 months for transactions with parties closely related to the company, and the general avoidance rule (as described above) provides for an unlimited avoidance period with respect to improper transactions.

Legal Position of Unsecured Claims and Priority of Claims

Creditors believing to have a claim against the debtor or the bankruptcy estate must prove their claims and accompany their proofs of claim by adequate documentation. The trustee registers all claims and examines whether they are legitimate and entitle the creditor to receive dividend.

The ranking of creditors is described in the Bankruptcy Act and it indicates the order in which claims against the estate or the debtor are settled. All higher ranking claims must be satisfied in full before the next level will be entitled to dividend. The ranking of creditors is as follows:

- Firstly: claims in connection with the bankruptcy proceedings or claims according to affirmed agreements;
- Secondly: claims in connection with any prior restructuring proceedings;
- Thirdly: claims for wages or salaries payable;
- Fourthly: claims of suppliers for indirect taxes;
- Fifthly: unsecured claims (all other claims except for deferred claims); and
- Sixthly: deferred claims (interest, fines, promises of gifts and subordinate loan capital).

Limitation on Enforcement

Danish companies and their foreign subsidiaries can, directly or indirectly, advance funds, grant loans or provide guarantee and/or security in respect of obligations of amongst others, their direct and indirect parent companies. If the relevant shareholder is not a limited liability company incorporated in a jurisdiction which is a member of the EU or European Economic Area or Switzerland, Australia, Canada, Hong Kong, Japan, South Korea, Singapore, Taiwan or U.S, then the following special requirements apply to such financial assistance: (i) the financial assistance is within the distributable reserves and made on ordinary market terms (on an arm's length basis), (ii) the financial assistance must be approved by the shareholders/at a shareholders meeting and cannot exceed such approved amount and (iii) the financial assistance can only be made after the first annual account.

As a general rule, Danish companies and their foreign subsidiaries are prohibited from granting loans and or guarantees or security in connection with the financing or refinancing of the direct or indirect acquisition of their own shares or shares in their direct or indirect parent companies and any such loan, guarantee or security will be invalid and unenforceable. Such financial assistance is only permitted in accordance with certain preconditions and requirements, which include obtaining a credit rating on the recipient of the financial assistance, a report (to be publicised) by the central management body (including providing the reason behind the financial assistance, company's interest, conditions of the transaction, assessment of consequenses and price for the shares to be paid by the buyer), a resolution by the general meeting approving the financial assistance. The financial assistance must be within the distributable reserves and made on ordinary market terms (on an arm's length basis).

Danish law may limit the ability of a Danish guarantor to guarantee or provide security for the Notes to the extent that the risk of issuing the guarantee or providing the security is not balanced against the corporate benefit (financial, commercial, strategic or otherwise) obtained by a Danish guarantor from the issuance of the Notes.

Danish law does not make any distinction between registered and beneficial ownership and if such distinction is made under foreign law the beneficial owner will be deemed the owner under Danish law. It is uncertain whether Danish law recognizes the concept of parallel debt structures and the concept of trusts.

Claims may become barred under Danish statutes of limitation or principles of passivity or may become subject to set-off or counterclaim and a guarantee in favour of a Danish credit institution may not be enforceable unless a claim has been made under the guarantee within six months after the due date of the guaranteed obligation.

Foreign Currency

Under the Danish Bankruptcy Act, claims must be converted into DKK at the exchange rate at the day the bankruptcy court issued a bankruptcy order over the company.

European Union

The Issuer and several Note Guarantors are organized under the laws of Member States of the European Union.

Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "*EU Insolvency Regulation*"), which applies within the European Union, other than Denmark, the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State (other than Denmark) where the company concerned has its "*center of main interests*" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where a company has its "*center of main interests*" is a question of fact on which the courts of the different Member States may have differing and even conflicting views.

Furthermore, "*center of main interests*" is not a static concept and may change from time to time. Although under Article 3(1) of the EU Insolvency Regulation there is a rebuttable presumption that a company would have its respective "*center of main interests*" in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "*center of main interests*" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties". The European Court of Justice has ruled in a recent judgment that a debtor company's main center of interests must be determined by attaching greater importance to the place of the company's central administration, as may be established by objective factors which are ascertainable by third parties. Where the bodies responsible for the management and supervision of a company are in the same place as its registered office and the management decisions of the company are taken, in a manner that is ascertainable by third parties, in that place, the presumption, that the center of the company's main interests is located in that place, shall be irrebuttable. Where a company's central administration is, however, not in the same place as its registered office, the presence of company assets and existence of contracts for the financial exploitation of those assets in a Member State other than that in which the registered office is situated cannot be regarded as sufficient factors to rebut the abovementioned presumption, unless a comprehensive assessment of all relevant factors makes it possible to establish, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision and of the management of its interests is located in that other Member State. The factors to be taken into account include, in particular, all the places in which the debtor company pursues economic activities and all those in which it holds assets, in so far as they are ascertainable by third parties. The EU Insolvency Regulation applies to insolvency proceedings which are collective insolvency proceedings of the types referred to in Annex A to the EU Insolvency Regulation.

If the center of main interests of a company is and will remain located in the Member State in which it has its registered office, the main insolvency proceedings in respect of such company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognized in the other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the "*center of main interests*" of a debtor is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open "territorial proceedings" only in the event that such debtor has an "establishment" in the territory of such other Member State. The effects of those territorial proceedings are restricted to the assets of the debtor located in the territory of such other Member State. If the company does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open territorial proceedings in respect of such issuer or guarantor under the EU Insolvency Regulation. Irrespective of whether the insolvency proceedings are main or territorial proceedings, such proceedings will always, subject to certain exemptions, be governed by the *lex fori concursus*, i.e., the local insolvency law of the court which has assumed jurisdiction for the insolvency proceedings of the debtor.

In the event that the Issuer or any Note Guarantor experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and the Note Guarantors. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organized or operate may be materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another.

The European Commission has published amendments to the EU Insolvency Regulation which, once enacted, may alter the manner in which the test for determining where a company has its "center of main interests" might be applied during the term of the Notes. At this stage it is not possible to conclusively determine what (if any) impact there might be in relation to the Notes.

Germany

Limitation on Enforcement

Heide-Park Soltau GmbH, LEGOLAND Deutschland Freizeitpark GmbH, LEGOLAND Deutschland GmbH, Sea Life Deutschland GmbH, Madame Tussauds Deutschland GmbH and Dungeon Deutschland GmbH (the "*German Guarantors*") are incorporated in the form of limited liability companies (*Gesellschaft mit beschränkter Haftung*) ("*GmbH*"). Consequently, the grant of a Note Guarantee by each of the German Guarantors is subject to certain capital maintenance rules under German law. These provisions would also apply to any future German Guarantor in the form of a GmbH or a partnership with a limited liability company as unlimited liable partner (e.g., GmbH & Co. KG).

Therefore, in order to enable the German Guarantors to grant guarantees securing liabilities of the Issuer without the risk of violating German capital maintenance provisions and to protect management from personal liability, it is standard market practice for credit agreements, notes, guarantees and security documents to contain "limitation language" in relation to subsidiaries, a GmbH or a partnership with a GmbH as an unlimited liable partner incorporated or established in Germany. Pursuant to such limitation language, the enforcement of the Guarantee given by each of the German Guarantors will be limited, reflecting the requirement under the capital maintenance rules imposed by Sections 30 and 31 of the German Act Regarding Companies with Limited Liability (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*) ("*GmHG*") if and to the extent payments under any such Guarantee would cause a German Guarantor's net assets to fall below the amount of its registered share capital (*Stammkapital*) or, if the net assets of the German Guarantor are already less than the stated share capital, cause the net assets to be further reduced or if and to the extent payments under any Note Guarantee would deprive the German Guarantor of the liquidity necessary to fulfill its financial liabilities to its creditors. These limitations would, to the extent applicable, restrict the enforcement of the relevant Note Guarantee.

German capital maintenance rules are subject to evolving case law. We cannot assure you that future court rulings may not further limit the access of shareholders to assets of the German Guarantors, which can negatively affect the ability of the German Guarantors to make payments on the Guarantee.

In addition, it cannot be ruled out that the case law of the German Federal Supreme Court (*Bundesgerichtshof*) regarding section 64 sentence 3 of the German Limited Liability Companies Act (*GmbHG*) (i.e., a situation where a managing director makes a payment to the GmbH's shareholder which inevitably leads to the illiquidity of the GmbH) or a so-called "*destructive interference*" (*existenzvernichtender Eingriff*) (i.e., a situation where a shareholder deprives a German limited liability company of the liquidity necessary for it to meet its own payment obligations) may be applied by courts with respect to the enforcement of the Note Guarantees granted by the German Guarantors. In such a case, the amount of proceeds to be realized in an enforcement process may be (further) reduced (down to zero). Furthermore, according to a decision of the German Federal Supreme Court (*Bundesgerichtshof*), a security agreement may be void due to tortious inducement of breach of contract if a creditor knows about the distressed financial situation of the debtor and anticipates that the debtor will only be able to grant collateral (including a guarantee) by disregarding the vital interests of its other business partners. It cannot be ruled out that German courts may apply this case law with respect to the granting of the Note Guarantees by the German Guarantors. Furthermore, the beneficiary (e.g., a holder of Notes) of a transaction effecting a repayment of the stated share capital of the grantor of the Note Guarantees could, moreover, become personally liable under exceptional circumstances. The German Federal Supreme Court (*Bundesgerichtshof*) ruled that this could be the case if, for example, the creditor were to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the grantor of the guarantee is close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

See "Risk Factors—Risks Related to the Notes and Our Structure—Insolvency laws and other limitations on the Note Guarantees, including fraudulent conveyance statutes, may adversely affect their validity and enforceability".

Insolvency

In the event of an insolvency of a Note Guarantor organized under the laws of Germany and/or having its center of main interests in Germany (a "*German Domiciled Guarantor*"), any main insolvency proceedings would most likely be initiated in Germany. Such proceedings would then be governed by German law. See also "*—European Union*".

The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzordnung*) may not be as favourable to your interests as creditors as the insolvency laws of other jurisdictions, including, *inter alia*, in respect of priority of creditors' claims, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and hence may limit your ability to recover payments due on the Notes.

The following is a brief description of certain aspects of the insolvency laws of Germany.

Insolvency proceedings are not initiated by the competent insolvency court *ex officio*, but require that the debtor or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be filed either by the debtor or by a creditor in the event of over-indebtedness (*Überschuldung*) of the debtor or in the event of illiquidity (*Zahlungsunfähigkeit*), meaning that the debtor is unable to pay its debts as and when they fall due. A debtor is not considered over-indebted when its liabilities exceed the value of its assets if, given the circumstances, it is more likely than not that the debtor's business can survive as a going concern. If a limited liability company (*Gesellschaft mit beschränkter Haftung*) or any company not having an individual as personally liable shareholder finds itself in a situation of illiquidity and/or over-indebtedness, the managing directors of such company are obliged to file for insolvency without delay but not later than three weeks after such illiquidity and/or over-indebtedness was established. In addition, only the debtor can file for the opening of insolvency proceedings in case of impending illiquidity (*drohende Zahlungsunfähigkeit*), if there is the imminent risk for the company of being unable to pay its debts as and when they fall due, whereas impending illiquidity does not give rise to an obligation for the management of the debtor to file for insolvency proceedings. If a company faces imminent illiquidity and/or is over-indebted but not yet illiquid it may also file for preliminary "debtor-in-possession" moratorium proceedings ("*Schutzschirmverfahren*") unless—from a third party perspective—there is no reasonable chance for a successful restructuring.

The insolvency proceedings are controlled by the competent insolvency court, which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the insolvency court may take preliminary protective measures to secure the property of the debtor during the preliminary proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor's assets during these preliminary proceedings as far as these protective measures are reasonable to protect the debtor's assets and/or to ensure the continuation of the debtor's business.

As part of such protective measures the court may appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*). The rights and duties of the preliminary administrator depend on the decision of the court. The duties of the preliminary administrator may be, in particular, to safeguard and to preserve the debtor's property and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings. Depending on the decision of the court, even the right to manage and dispose of the business and assets of the debtor may pass to the preliminary insolvency administrator. If a company files for preliminary "debtor-in-possession" moratorium proceedings, the court will appoint a preliminary trustee (*vorläufiger Sachwalter*) and prohibit enforcement measures (other than with respect to immoveable assets). The court may also resolve other preliminary measures to protect the debtor from creditor enforcement actions for up to three months. During that period, the debtor shall prepare an insolvency plan which ideally will be implemented in "debtor-in-possession" proceedings (*Eigenverwaltung*) after main insolvency proceedings have been opened.

During preliminary proceedings a "*preliminary creditors' committee*" (*vorläufiger Gläubigerausschuss*) has to be set up if the debtor satisfies two of the following three requirements: (i) a balance sheet total in excess of €6,000,000 (after deducting an equity shortfall if the debtor is over-indebted), (ii) revenues of at least €12,000,000 in the 12 months prior to the last balance sheet date and (iii) an annual average of 50 or more employees. The preliminary creditor's committee will be able to participate in certain important insolvency court decisions. It will have, for example, the power to influence the following: the selection of a preliminary insolvency administrator or an insolvency administrator (*vorläufiger Insolvenzverwalter* or *Insolvenzverwalter*), orders for "*debtor in possession*" proceedings (*Anordnung der Eigenverwaltung*), and appointments of preliminary trustees (*vorläufiger Sachwalter*).

The court orders the opening (*Eröffnungsbeschluss*) of main insolvency proceedings (*eröffnetes Insolvenzverfahren*) if certain requirements are met, in particular if (i) the debtor is in a situation of impending illiquidity (if the petition has been filed by the debtor) or illiquidity and/or over-indebted and (ii) there are sufficient assets to cover at least the cost of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient, the insolvency court will only open main insolvency proceedings if third parties (for instance, creditors) advance the costs themselves. In the absence of such advancement, the petition for opening of insolvency proceedings will usually be refused for insufficiency of assets (*Abweisung mangels Masse*).

Upon the opening of main insolvency proceedings, the right to manage and dispose of the business and assets of the debtor passes to the insolvency administrator (*Insolvenzverwalter*), who is appointed by the insolvency court unless debtor-in-possession (*Eigenverwaltung*) is ordered. In addition, the insolvency administrator may raise new financial indebtedness and incur other liabilities to continue the debtor's operations and satisfaction of these liabilities as preferential debts of the estate (*Masseschulden*) will be preferred to any insolvency claims of unsecured creditors (this also includes such portion of an *in rem* secured creditor's claim which exceeds the amount obtained through a disposal of the relevant collateral).

All creditors, whether secured or unsecured (unless they have a right to separate an asset from the insolvency estate (*Aussonderungsrecht*)), wishing to assert claims against the debtor in person need to participate in the insolvency proceedings. German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims in the insolvency proceedings separately, but can instead only enforce them in compliance with the restrictions of the German Insolvency Code. Any judicial enforcement action brought against the debtor by any of its creditors is subject to an automatic stay once insolvency proceedings have been opened (and, if so ordered by a court, with respect to assets other than real estate also between the time when an insolvency petition is filed and the time when insolvency proceedings commence). If, during the final month preceding the date of filing for insolvency proceedings, a creditor acquires through execution (i.e., *Zwangsvollstreckung*) a security interest in the debtor's property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon opening of the insolvency proceedings. Accordingly, unsecured creditors (e.g., creditors only having a guarantee but no asset security) may file their claims in the insolvency proceedings and will be paid on a pro rata basis from the insolvency estate (to the extent sufficient assets are available).

Assets which serve as collateral for secured creditors are realized either by the insolvency administrator or the relevant secured creditor and the enforcement proceeds are paid to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims. Remaining amounts ("*excess proceeds*") are distributed among the unsecured creditors. If a German Domiciled Guarantor grants security over its assets to other creditors than holders of the Notes, such security will result in a preferred satisfaction of such other creditors' secured claims (however, the preferential treatment would be limited to the proceeds obtained through the disposal of the relevant collateral). The excess proceeds resulting from the disposal of collateral provided to such other creditors may not be sufficient to satisfy the claims of the holders of the Notes against the German Domiciled Guarantors under the Note Guarantees. In addition, it may take several years before proceeds from the liquidation of the insolvency estate, if any, are distributed to unsecured creditors. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and requires the consent of the debtor as well as the consent of each class of creditors in accordance with specific majority rules. Under German insolvency laws, it is possible to implement a debt to equity swap through an insolvency plan. However, it will not be possible to force a creditor into a debt to equity conversion if it does not consent to such debt to equity swap.

Under German insolvency law, there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity has, from an insolvency law point of view, to be dealt with separately on an entity-by-entity basis (i.e., there is no group insolvency concept under German insolvency law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather the claims of and *vis-à-vis* each entity have to be dealt with separately.

Other than secured and unsecured creditors, German insolvency law provides for certain creditors to be subordinated by law (in particular, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the return of funds or payment of a consideration), while claims of a person who becomes a creditor of the insolvency estate only after the opening of insolvency proceedings generally rank senior to the claims of regular, unsecured creditors.

Powers of attorney granted by the relevant debtor and certain other legal relationships cease to be effective upon the opening of insolvency proceedings. Certain executory contracts become unenforceable at such time unless and until the insolvency administrators opts for performance.

Hardening Periods and Fraudulent Transfer

Under the German Insolvency Code, the insolvency administrator (or in the event debtor-in possession status has been granted, the trustee (*Sachwalter*)) may challenge (*anfechten*) transactions, performances or other acts that are deemed detrimental to insolvency creditors and which were effected prior to the commencement of formal insolvency proceedings during applicable avoidance/hardening periods. Generally, if transactions, performances or other acts are successfully voided by the insolvency administrator or trustee, any amounts or other benefits derived from such challenged transaction, performance or act must be returned to the insolvency estate. The administrator's right to challenge transactions can, depending on the circumstances, extend to transactions having occurred up to 10 years prior to the filing for the commencement of insolvency proceedings.

In the event of insolvency proceedings based on and governed by the insolvency laws of Germany, the granting of security and guarantees for or providing credit support for the benefit of the Notes could be subject to potential challenges by an insolvency administrator under the rules of avoidance as set out in the German Insolvency Code. In case the validity or enforceability of the Note Guarantees granted by a German Domiciled Guarantor is voided successfully, the Trustee and the holders of the Notes would be under an obligation to repay the amounts received under the Note Guarantees to the insolvency estate or to waive or release such Note Guarantees. If any of the Note Guarantees were avoided or held unenforceable for any reason, the Trustee and the holder of the Notes would cease to have any claim or benefit in respect thereof and would have to rely solely on the claims under the Notes and the remaining Note Guarantees, if any.

In particular, an act (*Rechtshandlung*) or a legal transaction (*Rechtsgeschäft*) (which term includes the granting of a guarantee, the provision of security and the payment of debt) detrimental to the creditors of the debtor may be avoided according to the German Insolvency Code in the following cases:

- any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security or satisfaction (*Befriedigung*) if such act was taken (i) during the last three months prior to the filing of the petition for the opening of insolvency proceedings, provided that the debtor was illiquid (*zahlungsunfähig*) at the time such act was taken and the creditor knew of such illiquidity (or of circumstances that clearly suggest that the debtor was illiquid) at such time, or (ii) after the filing of the petition for the opening of insolvency proceedings, if the creditor knew of the debtor's illiquidity or the filing of such petition (or of circumstances that clearly suggest such illiquidity or filing);
- any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security or satisfaction (*Befriedigung*) to which such creditor was not entitled, or which was granted or obtained in a form or at a time to which or at which such creditor was not entitled to such security or satisfaction, if (i) such act was taken during the last month prior to the filing of the petition for the opening of insolvency proceedings or after such filing, (ii) such act was taken during the second or third month prior to the filing of the petition and the debtor was illiquid at such time or (iii) such act was taken during the second or third

month prior to the filing of the petition for the opening of insolvency proceedings and the creditor knew at the time such act was taken that such act was detrimental to the other insolvency creditors (or had knowledge of circumstances that clearly suggest such detrimental effect);

- a legal transaction by the debtor that is directly detrimental to the insolvency creditors or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against a debtor is obtained or becomes enforceable, if it was entered into (i) during the three months prior to the filing of the petition for the opening of insolvency proceedings and the debtor was illiquid at the time of such transaction and the counterparty to such transaction knew of the illiquidity at such time or (ii) after the filing of the petition for the opening of insolvency proceedings and the counterparty to such transaction knew either of the debtor's illiquidity or of such filing at the time of the transaction;
- any act by the debtor without (adequate) consideration (e.g., whereby a debtor grants security for a third-party debt, which might be regarded as having been granted gratuitously (*unentgeltlich*)), if it was effected in the four years prior to the filing of the petition for the opening of insolvency proceedings;
- any act performed by the debtor during the ten years prior to the filing of the petition for the opening of insolvency proceedings or at any time after the filing, if the debtor acted with the intention of prejudicing its insolvency creditors (*vorsätzliche Gläubigerbenachteiligung*) and the beneficiary of the act knew of such intention at the time of such act;
- any non-gratuitous contract concluded between the debtor and an affiliated party that directly operates to the detriment of the creditors can be voided unless such contract was concluded earlier than two years prior to the filing of the petition for the opening of insolvency proceedings or the other party had no knowledge of the debtor's intention to disadvantage its creditors as of the time the contract was concluded; in relation to corporate entities, the term "*affiliated party*" includes, subject to certain limitations, members of the management or supervisory board, general partners and shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and other persons who are spouses, relatives or members of the household of any of the foregoing persons;
- any act that provides security or satisfaction (*Befriedigung*) for a claim of a shareholder for repayment of a shareholder loan or a similar claim if (i) in the case of the provision of security, the act took place during the last ten years prior to the filing of the petition for the opening of insolvency proceedings or after the filing of such petition or (ii) in the case of satisfaction, the act took place during the last year prior to the filing of the petition for the opening of the insolvency proceedings or after the filing of such petition; or

any act whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party if (i) the satisfaction was effected in the last year prior to the filing of a petition for the opening of insolvency proceedings or thereafter, and (ii) a shareholder of the debtor had granted security or was liable as a guarantor or surety (*Garant oder Bürge*). In this context, "*knowledge*" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (e.g., a German Domiciled Guarantor) was unable to pay its debts generally as they fall due, that a petition for the opening of insolvency proceedings had been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. The debtor is deemed to have acted with the intention to prejudice its insolvency creditors not only if prejudicing its creditors was the final objective of its acts but also if the insolvent party was aware that its acts might prejudice its creditors and accepted this to achieve a different objective. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's imminent illiquidity and that the transaction prejudiced the debtor's creditors. With respect to an "*affiliated party*", there is a general statutory presumption that such party had "*knowledge*".

Apart from the examples of an insolvency administrator avoiding transactions according to the German Insolvency Code described above, a creditor who has obtained an enforcement order (*Vollstreckungstitel*) could possibly also avoid any security right or payment performed under the relevant security right according to the German Law of Avoidance (*Anfechtungsgesetz*) outside formal insolvency proceedings.

The prerequisites vary to a certain extent from the rules described above and the avoidance periods are calculated from the date when a creditor exercises its rights of avoidance in the courts.

No Objection by German Federal Council

The German legislature has recently adopted an amendment concerning the statutory avoidance provisions in the German Insolvency Code (*Insolvenzordnung*). The amendment relates to, *inter alia*, the provisions on avoidance for intentionally disadvantaging third-party creditors. In such cases, the avoidability of acts or transactions will be limited to four years to the extent that the act or transaction granted a creditor, or enabled a creditor to obtain, security or satisfaction for a debt. In addition, "knowledge by the beneficiary of the transaction" in terms of such provision will be presumed if the beneficiary knew that the debtor was illiquid and that the transaction disadvantaged the other creditors. The fact that the creditor agreed on a payment plan with the debtor or agreed to deferred payments shall establish the presumption that the creditor had no knowledge of the debtor being illiquid at this time. Other amendments relate to, among others, the provisions for cash transactions (*Bargeschäfte*) and the interest rates on avoidance claims.

The amendments will become effective following publication of the bill in the German Federal Law Gazette (*Bundesgesetzblatt*).

Italy

Limitation on Granting of Guarantees and on Enforcement Under Italian Law

The obligations under a guarantee provided by a guarantor incorporated under the Italian law (each an "*Italian Guarantor*") are subject to compliance with Italian rules on corporate benefit, corporate authorisation and certain other Italian mandatory provisions.

An Italian company granting a guarantee must receive a real and adequate benefit in exchange for the guarantee. Such principle on corporate benefit applies equally to down-stream, cross-stream and up-stream guarantees granted by Italian companies. While the existence of a corporate benefit in relation to a down-stream guarantee is usually self-evident (*i.e.,* a guarantee guaranteeing financial obligations of direct or indirect subsidiaries of the relevant guarantor), the existence of a corporate benefit in relation to a cross-stream or an up-stream guarantee (*i.e.,* a guarantee guaranteeing financial obligations of direct or indirect parent companies or sister companies of the relevant guarantor) may be challenged unless it can be proved that the guarantor may derive some benefits or advantages from the granting of the guarantee, therefore it should be carefully considered on a case by case basis (such as in the case of Subsidiary Guarantors which are providing the Note Guarantees in connection with the Notes offered hereby).

The concept of "corporate benefit" is not expressly defined under Italian law and it is assessed and determined on a case-by-case basis, further its existence is purely a business decision of the directors and the statutory auditors. As a general rule, corporate benefit is assessed at the level of the relevant company on a standalone basis, although in certain circumstances, and subject to specific rules, the interest of the group to which such company belongs may also be taken into consideration. In particular, in case of up-stream and cross-stream guarantees for the financial obligations of group companies, examples may include financial consideration in the form of access to cash flows through intercompany loans from other members of the group, while transactions featuring debt financings of distributions to shareholders are largely untested in Italian courts, and, therefore, limited guidance is provided as to whether and to what extent such transactions could be challenged for lack of corporate benefit and conflict of interest. Generally, the risk assumed by an Italian Guarantor must not be disproportionate to the direct or indirect economic benefit to such Italian Guarantor.

In principle, absence of a real and adequate benefit could make the Note Guarantees *ultra vires* and potentially affected by conflict of interest.

As a result, civil liabilities may be imposed on the directors of an Italian Guarantor if it is assessed that they did not act in the best interest of such Italian Guarantor and that the acts they carried out do not fall within the corporate purpose of the relevant Italian Guarantor or were against mandatory provisions of Italian law. The lack of corporate benefit could also result in the imposition of civil liabilities on those companies or persons ultimately exercising control over an Italian Guarantor or having knowingly received an advantage or profit from such improper control. However, no liability can be attributed where no prejudice or actual damage is suffered by the Italian Guarantor because of the determination of the controlling shareholder as provided under Article 2497 of the Italian Civil Code having regard to the overall result of the controlling activity. Moreover, the Note Guarantees could be declared null and void if the lack of corporate benefit was known or presumed to be known by the third party involved in the transaction and such third party acted intentionally against the interest of such Italian Guarantor.

As to corporate authorisations prospective, the granting of a guarantee by an Italian company in favor of third parties or other corporations belonging to the same group of companies of the Italian Guarantor must be permitted by the by-laws (*statuto*) of the Italian company providing such guarantee.

In addition, the granting of a guarantee by an Italian company cannot include any liability which would result in unlawful financial assistance within the meaning of Article 2358 or 2474, as the case may be, of the Italian Civil Code pursuant to which, subject to specific exceptions, it is unlawful for a company to give financial assistance (whether by means of loans, security, guarantees or otherwise) to support the acquisition or subscription by a third party of its own shares or quotas or those of any entity that (directly or indirectly) controls the Italian company. Financial assistance for refinancing indebtedness originally incurred for the purchase or subscription of its own shares or quotas or those of its direct or indirect parent company would also be a violation. Any loan, guarantee or security given or granted in breach of these provisions is null and void. In addition, directors may be personally liable for failure to act in the best interests of the company.

In the light of the above, in no event shall the obligations and liabilities of an Italian Guarantor under a guarantee include the obligation to guarantee financial indebtedness which was incurred, in full or in part, to purchase the shares of such Italian Guarantor (or of any of its direct or indirect holding company) and which would therefore constitute the provision of financial assistance within the meaning of Article 2358 and/or Article 2474, as the case may be, of the Italian Civil Code and/or any other law or regulation having the same effect, as interpreted by Italian courts.

If the proceeds of the Notes were to be used for the acquisition of shares (or quotas, as applicable) in the Subsidiary Guarantors (the entities which, among others, provided the Note Guarantees) incorporated in Italy (or of any of its direct or indirect holding company), this may be construed as a violation of Article 2474 and/or Article 2358 of the Italian Civil Code whereas, in the latter case, an authorisation proceeding in the shareholders' meeting is not implemented. To this extent the total value of the guarantee cannot exceed the profits and the distributable reserves as resulting from the approved financial statements.

Upon certain conditions, the granting of guarantees may be considered as a restricted financial activity within the meaning of Article 106 of the Legislative Decree No. 385 of 1 September 1993 (the "*Italian Banking Act*"), whose exercise is exclusively demanded to banks and authorized financial intermediaries. Non-compliance with the provisions of the Italian Banking Act may, *inter alia*, entail the Note Guarantees being considered null and void. In this respect, the Ministerial Decree No. 53 of April 2, 2015, implementing article 106, paragraph 3 of the Italian Banking Act, states that the issuance of guarantees or security by a company for the obligations of another company which is part of the same group does not qualify as a restricted financial activity, whereby "group" includes controlling and controlled companies within the meaning of Article 2359 of the Italian Civil Code as well as companies, which are under the control of the same entity. As a result of the above described rules, subject to the Italian Guarantor and the guaranteed entity being part of the same group of companies, the provision of the guarantees would not amount to a restricted financial activity.

In addition, under Article 1938 of the Italian Civil Code, if a personal guarantee is issued to guarantee conditional or future obligations, the guarantee must be limited to a maximum amount. Such maximum amount should be expressly identified at the outset and expressed in figures (either in the guarantee deed or by reference to a separate document, such as the Indenture). It has been held, that such determination must be proportionate to the relevant guarantor's assets. It is uncertain, however, whether courts are entitled to debate and to rule over such determination.

Certain Italian Insolvency Law Considerations

The following is a brief description of certain aspects of insolvency law in Italy, which does not include special provisions applying to banks, insurance and other companies authorized to carry out certain reserved activities nor it provides a comprehensive description of insolvency laws application where public companies are involved.

In Italy, the courts play a central role in the insolvency process and in-court procedures may be materially more complex and time-consuming than in equivalent situations in jurisdictions with which holders of the Notes may be familiar. Certain provisions of Italian law have been amended or have entered into force only recently and, therefore, may be subject to further implementation and/or interpretations and have not been tested to date in the Italian courts. In this respect, the most recent reform has been approved by the Italian Government on June 23, 2015 through a Law Decree containing urgent reforms applicable, among others, to Italian bankruptcy law (the "*Decree 83/2015*"). The Decree 83/2015 entered into force in June 2015 and has been converted into law by Law No. 132/2015 (the "*Law 132/2015*"). Law 132/2015 entered into force on August 21, 2015.

The two primary aims of Royal Decree No. 267 of 16 March 1942 (the main Italian bankruptcy legislation), as reformed and currently in force (the "*Italian Bankruptcy Law*") are to liquidate the debtor's assets and protect the goodwill of the going concern (if any) for the satisfaction of creditors' claims as well as, in case of the "*Prodi-bis*" procedure or "*Marzano*" procedure, to maintain employment. These competing aims often have been balanced by the sale of businesses as going concerns and ensuring that employees are transferred along with the businesses being sold. However, the Italian Bankruptcy Law has been recently amended with a view to promoting rescue procedures rather than liquidation, focusing on the continuity and survival of financially distressed businesses and enhancing pre-bankruptcy restructuring options.

Under the Italian Bankruptcy Law, bankruptcy (*fallimento*) must be declared by a court, based on the insolvency (*insolvenza*) of a company upon a petition filed by the company itself, the public prosecutor and/or one or more creditors. Insolvency, as defined under Italian Bankruptcy Law, occurs when a debtor is no longer able to regularly meet its obligations as they come due. This must be a permanent, and not a temporary, status of insolvency, in order for a court to hold that a company is insolvent.

In cases where a company is facing financial difficulties or temporary cash shortfall and, in general, financial distress, it may be possible for it to enter into out-of-court arrangements with its creditors, which may safeguard the existence of the company, but which are susceptible to being reviewed by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions. In addition, the following forms of debt restructuring and bankruptcy are available under Italian law for companies in a state of crisis and for insolvent companies.

Only corporations whose indebtedness and assets values exceed certain thresholds are subjected to bankruptcy proceeding (as further indicated). In addition to the above, the following pre-insolvency proceedings are currently available under Italian law for companies facing financial difficulties or temporary cash flow shortfall and, in general, financial distress.

Italian Bankruptcy Law provides for three models of pre-insolvency proceedings, namely: (1) court pre-bankruptcy composition with creditors (*concordato preventivo*) ("*CP*"), (2) debt restructuring agreements (*accordi di ristrutturazione dei debiti*) ("*DRA*") and (3) certified restructuring plans (*piani attestati di risanamento*) ("*CRP*"); however, it should be noted that only the CP is listed in Annex A to the EU Insolvency Regulation. Restructuring plans may cover up to a five-year period.

It should be noted that all of the above mentioned pre-insolvency proceedings often require creditors to compromise on their right to be fully satisfied. The debtor may offer to creditors (with the exclusion of secured creditors in the CP proceeding) partial settlement of their claims.

Restructuring Outside of a Judicial Process (concordato stragiudiziale)

These restructurings are informal arrangements which are put in place outside of a formal judicial process. However, restructuring generally takes place through a formal judicial process because it is more favourable to the debtor and because out-of-court arrangements put in place as a result of an out-of-court restructuring (other than those put in place under the safe harbor of an out-of-court reorganisation CRP pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law, which exempts—provided all actions indicated in the plan are fully implemented—debt restructuring agreements with creditors and court supervised pre-bankruptcy arrangement with creditors from insolvency claw-back and the exemption from certain criminal law provisions on bankruptcy with reference to those transactions executed as part of the CRP) are vulnerable to being reviewed by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions, and may trigger civil or criminal liabilities in the event of a subsequent bankruptcy. Notwithstanding the above, where a company is still solvent but is facing financial difficulties, it may enter into an out-of-court arrangement with its creditors pursuant to a *concordato stragiudiziale* in order to safeguard the existence of the company and preserve its ongoing operations.

Certified Restructuring Plans Pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law (piani attestati di risanamento)

Out-of-court CRPs (*piani attestati di risanamento*) are based on restructuring plans (*piani di risanamento attestati*) prepared by companies for the purpose of restructuring their indebtedness and ensuring the recovery of their financial condition, the feasibility of which, together with the truthfulness of debtor's business (and accounting) data, must be assessed by an independent expert directly appointed by the debtor. The expert can only be selected and appointed among those possessing certain specific professional requisites and qualifications (e.g., being registered in the auditors' registrar), and meeting the requirements under Article 2399 of the Italian Civil Code. The expert may be subject to liability in case of misrepresentation or false certification.

CRPs are not under any form of judicial control or approval and, therefore, no application is required to be filed with the court or other supervising authority. CRPs do not require to be approved and consented by a specific majority of all outstanding claims. Following a restructuring plan, there is no entrustment of business to another entity, therefore the debtor remains entitled to manage its business.

The terms and conditions of the restructuring plans are freely negotiable, provided that they are finalized at restructuring the debtor's indebtedness and rebalancing its capital structure. Unlike in CP and DRA proceedings, out-of-court reorganisation plans do not offer the debtor any protection against enforcement proceedings and/or precautionary actions of third-party creditors. The Italian Bankruptcy Law provides that, should these plans fail and the debtor be declared bankrupt, the payments and/or acts carried out for the implementation of the reorganisation plan, subject to certain conditions (a) are not subject to claw-back action; and (b) are exempted from the potential application of certain criminal sanctions. Neither ratification by the court nor publication in the companies' register are needed (although, upon request of the debtor, a CRP can be published in the relevant companies' register and, in such case creditors would benefit from a reduction in debtor tax liability).

Debt Restructuring Agreements with Creditors Pursuant to Article 182-bis of the Italian Bankruptcy Law (accordi di ristrutturazione dei debiti)

Out-of-court debt restructuring agreements entered into with the aim of restructuring indebtedness of a company require the approval of its creditors representing at least 60 per cent. of the outstanding company's debts and must be ratified ("*omologati*") by a court. An independent expert, directly appointed by the debtor, must assess—in addition to the truthfulness of the debtor's business and accounting data provided by the company—that the agreement is feasible and, in particular, that it ensures that the non-participating creditors can be fully satisfied within 120 days from (i) the ratification ("*omologazione*") of the DRA by the court, in case the relevant claims are already due and payable to the non-participating creditors as at the date of the ratification ("*omologazione*") of the DRA by the court or (ii) from the date on which the relevant debts fall due, in case the relevant claims are not yet due and payable to the non-participating creditors as of the date of the sanctioning (*omologazione*) of the restructuring agreement by the court.

Only a debtor who is in a situation of "*financial distress*" (*i.e.*, facing financial distress which does not yet amount to insolvency) can initiate such process and request the court's confirmation ("*omologazione*") of the DRA, which must be entered into with creditors representing not less than 60 per cent. of the company's debts.

The DRA must be published in the Italian companies' register and is effective as of the day of its publication. Starting from the date of such publication and for 60 days thereafter, creditors cannot start or continue any interim relief or enforcement actions over the assets of the debtor in relation to pre- existing claims and cannot obtain any new and additional security interest in relation to the pre-existing debts, overdue prior to the DRA formation. Such moratorium can be requested, pursuant to Article 182-bis, Paragraph 6, of the Italian Bankruptcy Law, by the debtor to the court pending negotiations with creditors (prior to the DRA's execution and publication) subject to the fulfillment of certain conditions.

The application for a moratorium must be published in the companies' register and becomes effective as of the date of publication. The court, having verified the completeness of the documentation, sets the date for the hearing within 30 days from the publication of the request and orders the company to file the relevant documentation in relation to the moratorium to the creditors. In such hearing, the court assesses whether the conditions for granting the moratorium are in place and, if they are, orders, that no interim relief or enforcement action may be started or continued, nor can security interests (unless agreed) be acquired over the assets of the debtor, and sets a deadline (not exceeding 60 days) within which the DRA has to be filed. The court's order may be challenged within 15 days of its publication. Within the same time frame, an application for the CP (as described below) may be filed, without prejudice to the effect of the moratorium.

The Italian Bankruptcy Law does not expressly provide for any indications concerning the contents of the DRA. The plan can therefore provide, *inter alia*, either for the prosecution of the business by the debtor or by a third party, or the sale of the business to a third party and may contain, refinancing agreements, moratoria, write-offs and/or postponements of claims. The DRA may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

Creditors and other interested parties may oppose the agreement within 30 days from the publication of the agreement in the companies' register. After having settled the oppositions (if any) the court will validate the agreement by issuing a decree, which can be appealed within 15 days of its publication.

The Decree 83/2015, as amended by Law 132/2015 modified the basis for calculation of the 60% of the outstanding debtor's debt threshold required for courts' sanctioning of debt restructuring agreements (*accordi di ristrutturazione dei debiti*), easing the requirements with respect to financial creditors.

Pursuant to the new Article 182-septies of the Italian Bankruptcy Law, introduced by the Decree 83/2015, as amended by Law 132/2015, debtors whose financial indebtedness is at least 50% of their total indebtedness are entitled to enter into debt restructuring agreements obtaining the approval of financial creditors representing at least 75% of the aggregate financial claims of the relevant category and ask the court to declare such agreement binding on the dissenting financial creditors belonging to the same category (so called "cram down"), subject to certain conditions being met, including that treatment of dissenting creditors is not worse than under any other available alternative. If the abovementioned conditions are met, then the remaining 25% of non-participating financial creditors belonging to the same class of creditors are crammed down; however, crammed down creditors can challenge the deal and refuse to be forced into it, on the basis of the lack of homogeneity of the classes of creditors. Similarly, a standstill agreement (*convenzione di moratoria*) entered into between a debtor and financial creditors representing 75% of that debtor's aggregate financial indebtedness would also bind the non-participating financial creditors, provided that an independent expert certifies the homogeneity of the classes and subject to certain conditions being met. The purpose is to prevent banks with modest credits from block restructuring operations involving more exposed bank creditors, resulting in the failure of the overall restructuring and the opening of a procedure. Financial creditors who did not participate in the agreement may challenge it within 30 days of receipt of the application.

Such debt restructuring agreements and standstill agreements will not affect the rights of non-financial creditors (e.g. trade creditors) who cannot be crammed down and must be paid within 120 days if not participating to a scheme.

Pursuant to Article 182-quater of the Italian Bankruptcy Law, financing granted to the debtor pursuant to the approved debt restructuring agreement (or a court-supervised Pre-Bankruptcy Composition with Creditors) enjoy priority status in cases of subsequent bankruptcy (such status also applies to financing granted by shareholders, but only up to 80 percent of such financing). Financing granted "in view of" (i.e., before) presentation of a petition for a debt restructuring agreement or a court-supervised Pre-Bankruptcy Composition with Creditors may be granted such priority status provided that it is envisaged by the relevant plan or agreement and that such priority is expressly provided for by the court at the time of approval of the plan or sanctioning (*omologazione*) of the agreement.

Pursuant to the new Article 182-quinquies of the Italian Bankruptcy Law, the court, pending the sanctioning (*omologazione*) of the agreement pursuant to Article 182-bis, paragraph 1, or after the filing of the petition pursuant to Article 182-bis, paragraph 6, or a petition for a concordato preventivo, also pursuant to Article 161, paragraph 6, may authorize the debtor to: (i) incur new pre-deductible indebtedness subject to authorization by the court and if an expert certifies that such financing is functional to the overall restructuring process, (ii) secure such indebtedness via in rem securities ("*garanzie reali*"), provided that the expert appointed by the debtor, having verified the overall financial needs of the company until the sanctioning (*omologazione*), declares the aim of the new financial indebtedness results in a better satisfaction of the creditors; and (iii) pay debts deriving from the supply of services or goods, already payable and due, provided that, the expert declares that such payment is essential for the keeping of the company's activities and to ensure the best satisfaction for all creditors. In addition, according to the provisions of the Decree 83/2015, as amended by Law 132/2015, the aforementioned authorization may be given also before the filing of the additional documentation required pursuant to Article 161, Paragraph 6 of the Italian Bankruptcy Law.

The provision of Article 182-quinques of the Italian Bankruptcy Law applies to both debt restructuring agreement and to the court-supervised pre-bankruptcy compositions with creditors (*concordato preventivo*) outlined below.

Furthermore, according to the Article 1 of the Decree 83/2015, as amended by Law 132/2015, pending the sanctioning (*omologazione*) of the debt restructuring agreement pursuant to Article 182-bis, Paragraph 1 of the Italian Bankruptcy Law or after the filing of the moratorium application pursuant to Article 182-bis, Paragraph 6 of the Italian Bankruptcy Law also in absence of the plan pursuant to Article 161, Paragraph 2, letter (e) of the Italian Bankruptcy Law, the court may also authorize the debtor to incur in new super senior (so called *prededucibile*) indebtedness, aimed at supporting urgent financial needs related to the company's business. The company, while filing such request of authorization, is required to specify (i) the purpose of the financing; (ii) that it is unable to otherwise obtain the required funds and (iii) that the absence of such financing will entail an imminent and irreparable prejudice to the company.

Court Supervised Pre-bankruptcy Composition with Creditors Pursuant to Article 161 of the Italian Bankruptcy Law (concordato preventivo)

A company, which is in "financial distress and/or crisis" that has not been declared insolvent by the court, has the option to make a composition proposal to its creditors, under court supervision, in order to compose its overall indebtedness and/or reorganize its business, thereby avoiding a declaration of insolvency and the initiation of bankruptcy proceeding.

In general, pursuant to Article 1 of Italian Bankruptcy Law, corporations are submitted to *concordato preventivo* provisions and/or to bankruptcy where any of the following thresholds are exceeded: (i) assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million in each of the three preceding fiscal years, (ii) gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the three preceding fiscal years or (iii) total indebtedness (including debt not overdue and payable) in excess of €0.5 million.

Only the debtor company can file a petition at court for a *concordato preventivo* (together with, *inter alia*, a restructuring plan proposed to the creditors and an independent expert report assessing, *inter alia*, the feasibility of the arrangement proposal and the truthfulness of the business and accounting data on which the plan is grounded). Following the filing of the petition with the court, the petition is published by the debtor in the companies' register. Between the publishing in the companies' register of the *concordato preventivo* proposal and its sanction by the court, all enforcement and interim relief actions by the creditors (whose title to enforcement arose before filing with the court) are stayed. During this time, all enforcement, precautionary actions and interim measures sought by the creditors, whose title arose beforehand, are stayed. In addition, during this time, pre- existing creditors cannot obtain security interests (unless authorized by the court) and the mortgages registered within 90 days preceding the date on which the petition for the *concordato preventivo* is published in the Italian companies' register are ineffective against such pre-existing creditors.

The composition proposal filed in connection with the petition may provide for, *inter alia*: (i) the restructuring of debts and the satisfaction of creditors' claims (provided that, in any case, it will ensure payment of at least 20% of the unsecured receivables, except for the case of composition with creditors with continuity of the going concern (*concordato con continuità aziendale*) pursuant to Article 186-bis of the Italian Bankruptcy Law, in any manner, including by way of example, through extraordinary transactions such as the granting to creditors and their subsidiaries or affiliated companies of shares, bonds (also convertible into shares), or other financial instruments and debt securities; (ii) the transfer to a receiver (*assuntore*) of the operations of the business involved in the proposed arrangement agreement; (iii) the placing of creditors into different classes (thereby proposing different treatments among the classes); and (iv) different treatments for creditors belonging to different classes. The composition proposal may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. The composition proposal may provide that: (i) the debtor's company's business continues to be run by the debtor company as a going concern; or (ii) the business is transferred to one or more companies and any assets which are no longer necessary to run the business are liquidated (*concordato con continuità aziendale*). In both cases, the petition for the *concordato preventivo* should fully describe the costs and revenue which are expected as a consequence of the continuation of the business as a going concern, as well as the financial resources and support which will be necessary. The report of the independent expert shall also certify that the continuation of the business is conductive to the satisfaction of creditors' claim to a greater extent than if such arrangement proposal was not implemented. Furthermore the going concern-based arrangement with creditors can provide for, *inter alia*, the winding-up of those assets which are not functional to the business.

If the court determines that the composition proposal is admissible, it appoints a judge (*giudice delegato*) to supervise the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditors' meeting. During the implementation of the proposal, the company is managed by its corporate bodies (usually its board of directors) under the supervision of such judicial officers and judge who shall authorize all transactions that exceed the ordinary course of business, while ordinary transactions may be carried out by the debtor without authorisations. Third party claims, related to the interim acts legally carried out by the debtor, are super-senior pursuant to Article 111 of the Italian Bankruptcy Law.

The *concordato preventivo* proposal is voted on at a creditors' meeting and must be approved with the favourable vote of creditors representing the majority (by value of claims) of credits entitled to vote. If the proposal provides for different classes of creditors, the approval of the plan also requires the favourable vote of creditors representing the majority of credits admitted to within each class and the approval of the majority of such class. Creditors who, being entitled to vote, did not do so and whom did not express their dissent (including failing to notify their objection via telegraph, fax, mail or certified e mail) within 20 days of the closure of the minutes of the creditors' meeting are deemed to have consented to the *concordato preventivo*. Secured creditors are not entitled to vote on the proposal of *concordato preventivo* unless and to the extent they waive their security, or the *concordato preventivo* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal.

The court may also approve the *concordato preventivo* (notwithstanding the circumstance that one or more classes objected to it) if (i) the majority of the classes has approved the *concordato preventivo* and (ii) the court deems that the interests of the dissenting creditors would be adequately safeguarded through the *concordato preventivo* compared to other solutions, known as a "*cram down*". If an objection to the implementation of the *concordato preventivo* is filed by at least 20 per cent. or, in case there are different classes of creditors, by a creditor belonging to a dissenting class, entitled to vote, the court nevertheless may confirm the *concordato preventivo* if it deems that the relevant creditors' claims are likely to be satisfied to a greater extent as a result of the *concordato preventivo* than would be otherwise be the case.

After the creditors' approval, the court (after having settled possible objections raised by the dissenting creditors, if any) must confirm the *concordato preventivo* proposal by issuing a confirmation order.

If the creditors participating at the meeting do not approve the *concordato preventivo*, the court may, upon request of the public prosecutor or a creditor and after having ascertained the condition for declaration of bankruptcy, declare the company bankrupt.

Pre-application for the composition with creditors (concordato preventivo), even in view of a restructuring agreement (accordo di ristrutturazione del debito)

The filing of the application for the certification of a restructuring arrangement (*accordo di ristrutturazione del debito*) and the application for a composition with creditors (*concordato preventivo*) may be preceded by the filing by the debtor distressed company of a preliminary petition for a *concordato preventivo* (so called *concordato in bianco*). In particular, according to Article 161(6) of the Italian Bankruptcy Law, the distressed company may file a pre-application for the composition with creditors together with (i) the financial statements of the last three financial years and, pursuant to the recent law Italian law decree no 69/2013 as converted into law No. 98 of 9 August 2013 ("*Law Decree 69/2013*") (ii) the list of creditors with the reference to the amount of their respective receivables, asking the competent court to set a deadline, between 60 and 120 days (subject to a further extension of up to 60 days where there are reasonable grounds (*giustificati motivi*)) for the filing of additional documents required for the filing of a petition at court for a *concordato preventivo*. In advance of such deadline, the debtor may also file a petition for the approval of a debt restructuring agreement (pursuant to Article 182-*bis* of the Italian Bankruptcy Law). Pursuant to Law Decree 69/2013, the court, if accepts such pre-application, may (i) appoint a judicial commissioner (*commissario giudiziale*) to overview the company, who, in the event that the debtor has carried out one of the activities under article 173 of the Italian Bankruptcy Law (e.g. concealment of part of assets, omission to report one or more claims, declaration of non-existent liabilities or commission of other fraudulent acts), shall report it to the court, which, upon further verification, may reject the petition at court for a *concordato preventivo* and (ii) sets forth reporting and information duties of the company during the above mentioned period.

The debtor company may not file such pre application where it had already done so in the previous two years without the admission to the *concordato preventivo* (or the certification of a DRA) having followed. The decree setting the term for the presentation of the documentation contains also the periodical information requirements (relating also to the financial management of the company and to the activities carried out for the purposes of the filing of the application and the restructuring plan) that the company has to fulfill, at least on a monthly basis, until the lapse of the term established by the court. The debtor company shall file, on a monthly basis, the company's financial position, which is published, the following day, in the companies register. Noncompliance with these requirements results in the application for the composition with creditors being declared inadmissible and, upon request of the creditors or the public prosecutor and provided that the relevant requirements are verified, in the adjudication of the distressed Company into bankruptcy. If the activities carried out by the debtor company appear to be clearly inappropriate to the preparation of the application and the restructuring plan, the court may, *ex officio*, after hearing the debtor and—if appointed—the judicial commissioner, reduce the time for the filing of additional documents.

Following the filing of the pre application and until the decree of admission to the composition with creditors, the distressed company may (i) carry out acts pertaining to its ordinary activity and (ii) seek the court's authorisation to carry out acts pertaining to its extraordinary activity, to the extent they are urgent. Claims arising from acts lawfully carried out by the distressed company and new super senior indebtedness authorized by the court, pending the sanctioning (omologazione) of the debt restructuring agreement pursuant to Article 182-bis, Paragraph 1 of the Italian Bankruptcy Law or after the filing of the moratorium application pursuant to Article 182-bis, Paragraph 6 of the Italian Bankruptcy Law also in absence of the plan pursuant to Article 161, Paragraph 2, letter (e) of the Italian Bankruptcy Law, aimed at supporting urgent financial needs related to the company's business as recently introduced by Article 1 of the Decree 83/2015, as amended by Law 132/2015, are treated as super-senior (so called *pre-deducibili*) pursuant to Article 111 of the Italian Bankruptcy Law and the related acts, payments and security interests granted are exempted from the claw-back action provided under Article 67 of the Italian Bankruptcy Law. Law No. 9 of 21 February 2014 specified that the superseniority of the claims—which arise out of loans granted with a view to allowing the filing of the pre-application for the composition with creditors (*domanda di pre-concordato*)—is granted, pursuant to article 111 of the Italian Bankruptcy Law, conditional upon the proposal, the plan and all other required documents being filed within the term set by the court and the company being admitted to the *concordato preventivo* within the same proceeding opened with the filing of the preliminary petition.

Bankruptcy Proceedings (fallimento)

A request to declare a debtor bankrupt and to commence a bankruptcy proceeding (*fallimento*) for the judicial liquidation of its assets can be filed by the same debtor, any number of creditors and, in some cases, by the public prosecutor. Insolvency, as defined under Italian Bankruptcy Law, occurs when a debtor is no longer able to regularly meet its obligations with ordinary means as they come due. The bankruptcy is declared by the competent bankruptcy court. The bankruptcy proceedings under Italian Bankruptcy Law is applicable only to commercial enterprises (*imprenditori commerciali*) if any of the following thresholds are met: (i) assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million in each of the latest three fiscal years; (ii) gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the latest three fiscal years; or (iii) total indebtedness in excess of €0.5 million.

Upon the commencement of a bankruptcy proceeding:

subject to certain exceptions, all actions of creditors are stayed and creditors must file claims within a defined period. In particular, under certain circumstances secured creditors may enforce against the secured property as soon as their claims are admitted as preferred claims. Secured claims are paid out of the proceeds of the secured assets, together with interest and expenses. Any outstanding balance will be considered unsecured and rank *pari passu* with all of the bankrupt entity's other unsecured debt. The secured creditor may sell the secured asset only after it has obtained authorization from the designated judge (*giudice delegato*). After hearing the bankruptcy receiver (*curatore fallimentare*) and the creditors' committee, the designated judge decides whether to authorize the sale, and sets forth the timing in its decision;

- the administration of the debtor and the management of its assets pass from the debtor to the bankruptcy receiver (*curatore fallimentare*);
- any act of disposition or transaction (including payments) made by the debtor after a declaration of bankruptcy, other than those made through the receiver, is ineffective against the creditors;
- continuation of business may be authorized by the court if an interruption would cause greater damage to the company, but only if the continuation of the company's business does not cause damage to creditors; and
- the execution of certain contracts and/or transactions pending as of the date of the bankruptcy declaration are suspended until the receiver decides whether to take them over. Although the general rule is that the bankruptcy receiver is allowed to either continue or terminate contracts where some or all of the obligations have not been performed by both parties, certain contracts are governed by specific rules provided for by Italian Bankruptcy Law.

The bankruptcy proceeding is carried out and supervised by a court appointed bankruptcy receiver, a designated judge (*giudice delegato*) and a creditors' committee. The bankruptcy receiver is not a representative of any one of the creditors, but is responsible for the liquidation of the assets of the debtor for the satisfaction of the creditors as a whole. The proceeds from the liquidation are distributed in accordance with statutory priority rights. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real estate properties. In this respect, Law 132/2015 amended the relevant provision of the Italian Bankruptcy Law which sets forth the requirements applicable to the liquidation procedure and as a consequence the timing for the liquidation of a debtor is shortened. The Italian Bankruptcy Law provides for priority of payment to certain preferential creditors, including administrative costs associated with the bankruptcy proceeding and related to the receiver's running of the company, Italian tax and national social security contributions and employee arrear of wages or salary. Such priority of payment is provided under mandatory provisions of Italian law (and, as a consequence, it is untested and it is unlikely that priority of payments such as those commonly provided in intercreditor contractual arrangements would be recognized by an Italian bankruptcy estate to the extent they are inconsistent with the priorities provided by applicable law). Unsecured creditors are therefore satisfied after payment of preferential and secure creditors, out of available funds and assets (if any) as below indicated.

The following features of bankruptcy proceedings also merit mention:

- Bankruptcy composition proposal with creditors (*concordato fallimentare*). A bankruptcy proceeding can terminate prior to liquidation through a bankruptcy composition proposal with creditors. The relevant petition can be filed by one or more creditors or third parties starting from the declaration of bankruptcy, whereas the debtor or its subsidiaries are admitted to file such a proposal only after one year following such declaration but before two years from the decree granting effectiveness to the bankruptcy's estate. The petition may provide for the placing of creditors into different classes (thereby proposing different treatments among the classes), the restructuring of debts and the satisfaction of creditors' claims in any manner. Secured creditors are not entitled to vote on the proposal of *concordato fallimentare*, unless and to the extent they waive their security or the *concordato fallimentare* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. The *concordato fallimentare* proposal must be approved by the creditors' committee and the creditors holding the majority (by value) of claims (and, if classes are formed, by a majority (by value) of the claims in a majority of the classes). Final court confirmation is also required.

- Statutory priorities. The statutory priority assigned to creditors under the Italian Bankruptcy Law may be different from the priorities in the United States, the United Kingdom and certain other European Union jurisdictions. Neither the debtor nor the court can deviate from the rules of statutory priority by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles (as a consequence it must be noted that priority of payments such as those commonly provided in intercreditor contractual arrangements may not be enforceable against an Italian bankruptcy estate to the extent they are inconsistent with the priorities provided by law). The rules of statutory priority apply irrespective of whether the proceeds are derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset. Article 111 of the Italian Bankruptcy Law establishes that proceeds of liquidation shall be allocated according to the following order: (i) for payments of "*pre-deductible*" claims (*i.e.*, claims originated in the insolvency proceeding, such as costs related to the procedure); (ii) for payment of claims which are privileged, such as claims of secured creditors; and (iii) for the payment of unsecured creditors' claims. Under Italian law, the highest priority claims (after the costs of the proceedings are paid, including the costs related to the receiver's running of the company during the proceedings) are the claims of preferential creditors including, among others, a claim whose priority is legally acquired (i.e., repayment of rescue or interim financing, mentioned above), the claims of the Italian tax authorities and social security administrators, and claims for employee wages. The remaining priority claims are those of "privileged" creditors (creditori privilegiati; a priority in payment in most circumstances, but not exclusively, provided for by law), mortgagees (*creditori ipotecari*), pledgees (*creditori prignoratizi*) and unsecured creditors (*crediti chirografari*). The claims of secured creditors have priority, subject to certain claims preferred by operation of law, on the proceeds deriving from the liquidation of the secured assets, net of administrative and maintenance costs incurred during the proceedings by the receiver to preserve the value of the secured assets. To the extent the proceeds of the sale of the secured assets are not sufficient to fully satisfy the secured claim, the latter will participate with the unsecured creditors in the distribution of the proceeds of the disposal of the remaining assets. Neither the debtor nor the court can deviate from these priority rules by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles. The law sets a hierarchy of claims that must be strictly adhered to when distributing the proceeds derived from the sale of the entire bankrupt's estate a part thereof, or from a single asset.

- Avoidance powers in insolvency. Similar to other jurisdictions, there are so-called "*claw-back*" or avoidance provisions under Italian Bankruptcy Law that may give rise, inter alia, to the revocation of payments made or granting of security interests or other transactions made by the debtor prior to the declaration of bankruptcy. The key avoidance provisions address transactions made below market value, transactions made with a view to defraud creditors or to advantage one creditor. Bankruptcy claw-back rules under Italian law are normally considered to be particularly favorable to the receiver compared to the rules applicable in other jurisdictions, which you may be familiar with. In a bankruptcy proceeding, the Italian Bankruptcy Law provides for a claw-back period of up to one year (six-months under certain circumstances (however in the context of extraordinary administration procedures in relation to certain transactions, the clawback period can be extended to five and three years, respectively)) and a two year ineffectiveness period for certain other transactions.

In particular, the Italian Bankruptcy Law distinguishes between acts or transactions, which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner:

Acts ineffective by operation of law. Under article 64 of the Italian Bankruptcy Law, all transactions entered into for no consideration are ineffective *vis à vis* creditors if entered into by the bankrupt entity in the two year period prior to the insolvency declaration. Moreover, under article 65 of the Italian Bankruptcy Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are deemed ineffective *vis à vis* creditors, if made by the bankrupt entity within the two year period prior to the insolvency declaration. Any asset subject to a transaction which is ineffective pursuant to Article 64 of the Italian Bankruptcy Law becomes part of the bankruptcy estate by operation of law upon registration (*trascrizione*) of the declaration of bankruptcy, without needing to wait until the ineffectiveness of the transaction is sanctioned by a court. Any interested person may challenge the registration before the delegated judge as a violation of law.

Acts and transactions that may be avoided at the bankruptcy receiver's request. These can include the following:

(i) The following acts and transactions, if made during the relevant period as specified below, may be avoided and declared ineffective as provided for by Article 67 of the Italian Bankruptcy Law, unless the other party proves that it had no actual or constructive knowledge of the debtor's insolvency:

- transactions entered into in the year before the insolvency declaration, when the value of the debt or the obligations undertaken by the bankrupt entity exceeds 25 per cent. of the value of the consideration received by and/or promised to the debtor;
- payments of debts, due and payable, made by the bankrupt entity which were not paid in cash or by other customary means of payment in the year before the insolvency declaration;
- pledges and voluntary mortgages granted by the bankrupt entity in the year before the insolvency declaration in order to secure pre-existing debts which have not yet fallen due; and
- pledges and judicial and/or voluntary mortgages granted by the bankrupt entity in the six months before the insolvency declaration in order to secure mature debts.

(ii) The following acts and transactions, if made during the vulnerability period or such other period specified below, may be avoided and declared ineffective if the bankruptcy receiver proves (also by way of presumptions) that the other party knew that the bankrupt entity was insolvent at the time of the act or transaction:

- the payments of debts that are immediately due and payable and any onerous transactions entered into or made within six months before the insolvency declaration; and
- the granting of security interests securing debts (even those of third parties) which are simultaneously created and made within six months before the insolvency declaration.

(iii) The following transactions are exempt from claw-back actions:

- a payment for goods or services made in the ordinary course of business according to market practice;
- a remittance on a bank account, provided that it does not materially and permanently reduce the bankrupt entity's debt towards the bank in a material and lasting manner;
- the sale, including an agreement for sale registered pursuant to Article 2645-*bis* of the Italian Civil Code, currently in force, made for a fair value and concerning a residential property that is intended as the main residence of the purchaser or the purchaser's family (within three degrees of kinship) or a non-residential property that is intended as the main place of business of the purchaser and the

purchaser has already commenced its business activity in the relevant premises or made investments to that end, as of the date of which the bankruptcy is declared;

- transactions entered into, payments made and guarantees issued with respect to the bankrupt entity's goods, provided that they concern the implementation of CRP which allows for the restructuring of the debt and for the improvement of its financial position, provided that such plan is certified as reasonable by an expert eligible to be appointed as a bankruptcy receiver, as provided by Article 28, let. a) and b) and 67, paragraph 3, letter d) of the Italian Bankruptcy Law, registered in the accounting auditors' register, independent possessing the requisites under Article 2399 of the Italian Civil Code,
- a transaction entered into, payment made or guarantee issued to implement a "*concordato preventivo*" or an "*accordo di ristrutturazione del debito*" under Article 182-bis of the Italian Bankruptcy Law and transactions entered into, payments made and security interests granted after the filing for the application for a *concordato preventivo* pursuant to Article 161 of the Italian Bankruptcy Law (see above);
- remuneration payments to the bankrupt entity's employees concerning work carried out by them; and
- payment of a debt that is immediately due, payable and made on the due date, with respect to services necessary for access to *concordato preventivo* procedure.

In addition, the bankruptcy receiver can request that certain transactions of the bankrupt entity be declared void within the Italian Civil Code ordinary claw-back period of five years (*revocatoria ordinaria*). Under Article 2901 of the Italian Civil Code, a creditor may demand that transactions whereby the bankrupt entity disposed of its assets prejudicially to such creditor's rights be declared ineffective with respect to such creditor, provided that the bankrupt entity was aware of such prejudice (or, if the transaction was entered into prior to the date on which the claim was originated, that such transaction was fraudulently entered into by the bankruptcy entity for the purpose of prejudicing the bankrupt entity) and that, in the case of a transaction entered into for consideration with a third person, the third person was aware of such prejudice (and, if the transaction was entered into prior to the date on which the claim was originated, such third person participated in the fraudulent design). Burden of proof is entirely with the receiver.

Law 132/2015 also introduced new Article 2929-bis to the Italian Civil Code, providing for a "simplified" claw-back action for the creditor with respect to certain types of transactions put in place by the debtor with the aim to subtract (registered) assets from the attachment by its creditors. In particular, the creditor can now start enforcement proceedings over the relevant assets without previously obtaining a Court decision clawing back/nullifying the relevant (fraudulent) transaction, to the extent that such transaction had been carried out without consideration (e.g. gratuitous transfers, or creation of shield instruments such as trusts or the so called *fondo patrimoniale* "family trust"). In case of gratuitous transfers, the enforcement action can also be carried out by the creditor against the third party purchaser.

Extraordinary Administration for Large Insolvent Companies (amministrazione straordinaria delle grandi imprese in stato di insolvenza)

This is an extraordinary administration procedure available under Italian law for large industrial and commercial enterprises (commonly referred to as the "*Prodi-bis procedure*"). The same rules set forth for bankruptcy proceeding with respect to creditors' claims largely apply to an extraordinary administration proceeding as well as the hierarchy of claims to be adhered to in distributing any available asset. Preferential payment is granted to those credits (even unsecured) accrued to allow the conduct of the company business activity.

To qualify for this procedure, the company must have employed at least 200 employees in the previous year. In addition, it must have debts equal to at least two-thirds of its assets as shown in its financial statements and two-thirds of its income from sales and services during its last financial year. The procedure may be commenced by petition of one or more creditors, the debtor, the public prosecutor or upon the competent court's own initiative.

There are two main phases within the Prodi- bis procedure: a judicial phase and an administrative phase.

In the judicial phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and appoints a judicial receiver (or up to three) (*commissario giudiziale*) to investigate whether there are serious prospects for recovery via a business sale or reorganisation. The judicial receiver submits a report to the court (within 30 days from insolvency declaration) together with an opinion from the Italian Ministry of Economic Development (the "*Ministry*").

The court has 30 days to decide whether to admit the company to the Prodi-*bis* procedure or declare it bankrupt.

Assuming that the company is admitted to the extraordinary administration procedure, the administrative phase begins and the extraordinary commissioner(s), appointed by the Ministry, prepare a restructuring plan. The plan can provide for either the sale of the business as a going concern within one year (unless extended by the Ministry) (the "*Disposal Plan*") or a turnaround leading to the company's economic and financial recovery within two years (unless extended by the Ministry) (the "*Recovery Plan*"). It may also include an arrangement with creditors (e.g. debt for equity swap, issue of shares in a new company to whom the assets of the company have been transferred).

The plan must be approved by the Ministry within 30 days from submission by the extraordinary commissioner(s). In addition, the extraordinary commissioner draws up a report every six months on the financial condition and interim management of the company and sends it to the Ministry.

The procedure ends upon successful completion of either a Disposal Plan or Recovery Plan, however should either plan fail, the company will be declared bankrupt.

Industrial Restructuring of Large Insolvent Companies (ristrutturazione industriale di grandi imprese in stato di insolvenza)

Introduced in 2003, the industrial restructuring of large insolvent companies is also known as the "*Marzano procedure*". It is complementary to the Prodi-bis procedure and, except as otherwise provided, the same provisions apply. The Marzano procedure is intended to be faster than the Prodi-*bis* procedure. For example, although a company must be insolvent, the application to the Ministry can be made together with the filing to the court for the declaration of the insolvency of the debtor.

The Marzano procedure only applies to large insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure is commenced and at least €300 million of debt (including those from outstanding guarantees). The decision whether to open a Marzano procedure is taken by the Ministry following the debtor's request (who must also file an application for the declaration of insolvency). The Ministry assesses whether the relevant requirements are met and then appoints the extraordinary commissioner(s) who will manage the company. The court also decides on the company's insolvency.

The extraordinary commissioner(s) submits a Disposal Plan or Recovery Plan within 180 days from his appointment (or 270 days if the Ministry so agrees). The restructuring through the Disposal Plan or the Recovery Plan must be fully implemented within, respectively, one year (extendable to two years) and two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and start bankruptcy proceedings.

In 2008, the Italian government enacted an amendment to Law No. 39 of 2004. The reform introduced certain specific provisions applying to large companies carrying out services considered essential to the public.

Compulsory Administrative Winding-Up (liquidazione coatta amministrativa)

A compulsory administrative winding-up (*liquidazione coatta amministrativa*) is only available for certain companies, including, *inter alia*, public interest entities such as state-controlled companies, insurance companies, credit institutions and other financial institutions, none of which can be made subject to bankruptcy proceedings. It is irrelevant whether these companies belong to the public or the private sector. A compulsory administrative winding-up is a special sort of insolvency proceeding in which the entity is liquidated not by the bankruptcy court, but by the relevant administrative authority that oversees the industry in which the entity is active. The procedure may be triggered not only by the insolvency of the relevant entity, but also on other grounds expressly provided for by the relevant legal provisions (*e.g.*, in respect of Italian banks, serious irregularities concerning the management of the bank or serious violations of the applicable legal, administrative or statutory provisions). The effect of this procedure is that the entity loses control over its assets and a liquidator (*commissario liquidatore*) is appointed to wind up the company. The liquidator's actions are monitored by a steering committee (*comitato di sorveglianza*). The powers assigned to the designated judge and the bankruptcy court under the other insolvency proceedings are assumed by the relevant administrative authority under this procedure. The effect on creditors of the forced administrative winding-up is largely the same as under bankruptcy proceedings and includes, for example, a ban on enforcement measures. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to extraordinary administration proceedings.

Interim financing

The Decree 83/2015, as amended by Law 132/2015, introduced the possibility for debtors to also obtain authorization to receive urgent interim financing and to continue to use existing trade receivables credit lines (*linee di credito autoliquidanti*) necessary for their business needs before a court's approval of a Pre-Bankruptcy Composition with Creditors (*concordato preventivo*) or the entry into a debt restructuring agreement (*accordo di ristrutturazione dei debiti*) with priority status (*prededucibilità*) in case of subsequent bankruptcy without the expert certification and through an accelerated review process by the relevant court, upon, among others, the relevant debtor's declaration that interim finance is urgently needed and the debtor's inability to access such finance would cause imminent and irreparable damage. The court must decide on the request within 10 days of the filing of the application after consultation with the judicial commissioner and, if deemed necessary, the principal creditors.

Before the entry into force of the Decree 83/2015, debtors could be granted financing with priority status (*prededucibilità*) before a court's approval of a Pre-Bankruptcy Composition with Creditors (*concordato preventivo*) or the entry into a debt restructuring agreement (*accordo di ristrutturazione dei debiti*) if: (i) an expert certified that such financing is functional to the overall restructuring process; or (ii) such financing is provided for by the plan or the agreement, provided in each case that the court approved such priority status.

United States

Under U.S. federal bankruptcy laws or comparable provisions of state fraudulent transfer laws, under certain circumstances:

(1) the issuance of the Note Guarantees by entities subject to or organized under the laws of the United States or certain states thereof, including the State of Delaware and the Commonwealth of Pennsylvania (each, a "*U.S. Guarantor*") could be avoided;

(2) claims in respect of such liens or obligations could be subordinated to some or all of its other debts and other liabilities; and

(3) the holders of the Notes could be required to repay any amounts received in connection with such Note Guarantee.

Federal and State Insolvency Proceedings

The U.S. Guarantors may have operations that would subject any one or both either to federal bankruptcy laws under title 11 of the United States Code (the "*U.S. Bankruptcy Code*") or any applicable state law insolvency proceedings. Proceedings under the U.S. Bankruptcy Code vary and provide a debtor with discretion in its pursuit of a liquidation or reorganization strategy. The U.S. Bankruptcy Code provides a detailed statutory framework that, among other things, contains terms or provisions relating to: (i) the administration of a bankruptcy case, including the provision of "adequate protection" to creditors, the automatic stay, terms for the use, sale or lease of property, standards for obtaining credit and the treatment of executory contracts and leases; (ii) creditors and claims, including filing proofs of claim, priority and allowance of claims, rights of creditors and subordination of claims; (iii) provisions relating to the creation of the bankruptcy estate, including: the scope of property of the estate and turnover and avoidance actions, liquidation under chapter 7 of the U.S. Bankruptcy Code, reorganization under chapter 11 of the U.S. Bankruptcy Code, and ancillary and cross border insolvency cases under chapter 15 of the U.S. Bankruptcy Code.

As a general matter, chapter 7 of the U.S. Bankruptcy Code provides for the orderly liquidation of the debtor's assets by a trustee. Chapter 11 of the U.S. Bankruptcy Code is available to debtors who seek to rehabilitate their businesses and work out their obligations to creditors. Unlike in chapter 7, the debtor in a chapter 11 case typically remains in control of its assets and continues to operate its business during the course of the bankruptcy case. In addition, "liquidating" chapter 11 cases are a frequently utilized alternative to chapter 7 liquidations, especially where the conversion of a pending chapter 11 case to a case under chapter 7 might prove prohibitively expensive or in an instance when a debtor expects to sell all or substantially all of its assets. Because bankruptcy proceedings tend to be fact specific and vary case by case and because U.S. bankruptcy courts are courts of equity with broad discretionary powers, a detailed summary of all of the provisions of the U.S. Bankruptcy Code that could impact the Notes or the Note Guarantees is not contained herein.

With respect to proceedings under any applicable state insolvency laws (e.g., assignments for the benefit of creditors, receiverships or other state liquidation mechanisms), the effects and outcomes of these proceedings are fact specific, vary from state to state and require an examination of both statutory and common law, the details of which also are not described herein. To the extent more information is required, potential investors in the Notes should consult an insolvency professional familiar with U.S. and the applicable state insolvency laws.

Delay and Risks Associated in a Federal Bankruptcy Proceeding

If a bankruptcy proceeding were to be commenced under the U.S. Bankruptcy Code by or against any U.S. Guarantor, it is likely that delays will occur in enforcing the Note Guarantees granted by the bankrupt U.S. Guarantor, because of specific provisions of such laws or by a court applying general principles of equity. Aspects of federal bankruptcy laws or general principles of equity that could result in the impairment of rights include, but are not limited to:

- the automatic stay;
- the avoidance of preferential transfers by a trustee or debtor in possession;
- the substantive consolidation of the assets and liabilities of multiple entities;
- the limitations on the collectability of unmatured interest or attorney fees;
- fraudulent transfer; and
- the forced restructuring of the bonds issued by the bankrupt company, including reduction of principal amounts and interest rates and extension of maturity dates, over the holders' objections.

As an initial matter, the commencement of a bankruptcy case operates as a stay, applicable to all creditors, of most litigation against the debtor and efforts to collect prepetition claims, enforce existing liens or impose most new liens. The purpose of the stay is to provide the chapter 11 debtor time to reorganize and the chapter 7 trustee protection under which to liquidate in an orderly fashion the debtor's assets for the benefit of creditors. The automatic stay is also intended to shield a debtor from the pressures of creditor collection efforts. Among other things, the automatic stay prohibits (i) all collection efforts by creditors, (ii) the enforcement of prepetition judgments against the debtor or property of the estate, (iii) any act to create, perfect or enforce a lien against property of the estate and (iv) the setoff of prepetition debts owing to the debtor against debts owing by the debtor. The automatic stay ordinarily does not bar suits against non debtor guarantors or co obligors, nor does it enjoin payment under a letter of credit issued by a bank in favor of a creditor of the applicable debtor. Applicable federal bankruptcy laws generally do not permit the payment or accrual of interest, costs and attorneys' fees for unsecured or "undersecured" claims.

Fraudulent Transfer Issues

Under the U.S. Bankruptcy Code or comparable provisions of state fraudulent transfer laws, the issuance of Note Guarantees by any U.S. Guarantor could be avoided if, among other things, at the time the U.S. Guarantor issued the Guarantee, the applicable U.S. Guarantor (i) intended to hinder, delay or defraud any present or future creditor; or (ii) received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness and, in the case of (iii) either:

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the U.S. Guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measures of insolvency for purposes of the foregoing considerations will vary depending upon the law applied in any proceeding with respect to the foregoing. Generally, however, a U.S. Guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than all of its assets, at a fair valuation;
- the present fair salable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

However, there can be no assurance as to what standard a court may apply in making solvency determinations, and different courts may reach different conclusions with regard to these issues. In an evidentiary ruling in the In re W.R. Grace & Co. bankruptcy case, the U.S. Bankruptcy Court for the District of Delaware held that under the Uniform Fraudulent Transfer Act, whether a transferor is rendered insolvent by a transfer depends on the actual liabilities of the transferor, and not what the transferor knows about such liabilities at the time of the transfer. Therefore, under that court's analysis, liabilities that are unknown, or that are known to exist but whose magnitude is not fully appreciated at the time of the transfer, may be taken into account in the context of a future determination of insolvency. If the principle articulated by that court is upheld, it would make it very difficult to know whether a transferor is solvent at the time of transfer, and would increase the risk that a transfer may in the future be found to be a fraudulent transfer. The Uniform Fraudulent Transfer Act has been enacted into law in Delaware at 6 Del. C.§§ 1301 et seq. and in Pennsylvania at 12 Pa. C.S.A. §§ 5101 et seq.

By their terms, the Guarantee of each U.S. Guarantor will limit the liability of each such guarantor to the maximum amount it can pay without the Guarantee being deemed a fraudulent transfer. It is not assured, however, that this limitation will protect such guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the guarantees would suffice, if necessary, to pay the notes in full when due.

In addition to the avoidance power that may be exercised in a U.S. bankruptcy, claims in respect of liens or obligations evidenced by the Note Guarantees may, in certain circumstances, be subordinated under the equitable subordination provisions of the U.S. Bankruptcy Code.

Preference Transfers

A future pledge of collateral in favor of a creditor may be avoidable by the pledgor (as debtor in possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the pledgee to receive a greater recovery than it would otherwise receive in a hypothetical chapter 7 liquidation and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge, or, in certain circumstances, a longer period. Such future pledge may also be avoidable as a preferential transfer in state insolvency proceedings under the laws of some states. In the context of a Pennsylvania assignment for the benefit of creditors, for example, the assignee may recover payments made during the four month period preceding the assignment, under certain circumstances.

U.S. Recognition of Foreign Court Judgments

Judgments of foreign courts are not automatically enforceable in federal or state courts of the United States. With respect to foreign money judgments, recognition and enforceability will be governed by applicable state law. A majority of U.S. states, including Delaware and Pennsylvania, have adopted a version of the Uniform Foreign Money Judgments Recognition Act (or a later revision thereof) (the "*U.S. Recognition Act*"). Although variations exist among states, the U.S. Recognition Act generally applies to any judgment granting or denying recovery of a sum of money rendered in a foreign jurisdiction (excluding judgments for taxes, fines, penalties, matrimonial support and family matters), so long as the judgment is final, conclusive and enforceable in the jurisdiction where rendered. Pursuant to the U.S. Recognition Act, any such foreign judgment rendered by a court having proper personal and subject matter jurisdiction would, subject to considerations of public policy, be recognized and enforced by a U.S. state court that has adopted the U.S. Recognition Act (or a federal court sitting in such a state) and that also has appropriate personal and subject matter jurisdiction without re-examination of the merits of the case pursuant to which such foreign judgment was obtained and in the same manner as the judgment of a sister state that is entitled to full faith and credit, in an appropriate proceeding in accordance with the procedures of such court, provided that (i) the judgment debtor had received proper and sufficient notice of the subject proceedings, (ii) the judgment was not obtained by fraud or by procedures that denied the judgment debtor a fair trial before an impartial tribunal or due process of law, (iii) the proceedings in the foreign court were not contrary to an agreement between the parties under which the dispute in question was to be settled otherwise than by proceedings in that court, (iv) the foreign court was not a seriously inconvenient forum for the trial of the action if jurisdiction over the judgment debtor was based only on personal service, and (v) the judgment did not conflict with another final and conclusive judgment. In addition to the foregoing, a number of states adopting the U.S. Recognition Act also require that the foreign court rendering the judgment reside in a jurisdiction that will reciprocally enforce judgments of United States courts. In states that have not adopted the U.S. Recognition Act, principles of comity will apply. The U.S. Recognition Act represents an attempt to codify general principles of comity, and should therefore be generally indicative of the types of principles that non U.S. Recognition Act states would apply in determining whether to recognize a foreign judgment against the U.S. Guarantors.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Additional Notes offered hereby.

The Additional Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act, or the securities laws or any other jurisdiction, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the securities laws of any other applicable jurisdiction. The Additional Notes offered hereby are being offered and sold only outside the United States to persons other than U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

We use the terms "*offshore transaction*", "*U.S. person*" and "*United States*" with the meanings given to them in Regulation S.

Each purchaser of Additional Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer, each Note Guarantor and the Initial Purchasers as follows:

(1) The purchaser understands and acknowledges that the Additional Notes and the Note Guarantees have not been registered under the U.S. Securities Act or the securities laws of any other applicable jurisdiction, that the Additional Notes are being offered for resale in offshore transactions not requiring registration under the U.S. Securities Act or any other securities laws in reliance on Regulation S under the U.S. Securities Act, and, none of the Additional Notes may be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in a transaction not subject to such laws and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) The purchaser is not a U.S. person (and is not purchasing the Additional Notes for the account or benefit of a U.S. person) within the meaning of Regulation S under the U.S. Securities Act and is purchasing Additional Notes in an offshore transaction in accordance with Regulation S.

(3) The purchaser acknowledges that none of the Issuer, the Note Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to it with respect to us or the offer or sale of any of the Additional Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Additional Notes. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this Offering Memorandum. It has had access to such financial and other information concerning us and the Additional Notes as it has deemed necessary in connection with its decision to purchase any of the Additional Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Initial Purchasers.

(4) The purchaser is purchasing the Additional Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case, for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or the securities laws of any other jurisdiction, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Additional Notes pursuant to Regulation S or any other exemption from registration available under the U.S. Securities Act, or in any transaction not subject to the U.S. Securities Act.

(5) The purchaser agrees on its own behalf and on behalf of any investor account for which it is purchasing the Additional Notes, and each subsequent holder of the Additional Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Additional Notes prior to the date (the "*Resale Restriction Termination Date*") that is 40 days after the later of the date of the original issue and the last date on which we or any of our affiliates were the owner of such Additional Notes (or any predecessor thereto) only (i) to us, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) pursuant to offers and sales that occur in offshore transactions outside the United States to non-U.S. persons in compliance with Regulation S under the U.S. Securities Act or (iv) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local

laws and regulations, and further subject to our and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (iv) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

(6) Each purchaser acknowledges that each Additional Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 144A OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

If the purchaser purchases Additional Notes, it will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Additional Notes as well as to holders of these Additional Notes.

(7) The purchaser agrees that it will give to each person to whom it transfers the Additional Notes notice of any restrictions on the transfer of such Additional Notes.

(8) The purchaser acknowledges that the Registrar will not be required to accept for registration or transfer any Additional Notes acquired by it except upon presentation of evidence satisfactory to the Issuer and the Registrar that the restrictions set forth therein have been complied with.

(9) The purchaser acknowledges that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of its acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Additional Notes is no longer accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Additional Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(10) The purchaser understands that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would result in a public offering of the Additional Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Additional Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Additional Notes will be subject to the selling restrictions set forth under "Plan of Distribution" and "Notice to Investors".

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Latham & Watkins (London) LLP, as to matters of U.S. federal, New York state and English law, Latham & Watkins LLP, as to matters of German and Italian law, and Accura Advokatpartnerselskab, as to matters of Danish law. Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Kirkland & Ellis International LLP, as to matters of U.S. federal, New York state and English law, and LMS Studio Legale, as to matters of Italian law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Issuer as of and for the 2016 financial year, the 2015 financial year and the 2014 financial year included in this Offering Memorandum have been audited by KPMG LLP, our independent auditors, as stated in their reports appearing herein.

In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, KPMG LLP's independent auditors' reports state that: they were made solely to their members as a body and are subject to important explanations and disclaimers regarding KPMG LLP's responsibilities, published on KPMG LLP's website, which are incorporated into the independent auditors' reports as if set out in full and should be read to provide an understanding of the purpose of the reports, the work KPMG LLP has undertaken and the basis of its opinions.

Investors in the Additional Notes should understand that in making these statements, KPMG LLP confirmed that it does not accept or assume any liability to parties, such as the purchasers of the Additional Notes, other than their members as a body, with respect to the reports and to the independent auditors' audit work and opinions. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Securities Exchange Act of 1934, as amended (the "*U.S. Exchange Act*"). If a U.S. court (or any other court) were to give effect to the language quoted above, the recourse that investors in the Additional Notes may have against the independent auditors based on their reports or the consolidated financial statements to which they relate could be limited.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer and many of the Note Guarantors are companies incorporated in England and Wales. Other Note Guarantors are organized under the laws of Denmark, Germany, Italy and the U.S., and future Note Guarantors may also be organized under the laws of non-U.S. jurisdictions. Many of our directors and executive officers and many of the directors and officers of the Note Guarantors are non-residents of the U.S. Although we and each of the Note Guarantors have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the U.S. on our directors and executive officers and the directors and executive officers of the Guarantors or security providers. In addition, as many of our and the Note Guarantors' assets and the assets of our and their directors and executive officers are located outside of the U.S., you may be unable to enforce against them or us judgments obtained in the U.S. courts predicated on civil liability provisions of the federal securities laws of the U.S.

If a judgment is obtained in a U.S. court against us or a Note Guarantor, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. Even though the enforceability of U.S. court judgments outside the U.S. is described below for the countries in which our Note Guarantors are located, you should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the U.S.

England and Wales

The following summary with respect to the enforceability of certain U.S. court judgments in England and Wales is based upon advice provided to us by our U.S. and English legal advisors, Latham & Watkins (London) LLP. The United States and England currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognised or enforceable in England and Wales. In order to enforce any such U.S. judgment in England and Wales, proceedings must first be initiated before a court of competent jurisdiction in England and Wales. In such an action, an English court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defence to it). Recognition and enforcement of a U.S. judgment by an English court in such an action is conditional upon (among other things) the following:

(a) the U.S. court having had jurisdiction over the original proceedings according to English conflicts of laws principles and rules of English private international law;

(b) the U.S. judgment not having been given in breach of a jurisdiction or arbitration clause;

(c) the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it, and being for a definite sum of money;

(d) the U.S. judgment not contravening English public policy or the Human Rights Act 1998;

(e) the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine, or otherwise involving the enforcement of a non-English penal or revenue law;

(f) the U.S. judgment not being contrary to the Protection of Trading Interests Act 1980;

(g) the U.S. judgment not having been obtained by fraud or in breach of English principles of natural justice;

(h) there not having been a prior inconsistent decision of an English court in respect of the same matter involving the same parties;

(i) the party seeking enforcement providing security for costs, if ordered to do so by an English court; and

(j) the English enforcement proceedings being commenced within six years from the date of the U.S. judgment.

Subject to the foregoing, investors may be able to enforce in England and Wales judgments in civil and commercial matters that have been obtained from U.S. federal or state courts. However, we cannot assure you that those judgments will be recognised or enforceable in England and Wales. In addition, it is questionable whether an English court would accept jurisdiction and impose civil liability if proceedings were commenced in England or Wales in an original action predicated solely upon U.S. federal securities laws. Further, it may not be possible to obtain a judgment in England and Wales or to enforce the judgment if the judgment debtor is subject to any insolvency or similar proceedings, of if the judgment debtor has any setoff or counterclaim against the judgment creditor. Finally, in any enforcement proceedings, the judgment debtor may raise any counterclaim that could have been brought if the action had been originally brought in England and Wales unless the subject of the counterclaim was in issue and denied in the U.S. proceedings.

Denmark

The United States and Denmark currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not be recognised or enforceable in Denmark without a review of the merits of the case.

However, according to limited case law, which is based on non-statutory grounds and which does not relate to recognition and enforcement of a judgment rendered by a U.S. federal or state court, a Danish courts may—under certain circumstances and preconditions—recognise judgements from outside the EU, provided that the parties have agreed to the jurisdiction in question and to the domestic laws thereof, in each case subject to Danish principles of justice (*ordre public*) and assuming that such judgement does not include any material defects.

Subject to the foregoing, it is uncertain to what extent investors may be able to enforce judgments in Denmark in civil and commercial matters that have been obtained from U.S. federal or state courts. In the predominant situations, it would be necessary to initiate legal proceedings before a Danish court for the purpose of reinvestigating the merits of the original matter decided by the U.S. federal or state courts.

Germany

The United States and Germany do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States (a "*U.S. court*") based on civil liability may not be enforceable, either in whole or in part, in Germany.

Notwithstanding the above, a final judgment for payment rendered by any federal or state court in the United States based on civil liability would generally be recognized by a German court upon satisfaction of all of the following conditions:

(a) U.S. courts could establish jurisdiction over the case in accordance with the principles on jurisdictional competence according to German law;

(b) a defendant, who has not entered an appearance in the proceedings and who takes recourse to this fact, has duly been served the document by which the proceedings were initiated and in such time to allow him to defend himself;

(c) the judgment is not contrary to (i) any prior judgment which became *res judicata* rendered by a German court or (ii) any prior judgment which became *res judicata* rendered by a foreign court which is to be recognized in Germany and the procedure leading to the respective judgment is not in contradiction to any such prior judgment;

(d) the effects of its recognition will not be in conflict with material principles of German law, including, without limitation, fundamental rights under the constitution of Germany (*Grundrechte*). In this context, it should be noted that any component of a U.S. court's civil judgment awarding punitive damages or any other damages which do not serve a compensatory purpose, such as treble damages, will likely not be enforced in Germany, on the basis of being in conflict with basic principles of German law;

(e) the reciprocity of enforcement of judgments is guaranteed; and

(f) the judgment became *res judicata* in accordance with the law of the place where it was pronounced.

Enforcement and foreclosure based on U.S. judgments may be sought against German defendants after having received an enforcement decision from a competent German court in accordance with the above principles. Subject to the foregoing, investors may be able to enforce judgments in Germany in civil and commercial matters obtained from U.S. federal or state courts. However, there can be no assurance that those judgments will be enforceable. In particular, the obligations need to be of a specific kind and type for which an enforcement procedure exists under German law. Enforcement is also subject to the effect of any applicable bankruptcy, insolvency, reorganization, liquidation or moratorium, as well as other similar laws affecting creditor's rights generally.

Furthermore, German civil procedure differs substantially from U.S. civil procedure in a number of aspects. With respect to the production of evidence, for example, U.S. federal and state law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

If the party in whose favor such final judgment is rendered brings a new suit in a competent court in Germany, such party may submit to the German court the final judgment rendered in the United States. Under such circumstances, a judgment by a U.S. court against the Issuer or a Note Guarantor will be regarded by a German court only as evidence of the outcome of the dispute to which such judgment relates. A German court may choose to re-hear the dispute and may render a judgment not in line with the judgment rendered by a U.S. court.

Italy

The enforceability in Italian courts of final judgments of U.S. courts obtained by default, including actions predicated upon the civil liability provisions of the securities laws of the United States, may not require retrial of the case in Italy. More specifically, enforceability in Italy of final judgments of U.S. courts is subject to among other things:

- the absence of a conflicting final judgment by an Italian court;
- the absence of an action pending in Italy among the same parties and arising from the same facts and circumstances commenced prior to the action in the United States resulting in a final judgment;
- an Italian court's determination that U.S. courts had jurisdiction according to Italian law, that process was appropriately served on the defendants in accordance with the laws of the United States and that enforcement of such judgment would not violate Italian public policy;
- appearance before the court by the parties to the trial or, in the event of default by the defendant, the U.S. court's declaration of such default in accordance with the laws of the United States; and
- the judgment being final and not subject to any further appeal in accordance with the laws of the United States.
- In addition, in original actions brought before Italian courts, there is a doubt as to enforceability of liabilities based on securities laws of the United States.

AVAILABLE INFORMATION

Each purchaser of the Additional Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

1. such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
2. such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
3. except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Additional Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

We are not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act. However, pursuant to the Indenture governing the Notes and so long as the Notes are outstanding, we will furnish periodic information to holders of the Notes. See “Description of Notes—Certain Covenants—Reports”.

Upon request, we will provide you with copies of the Indenture, the form of the Notes and any notation of guarantee. You may request copies of such documents by contacting the Issuer at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom, Attn: Matt Jowett.

LISTING AND GENERAL INFORMATION

Listing Information

The Existing Notes have been listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof. We have applied to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and for the admission of the Additional Notes to trading on the Euro MTF of the Luxembourg Stock Exchange. Notice of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange require, copies of the following documents may be inspected and obtained free of charge at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the organizational documents of the Issuer and the Note Guarantors;
- our most recent audited consolidated financial statements, and any interim quarterly financial statements published by us;
- this Offering Memorandum; and
- the indenture relating to the Notes (which includes the form of the Notes).

We will maintain a paying and transfer agent in Luxembourg for as long as any of the Notes are listed on the Luxembourg Stock Exchange. We reserve the right to vary such appointment and we will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu). The present and future unaudited accounts of the Issuer are or will be available free of charge at the office of Deutsche Bank Luxembourg S.A. the "*Luxembourg Paying Agent*".

According to the Rules and Regulations of the Luxembourg Stock Exchange, the Notes will be freely transferable on the Luxembourg Stock Exchange in accordance with applicable law.

Clearing Information

	ISIN	Common codes
Temporary Regulation S Global Notes	XS1581375000	158137500
Regulation S Global Notes	XS1204272709	120427270

Issuer and Note Guarantor Information

The Issuer

Merlin Entertainments plc is a public limited company under the laws of England and Wales, incorporated on 20 September 2013. The Issuer has 1,015,809,266 ordinary shares in issue of par value £0.01 each. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

The Note Guarantors

Madame Tussauds Touring Exhibition Limited is a private limited company under the laws of England and Wales, incorporated on 15 September 1999. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Merlin Attractions Operations Limited is a private limited company under the laws of England and Wales, incorporated on 7 June 2007. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Merlin Entertainments (Dungeons) Limited is a private limited company under the laws of England and Wales, incorporated on 20 November 1998. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Merlin Entertainments Group Holdings Limited is a private limited company under the laws of England and Wales, incorporated on 23 February 2002. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

Merlin Entertainments (SEA LIFE) Limited is a private limited company under the laws of England and Wales, incorporated on 22 October 1987. Its registered address is at 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom.

LEGOLAND ApS is a private limited liability company incorporated under the laws of Denmark with registration number (CVR No.) 36887613 on 21 December 1973. Its registered address is at Aastvej 10, 7190 Billund, Denmark.

Dungeon Deutschland GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and incorporated with articles of association dated 11 December 1998. It is currently registered with the Commercial Register at the local court of Hamburg under registration number HRB 72306. The address of its registered office is Kehrwieder 2, 20457 Hamburg, Germany.

Heide-Park Soltau GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered for the first time on 3 April 2001. It is currently registered with the Commercial Register at the local court of Lüneburg under registration number HRB 101295. The address of its registered office is Heide Park 1, 29614 Soltau, Germany.

LEGOLAND Deutschland Freizeitpark GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered for the first time on 1 July 2005. It is currently registered with the Commercial Register at the local court of Memmingen under registration number HRB 12706. The address of its registered office is Legoland Allee 1, 89312 Günzburg, Germany.

LEGOLAND Deutschland GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered for the first time on 10 September 1998. It is currently registered with the Commercial Register at the local court of Memmingen under registration number HRB 10346. The address of its registered office is Legoland Allee 1, 89312 Günzburg, Germany.

Madame Tussauds Deutschland GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered for the first time on 12 December 2007. It is currently registered with the Commercial Register at the local court of Hamburg under registration number HRB 103588. The address of its registered office is Cremon 11, 20457 Hamburg, Germany.

Sea Life Deutschland GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered for the first time on 12 December 1995. It is currently registered with the Commercial Register at the local court of Hamburg under registration number HRB 93040. The address of its registered office is Cremon 11, 20457 Hamburg, Germany.

Gardaland S.r.l. is a limited liability company (*società a responsabilità limitata*) incorporated under the laws of Italy on 26 September 2006. Its registered address is at Via Derna 4, Castelnuovo del Garda, Verona, Italy.

LEGOLAND California, LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 11 August 2003. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

LEGOLAND Discovery Centre US, LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 2 August 2007. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Madame Tussaud Las Vegas LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 6 January 1998. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Madame Tussaud's New York LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 21 June 1999. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Merlin Entertainments Group Florida LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 26 September 2008. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Merlin Entertainments Group U.S. Holdings Inc. is a corporation under the laws of Delaware, U.S., incorporated on 28 June 2005. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Merlin Entertainments North America LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 28 May 2013. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

SEA LIFE Minnesota LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 24 September 2008. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

SEA LIFE US LLC is a limited liability company under the laws of Delaware, U.S., incorporated on 24 September 2008. Its registered address is The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, Delaware, 19801, U.S.

Resolutions, authorisations and approvals by virtue of which the Notes have been issued

The Issuer and the Note Guarantors have obtained all necessary consents, approvals and authorisations (if any) in connection with the issuance of the Additional Notes. The issuance of the Additional Notes was approved by resolutions of the board of directors of the Issuer on 1 March 2017.

Material adverse change in the Issuer's financial position

Except as disclosed elsewhere in this Offering Memorandum, there has been no material adverse change in our consolidated financial position since the date of our last published audited financial statements.

Litigation

Except as disclosed elsewhere in this Offering Memorandum, neither we nor any of the Note Guarantors is involved, or has been involved during the twelve months preceding the date of this Offering Memorandum, in any litigation, arbitration, governmental or administrative proceedings which would, individually or in the aggregate, have a material adverse effect on our results of operations, condition (financial or other) or general affairs and, so far as each is aware, having made all reasonable inquiries, there are no such litigation, arbitration or administrative proceedings pending or threatened.

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INDEX TO FINANCIAL STATEMENTS

Merlin Entertainments plc

Independent auditor's report and audited consolidated financial statements
for the 53 weeks ended 31 December 2016

Registered number 08700412

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments plc only

Opinions and conclusions arising from our audit

Overview

Materiality: Group financial statements as a whole

- £14.5 million *(2015: £14.3 million)*
- 5.2% *(2015: 6.0%)* of Group profit before tax.

Coverage

- 79% *(2015: 75%)* of Total Profits and Losses(1)

(1) Total Profits and Losses coverage is calculated by considering absolute profits and losses before tax, after eliminating intra-group interest income and expense, foreign exchange movements on intra-group loans, and intra-group dividends.

Risk of material misstatement vs 2015

Recurring risks

- Carrying value of non-current assets ◄►
- Revenue recognition ◄►

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 53 week period ended 31 December 2016 set out on pages F-9 to F-63. 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 31 December 2016 and of the Group's profit for the 53 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- 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; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

The context for our audit is that there has been:

- a generally stable environment in which the Group has operated;
- no significant change to the Group's strategy and operations that our audit has had to address (we have considered the accesso® admissions system where it was relevant to our audit in this period); and
- a slight, but not significant increase in our assessed materiality given the growth of the Group in the period.

We summarise below the risks of material misstatement (unchanged from 2015) that had the greatest effect on our audit (in decreasing order of audit significance) and our key audit procedures to address those risks:

Carrying value of non-current assets £2,958 million (2015: £2,475 million) *Risk vs 2015:* ◄►

Refer to pages – to – (Audit Committee Report) and pages F-29 to F-30 (accounting policy and financial disclosures).

The risk

Forecast based valuation:

A history of business combinations and the capital intensive nature of the business model increases the magnitude of non-current assets.

There is a risk that the future performance may lead to the value of non-current assets not being recoverable in full.

The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

This uncertainty arises due to challenges in forecasting – expected changes in visitation at existing attractions, particularly where there have been recent changes in the overall offering, promotions or planned customer experience improvements. Other factors such as the unpredictable impact of competition, the weather, and the political and economic environment on trading performance also add to the uncertainty.

Specifically in relation to the Resort Theme Parks goodwill, events during 2015 at Alton Towers reduced valuation headroom, disrupted previous trading patterns and created greater uncertainty over forecasts.

Our response

Our procedures included:

- **Extrapolating past forecasting accuracy:** assessing five years' historical accuracy of the Group's forecasting, and subsequently building comparable variations in forecasting accuracy into our own model that reperformed and sensitised the valuation;
- **Challenging forecasts:** comparing expected changes in cash flows (from activities such as new promotions and customer experience improvements) and the planned cost base against the past results of similar activities carried out by the Group;
- **Benchmarking assumptions:** supported by valuation experts, benchmarking Group earnings multiple and discount rates against market data, including publicly available analysts' reports and peer comparison;
- **Sensitivity analysis:** Calculating the impact of changes in key assumptions and performing breakeven analysis of the earnings multiple, discount rates and forecast cash flows;
- **Comparing valuations:** Comparing the sum of all the discounted cash flows across the Group to the Group's market capitalisation to assess the reasonableness of the underlying assumptions; and
- **Assessing transparency:** Assessing whether the Group's sensitivity disclosures regarding the impairment testing adequately reflect the risks inherent in the valuation of goodwill.

Revenue recognition £1,457 million (2015: £1,278 million) *Risk vs 2015:* ◄►

Refer to pages – to – (Audit Committee Report) and page F-19 (accounting policy).

The risk

Accurate recording:

Merlin's revenues arise from a number of different sources, locations and systems, sometimes featuring manual processes to match cash payments to redemptions or to transfer data to the finance systems.

The low value of individual transactions means individual errors would be insignificant, but difficult to detect, and the high volume of transactions mean systemic failure could lead to errors that aggregate rapidly into material balances.

Our response

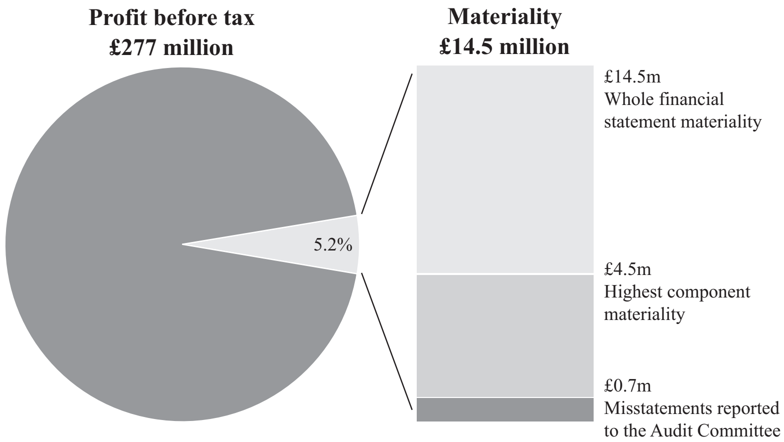
Our procedures are performed by each component auditor, under guidance issued by the Group team, and included:

- **System design:** testing of the general IT control environment of the systems used to record revenue, followed by testing of the controls that check completeness and accuracy of revenue entries arising from these systems;
- **Control design:** testing of the design, implementation and operating effectiveness of manual controls supporting the systems, including reconciliations of till records to revenue journal entries in the accounting records;
- **Analytical review:** predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation); and

- **Tests of detail:** performing reconciliations of total cash received to revenue recorded, confirming the appropriate timing of sales cut-off by checking the specific posting of revenue for days either side of the period end; and substantive testing of deferred and accrued revenue balances through agreeing back to ticketing system records and checking underlying calculations.

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

Materiality of the Group financial statements



Materiality for the Group financial statements as a whole was set at £14,500,000 (*2015: £14,300,000*), determined with reference to a benchmark of profit before tax, of which it represents 5.2% (*2015: 6%*). This is lower than the benchmark percentage used in 2015 to align with emerging industry consensus for audits of businesses of this size and profile.

We reported to the Audit Committee any corrected or uncorrected identified misstatements affecting profit with a value in excess of £700,000 (*2015: £715,000*) or otherwise in excess of £2,000,000 (*2015: £1,600,000*), in addition to other audit misstatements that warranted reporting on qualitative grounds.

Scope of the Group audit

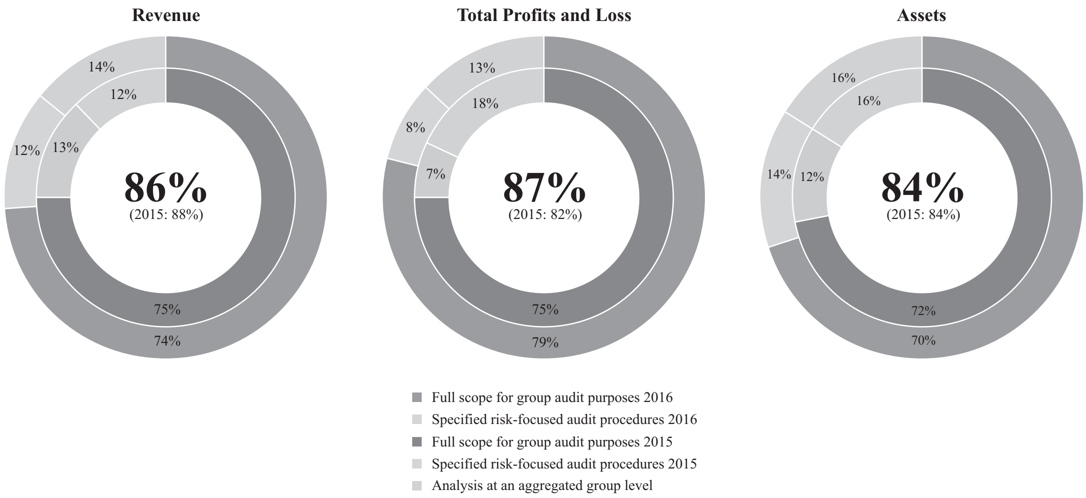
We audited 79% (*2015: 75%*) of the Total Profits and Losses that made up Group profit before tax, 74% (*2015: 75%*) of total Group revenue and 70% (*2015: 72%*) of total Group assets. This included the audit, for Group reporting purposes, of the financial information of certain components. It also included audit procedures on finance costs and assets arising on consolidation; the total of these balances were audited at Group level.

Audits for Group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: Australia, China (including Hong Kong), Denmark, Germany, Italy, UK and USA.

The remaining 21% (*2015: 25%*) of Total Profits and Losses that made up Group profit before tax, 26% (*2015: 25%*) of total Group revenue and 30% (*2015: 28%*) of total Group assets were represented by a large number of smaller reporting components. None of these components individually represent more than 1.8% (*2015: 4.4%*) of any of the Total Profits and Losses that made up Group profit before tax, total Group revenue or total Group assets.

We obtained further coverage by performing specified risk-focused audit procedures over the reasonableness of the financial result and position at 22 of these reporting components covering a further 8% (*2015: 7%*) of Total Profits and Losses that made up Group profit before tax. These components are largely Midway attractions where, although individual sites tend to be relatively small, the Group is growing via the roll out of new attractions. We select these sites on a rotational basis, setting a financial threshold on each of Group profit before tax, Group revenue and Group assets and using our assessment of risk to select a sample of sites from those that meet at least one of these thresholds.

For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these components.



Performance and oversight of component audits

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to component materiality levels, where applicable giving consideration to the local statutory materiality set by the component teams where this was lower. These component materiality levels were set individually for each component by the Group audit team and ranged from £450,000 to £4,500,000 having regard to the mix of size and risk profile across components.

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 34% (*2015: 39%*) of the Total Profits and Losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited.

The Group audit team also undertook all audit procedures on certain total Group account balances as mentioned above, gaining coverage over a further 3% (*2015: 6%*) of the Total Profits and Losses that made up Group profit before tax. The largest component audited by a component audit team represented 17% (*2015:12%*) of the Total Profits and Losses that made up Group profit before tax.

Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team.

The Group audit team visited two key component locations in the USA and one in Denmark, which included inputting to the audit risk assessment and strategy. Teleconferences were also held with these component auditors and all other reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the period is consistent with the financial statements.

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

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

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on page –, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group continuing in operation over the four years to 2020; or
- the disclosures in note 1.1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page –, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages – to – relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 108, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Hugh Green (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Gateway House, Tollgate
Chandlers Ford
Southampton
SO53 3TG

1 March 2017

FINANCIAL STATEMENTS—CONTENTS

CONSOLIDATED INCOME STATEMENT
For the 53 weeks ended 31 December 2016
(2015: 52 weeks ended 26 December 2015)

		2016			2015		
	Note	Underlying trading	Exceptional items[4]	Total	Underlying trading	Exceptional items[4]	Total
		£m	£m	£m	£m	£m	£m
Revenue	2.1	1,457	—	1,457	1,278	—	1,278
Cost of sales	2.1	(227)	—	(227)	(193)	—	(193)
Gross profit		1,230	—	1,230	1,085	—	1,085
Staff expenses	2.1	(382)	—	(382)	(327)	—	(327)
Marketing		(75)	—	(75)	(68)	—	(68)
Rent		(93)	—	(93)	(87)	—	(87)
Other operating expenses		(229)	—	(229)	(201)	—	(201)
EBITDA[1]	2.1	451	—	451	402	—	402
Depreciation and amortisation	3.1, 3.2	(131)	—	(131)	(111)	—	(111)
Operating profit		320	—	320	291	—	291
Finance income	2.3	3	—	3	5	1	6
Finance costs	2.3	(46)	—	(46)	(46)	(14)	(60)
Profit before tax		277	—	277	250	(13)	237
Taxation	2.4	(66)	—	(66)	(70)	3	(67)
Profit for the year[2]		**211**	**—**	**211**	**180**	**(10)**	**170**
Earnings per share							
Basic earnings per share (p)	2.5			20.8			16.8
Diluted earnings per share (p)	2.5			20.7			16.8
Dividend per share[3](p)	4.5			7.1			6.5

(1) EBITDA—this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

(2) Profit for the year for 2016 and 2015 is wholly attributable to the owners of the Company.

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 53 weeks ended 31 December 2016

(2015: 52 weeks ended 26 December 2015)

	Note	2016	2015
		£m	£m
Profit for the year		211	170
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Defined benefit plan remeasurement gains and losses	5.2	(6)	(1)
Income tax on items relating to components of other comprehensive income	2.4	1	—
		(5)	(1)
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		176	(36)
Exchange differences relating to the net investment in foreign operations		(45)	3
Cash flow hedges—effective portion of changes in fair value		(3)	(2)
Cash flow hedges—reclassified to profit and loss	2.2	—	14
Income tax on items relating to components of other comprehensive income	2.4	(1)	(2)
		127	(23)
Other comprehensive income for the year net of income tax		122	(24)
Total comprehensive income for the year[1]		**333**	**146**

(1) Total comprehensive income for 2016 and 2015 is wholly attributable to the owners of the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016
(2015: 26 December 2015)

	Note	2016	2015
		£m	£m
Non-current assets			
Property, plant and equipment	3.1	1,841	1,495
Goodwill and intangible assets	3.2	1,017	923
Investments	5.1	49	11
Other receivables	3.4	13	11
Deferred tax assets	2.4	38	35
		2,958	2,475
Current assets			
Inventories	3.4	36	30
Trade and other receivables	3.4	86	76
Derivative financial assets		3	2
Cash and cash equivalents	4.1	215	152
		340	260
Total assets		3,298	2,735
Current liabilities			
Interest-bearing loans and borrowings	4.2	5	4
Derivative financial liabilities		5	1
Trade and other payables	3.4	300	235
Tax payable		39	22
Provisions	3.5	3	4
		352	266
Non-current liabilities			
Interest-bearing loans and borrowings	4.2	1,147	1,003
Finance leases	4.4	88	82
Other payables	3.4	28	24
Provisions	3.5	65	51
Employee benefits	5.2	11	5
Deferred tax liabilities	2.4	179	155
		1,518	1,320
Total liabilities		1,870	1,586
Net assets		**1,428**	**1,149**
Issued capital and reserves attributable to owners of the Company		1,424	1,145
Non-controlling interest		4	4
Total equity	4.5	**1,428**	**1,149**

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Françoise Nesmes
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 53 weeks ended 31 December 2016
(2015: 52 weeks ended 26 December 2015)

	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total parent equity	Non-controlling interest	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m
At 28 December 2014		10	—	(101)	(11)	1,161	1,059	4	1,063
Profit for the year		—	—	—	—	170	170	—	170
Other comprehensive income for the year net of income tax		—	—	(34)	11	(1)	(24)	—	(24)
Total comprehensive income for the year		—	—	(34)	11	169	146	—	146
Equity dividends	4.5	—	—	—	—	(64)	(64)	—	(64)
Equity-settled share-based payments	4.6	—	—	—	—	4	4	—	4
At 26 December 2015		**10**	**—**	**(135)**	**—**	**1,270**	**1,145**	**4**	**1,149**
Profit for the year		—	—	—	—	211	211	—	211
Other comprehensive income for the year net of income tax		—	—	130	(3)	(5)	122	—	122
Total comprehensive income for the year		—	—	130	(3)	206	333	—	333
Shares issued	4.5	—	2	—	—	—	2	—	2
Equity dividends	4.5	—	—	—	—	(67)	(67)	—	(67)
Equity-settled share-based payments	4.6	—	—	—	—	11	11	—	11
At 31 December 2016	4.5	**10**	**2**	**(5)**	**(3)**	**1,420**	**1,424**	**4**	**1,428**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 53 weeks ended 31 December 2016

(2015: 52 weeks ended 26 December 2015)

	Note	2016	2015
		£m	£m
Cash flows from operating activities			
Profit for the year		211	170
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	131	111
Finance income	2.3	(3)	(6)
Finance costs	2.3	46	60
Taxation	2.4	66	67
		451	402
Profit on sale of property, plant and equipment		(1)	—
Working capital changes		23	(19)
Changes in provisions and other non-current liabilities		10	1
		483	384
Tax paid		(50)	(59)
Net cash inflow from operating activities		433	325
Cash flows from investing activities			
Interest received		1	1
Acquisition of remaining share of joint venture	5.1	(1)	—
Acquisition of investments	5.1	(32)	(5)
Acquisition of property, plant and equipment		(259)	(215)
Disposal of property, plant and equipment		4	—
Net cash outflow from investing activities		(287)	(219)
Cash flows from financing activities			
Proceeds from issue of share capital	4.5	2	—
Equity dividends paid	4.5	(67)	(64)
Proceeds from borrowings		—	1,002
Financing costs		—	(14)
Interest paid		(41)	(42)
Settlement of interest rate swaps	2.2	—	(13)
Repayment of borrowings		—	(1,112)
Net cash outflow from financing activities		(106)	(243)
Net increase/(decrease) in cash and cash equivalents		40	(137)
Cash and cash equivalents at beginning of year	4.1	152	285
Effect of movements in foreign exchange		23	4
Cash and cash equivalents at end of year	4.1	**215**	**152**

SECTION 1 BASIS OF PREPARATION

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

1.1 Basis of preparation

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom and its registered office is 3 Market Close, Poole, Dorset, BH15 1NQ.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected 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 53 weeks ended 31 December 2016 *(2015: 52 weeks ended 26 December 2015)*. 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 profit for the year of £211 million *(2015: £170 million)* and generated operating cash inflows of £433 million *(2015: £325 million)*. The Group is funded by senior unsecured bank facilities due for repayment in 2020 and senior unsecured notes due for repayment in 2022. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.2.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc 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.

1.1 Basis of preparation (Continued)

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 year.
- 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

Classification of financial instruments issued by the Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

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.

In this regard the following areas involve a higher degree of judgement, estimation or complexity and are explained in more detail in the related notes:

- Taxation (note 2.4) – recognition of deferred tax balances and accounting for tax risks.
- Impairment testing (note 3.3) – estimation of discounted cash flows when calculating the value in use of assets.

1.1 Basis of preparation (Continued)

Other judgements and estimates which are less significant include:

- 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.
- Share-based payment transactions (note 4.6)—estimation of future performance when estimating vesting rates on share schemes.
- Investments (note 5.1)—expected period of and eventual return on investments when calculating the effective interest rate for interest income recognised.
- Pensions (note 5.2)—assumed discount rate, inflation rate and mortality when valuing defined benefit liabilities.

New standards and interpretations

A full list of new accounting standards and interpretations can be found in note 5.5. This includes standards that have been implemented in the year, which have had no significant impact. It also includes those standards that will be implemented next year or in future years, including our assessment of the potential impacts of the new standards on Revenue and Leasing.

SECTION 2 RESULTS FOR THE YEAR

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

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 results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

2016	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results	Other items(1)	Total
	£m	£m	£m	£m	£m	£m
Segment revenue	638	495	322	1,455	2	1,457
Segment profit, being segment EBITDA	236	193	70	499	(48)	451
Segment depreciation and amortisation	(64)	(28)	(32)	(124)	(7)	(131)
Segment operating profit	172	165	38	375	(55)	320

2015	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results	Other items(1)	Total
	£m	£m	£m	£m	£m	£m
Segment revenue	561	429	285	1,275	3	1,278
Segment profit, being segment EBITDA	221	169	47	437	(35)	402
Segment depreciation and amortisation	(54)	(23)	(29)	(106)	(5)	(111)
Segment operating profit	167	146	18	331	(40)	291

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

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 2016	Non-current assets 2016	Revenues 2015	Non-current assets 2015
	£m	£m	£m	£m
United Kingdom	486	881	467	851
Continental Europe	367	919	300	764
North America	404	628	336	481
Asia Pacific	200	443	175	333
	1,457	2,871	1,278	2,429
Deferred tax (note 2.4)		38		35
Investments (note 5.1)		49		11
		2,958		2,475

2.1 Profit before tax (Continued)

Revenue accounting policy

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts received from customers (excluding VAT and similar taxes) for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship.

Ticket revenue is recognised at point of entry. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Retail and food and beverage sales revenues are recognised at the point of sale. Accommodation revenue is recognised at the time when a customer stays at Merlin accommodation. Sponsorship revenue is recognised over the relevant contract term. From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in 2016 and 2015 is not material.

The IASB has issued IFRS 15 ‘Revenue from contracts with customers’ which will become effective from the 2018 accounting period. Details on our assessment of the impact of this new standard and how we are approaching its implementation are set out in note 5.5.

Cost of sales

Cost of sales of £227 million *(2015: £193 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 under 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:

	2016	2015
Operations	17,422	16,980
Attraction management and central administration	2,067	1,841
	19,489	18,821

The aggregate payroll costs of these persons were as follows:

	2016 £m	2015 £m
Wages and salaries	321	279
Share-based payments (note 4.6)	11	4
Social security costs	39	34
Other pension costs	11	10
	382	327

Related party transactions—key management comprises the Executive and Non-executive Directors of the Board and the members of the Executive Committee. Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors’ Remuneration Report on pages – to –.

The remuneration of key management was as follows:

	2016 £m	2015 £m
Key management emoluments including social security costs	4.8	4.2
Contributions to money purchase pension schemes	0.2	0.3
Share-based payments and other related payments	2.8	1.4
	7.8	5.9

SECTION 2 RESULTS FOR THE YEAR (Continued)

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

2.1 Profit before tax (Continued)

Auditor's remuneration

	2016	2015
	£m	£m
Audit of these financial statements	1.3	1.2
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services	0.3	0.4
Other services relating to taxation compliance	0.4	0.4
	2.3	2.3

2.2 Exceptional items

Accounting policy

Due to their nature, certain one-off and non-trading items have been 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

There were no exceptional items in 2016. The following items were exceptional in 2015 and were shown separately on the face of the consolidated income statement:

	2016	2015
	£m	£m
Within finance income and costs		
Foreign exchange gain	—	(1)
Cash flow hedges—reclassified to profit and loss	—	14
Exceptional items before income tax	—	13
Income tax credit on exceptional items above	—	(3)
Exceptional items for the year	—	10

As part of the refinancing undertaken during 2015, the Group incurred net exceptional financing costs of £13 million. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities, and paid a net £13 million to cash settle certain swaps. In respect of these swaps, £14 million had previously been hedge accounted through equity and was therefore recycled through the income statement. This was then offset by foreign exchange gains of £1 million as part of the wider refinancing.

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.

2.3 Finance income and costs (Continued)

Finance income and costs

Finance income

	2016 £m	2015 £m
Underlying trading		
In respect of assets not held at fair value		
Interest income	2	2
Other		
Net foreign exchange gain	1	3
	3	5
Exceptional items		
Other		
Net foreign exchange gain (note 2.2)	—	1
	3	6

Finance costs

	2016 £m	2015 £m
Underlying trading		
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	43	44
Other interest expense	3	2
	46	46
Exceptional items		
In respect of liabilities held at fair value		
Cash flow hedges—reclassified to profit and loss (note 2.2)	—	14
	—	14
	46	60

Capitalised borrowing costs amounted to £2 million in 2016 *(2015: £2 million)*, with a capitalisation rate of 2.9% *(2015: 3.2%)*. Tax relief on capitalised borrowing costs amounted to £1 million in 2016 *(2015: £nil)*.

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.

2.4 Taxation (Continued)

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 budget and strategic plan.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Tax provisions are based on management's judgement of the amount of tax payable and the likelihood of settlement in relation to matters which have yet to be concluded. These include matters arising from ongoing audits, as well as other uncertain positions. A combination of in-house tax experts, previous experience and professional firms is used when assessing tax risks. It is currently unclear when these matters will be settled.

Recognised in the income statement

	2016	2015
	£m	£m
Current tax expense		
Current year	63	60
Adjustment for prior periods	2	(4)
Total current income tax	65	56
Deferred tax expense		
Origination and reversal of temporary differences	7	7
Changes in tax rate	(5)	—
Adjustment for prior periods	(1)	4
Total deferred tax	1	11
Total tax expense in income statement	66	67

Reconciliation of effective tax rate

	2016	2016	2015	2015
	%	£m	%	£m
Profit before tax		277		237
Income tax using the UK domestic corporation tax rate	20.0%	56	20.3%	48
Non-deductible expenses		9		9
Income not subject to tax		(12)		(4)
Effect of tax rates in foreign jurisdictions		19		18
Effect of changes in tax rate		(5)		—
Unrecognised temporary differences		(1)		—
Effect of recognising deferred tax assets previously unrecognised		(1)		(4)
Adjustment for prior periods		1		—
Total tax expense in income statement	23.8%	66	28.1%	67

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 23.8% and the UK standard tax rate of 20.0% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, such as the US. In addition, the reported rate is favourably affected by the Group's internal financing arrangements which have been put in place to support development and ongoing funding needs in overseas territories. This is offset by non-deductible expenses which primarily arise as a result of depreciation on capital expenditure from continued investment in our attractions.

The Group's ETR has fallen from 27.9% (based on underlying results) to 23.8%, primarily due to the restructure of the Group's external debt and internal financing arrangements in 2015. In addition, the revaluation of deferred tax liabilities due to the future fall in the Italian tax rate resulted in a one off benefit.

2.4 Taxation (Continued)

The Group's future ETR will primarily be affected by the geographic mix of profits and any changes to local tax rates, particularly in the USA. Other significant factors include the ability to continue current financing arrangements and changes to local or international tax laws.

Recognised directly in equity through the statement of other comprehensive income

	2016	2015
	£m	£m
Foreign exchange translation differences relating to the net investment in foreign operations	1	1
Effective portion of changes in fair value of cash flow hedges	—	1
Remeasurement gains and losses on defined benefit plans	(1)	—
Total tax expense in statement of other comprehensive income	—	2

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	20	21	(148)	(123)	(128)	(102)
Other short term temporary differences	42	32	(6)	(6)	36	26
Intangible assets	—	—	(50)	(47)	(50)	(47)
Tax value of loss carry-forwards	1	3	—	—	1	3
Tax assets/(liabilities)	63	56	(204)	(176)	(141)	(120)
Set-off tax	(25)	(21)	25	21	—	—
Net tax assets/(liabilities)	38	35	(179)	(155)	(141)	(120)

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

	27 December 2015	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	31 December 2016
	£m	£m	£m	£m	£m
Property, plant and equipment	(102)	(5)	—	(21)	(128)
Other short term temporary differences	26	4	1	5	36
Intangible assets	(47)	2	—	(5)	(50)
Tax value of loss carry-forwards	3	(2)	—	—	1
Net tax assets/(liabilities)	(120)	(1)	1	(21)	(141)

In 2016 movements recognised in the income statement in respect of property plant and equipment were principally due to tax allowances utilised in the UK and USA offset by the impact of rate reductions in Italy. Movements in other short term temporary differences were mainly due to providing for future deductions in respect of employee share options.

2.4 Taxation (Continued)

Movement in deferred tax during the previous year

	28 December 2014	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	26 December 2015
	£m	£m	£m	£m	£m
Property, plant and equipment	(84)	(18)	—	—	(102)
Other short term temporary differences	24	4	(2)	—	26
Intangible assets	(47)	—	—	—	(47)
Tax value of loss carry-forwards	—	3	—	—	3
Net tax liabilities	(107)	(11)	(2)	—	(120)

In 2015 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to movements in financial assets and liabilities, accruals and prepayments in the USA.

Unrecognised deferred tax assets

	2016	2015
	£m	£m
Property, plant and equipment	2	3
Other short term temporary differences	16	16
Intangible assets	—	1
Tax value of loss carry-forwards	57	47
Net unrecognised tax assets	75	67

The unrecognised deferred tax assets relating to loss carry-forwards include £2 million *(2015: £1 million)* expiring in 0-5 years and £2 million *(2015: £1 million)* expiring 6-10 years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be utilised.

2.5 Earnings per share

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share is calculated in the same way except that the profit for the year attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

2.5 Earnings per share (Continued)

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

	2016	2015
	£m	£m
Profit attributable to ordinary shareholders	211	170
Exceptional items net of tax (see note 2.2)	—	10
Adjusted profit attributable to ordinary shareholders	211	180

	2016	2015
Basic weighted average number of shares	1,014,358,232	1,013,746,032
Dilutive potential ordinary shares	3,785,770	1,720,789
Diluted weighted average number of shares	1,018,144,002	1,015,466,821

Share incentive plans (see note 4.6) are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2016 and 2015, the PSP has a dilutive effect as the performance measures have been partially achieved. The DBP, CSOP and AESP are dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2016 Pence	2015 Pence
Basic earnings per share on profit for the year	20.8	16.8
Exceptional items net of tax	—	1.0
Adjusted earnings per share on adjusted profit for the year	20.8	17.8

Diluted earnings per share

	2016 Pence	2015 Pence
Diluted earnings per share on profit for the year	20.7	16.8
Exceptional items net of tax	—	1.0
Diluted adjusted earnings per share on adjusted profit for the year	20.7	17.8

SECTION 3 OPERATING ASSETS AND LIABILITIES

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

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.

On inception of a lease for a new site, the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

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 of, 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.

3.1 Property, plant and equipment (Continued)

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

Property, plant and equipment

	Land and buildings	Plant and equipment	Under construction	Total
	£m	£m	£m	£m
Cost				
Balance at 28 December 2014	919	954	91	1,964
Additions	25	42	151	218
Movements in asset retirement provisions	3	—	—	3
Disposals	(6)	(10)	—	(16)
Transfers	53	88	(141)	—
Effect of movements in foreign exchange	(17)	(16)	(1)	(34)
Balance at 26 December 2015	977	1,058	100	2,135
Acquisition of remaining share of joint venture (note 5.1)	—	1	—	1
Additions	13	55	205	273
Movements in asset retirement provisions (note 3.5)	5	1	—	6
Disposals	(5)	(8)	—	(13)
Transfers	39	86	(125)	—
Effect of movements in foreign exchange	157	116	10	283
Balance at 31 December 2016	1,186	1,309	190	2,685
Depreciation				
Balance at 28 December 2014	187	367	—	554
Depreciation for the year—owned assets	28	78	—	106
Depreciation for the year—leased assets	1	3	—	4
Disposals	(6)	(10)	—	(16)
Effect of movements in foreign exchange	—	(8)	—	(8)
Balance at 26 December 2015	210	430	—	640
Depreciation for year—owned assets	38	87	—	125
Depreciation for year—leased assets	1	3	—	4
Disposals	(3)	(7)	—	(10)
Effect of movements in foreign exchange	35	50	—	85
Balance at 31 December 2016	281	563	—	844
Carrying amounts				
At 28 December 2014	732	587	91	1,410
At 26 December 2015	767	628	100	1,495
At 31 December 2016	**905**	**746**	**190**	**1,841**

Depreciation is calculated in line with the policy stated above. During the year the Group reviews useful economic lives and test PPE for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. As a result no material adjustments were made in either 2015 or 2016.

3.1 Property, plant and equipment (Continued)

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 31 December 2016 the net carrying amount of leased buildings was £16 million *(2015: £16 million)* and the net carrying amount of leased plant and equipment was £29 million *(2015: £30 million)*. Further details in respect of leases and lease obligations are provided in note 4.4.

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, and for Midway attractions that are under construction. These are expected to be settled within two financial years of the reporting date. These amount to £82 million *(2015: £32 million)* for which no provision has been made.

At year end foreign exchange rates, the Group is expecting to invest a further £62 million *(2015: £36 million)* in the LEGOLAND Japan Resort. In addition, at year end foreign exchange rates, the Group is intending to invest £72 million *(2015: £62 million)* in LEGOLAND Korea.

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 regarded as having indefinite useful economic lives. This 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)

3.2 Goodwill and intangible assets (Continued)

Goodwill and intangible assets

		Intangible assets		
	Goodwill	**Brands**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Balance at 28 December 2014	925	186	26	1,137
Additions	—	—	3	3
Effect of movements in foreign exchange	(19)	(4)	(1)	(24)
Balance at 26 December 2015	906	182	28	1,116
Additions	—	—	1	1
Effect of movements in foreign exchange	87	14	4	105
Balance at 31 December 2016	993	196	33	1,222
Amortisation				
Balance at 28 December 2014	171	12	12	195
Amortisation for the year	—	—	1	1
Effects of movements in foreign exchange	(2)	—	(1)	(3)
Balance at 26 December 2015	169	12	12	193
Amortisation for the year	—	—	2	2
Effect of movements in foreign exchange	8	1	1	10
Balance at 31 December 2016	177	13	15	205
Carrying amounts				
At 28 December 2014	754	174	14	942
At 26 December 2015	737	170	16	923
At 31 December 2016	**816**	**183**	**18**	**1,017**

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 *(2015: £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.

	2016	**2015**
	£m	**£m**
Midway Attractions	572	524
LEGOLAND Parks	42	37
Resort Theme Parks	202	176
	816	737

3.2 Goodwill and intangible assets (Continued)

Brands

The Group has valued the following acquired brands, all with 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.

	2016	2015
	£m	£m
Midway Attractions		
Madame Tussauds	29	26
SEA LIFE	16	15
London Eye	10	10
Other	8	8
	63	59
Resort Theme Parks		
Gardaland Resort	49	42
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	12	10
Other	12	12
	120	111
	183	170

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. 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 and PPE 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.

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 individually.
PPE	PPE is reviewed at an attraction level.

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.

3.3 Impairment testing (Continued)

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. 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 being extrapolated by 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. The Group uses EBITDA 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. Operating costs projections 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% *(2015: 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 an appropriate pre-tax discount rate of between 9.0% and 12.9% *(2015: 9.1% and 12.7%)*, derived from the Group's post-tax weighted average cost of capital of between 7.1% and 9.6% *(2015: 7.2% and 9.4%)*.

3.3 Impairment testing (Continued)

Sensitivity analysis

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions of EBITDA, discount rate and long term growth rate in relation to value in use calculations.

When reviewing the outputs of the sensitivity analysis, particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £26 million *(2015: £55 million)*. The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

For RTP, where recoverable amount was based upon value in use, testing was performed on forward looking data extracted from the Group's strategic plan. As this plan was prepared before the peak summer trading season, revised amounts have been included in the four year outlook period that reflect management's latest best estimates of future performance. These take into account trading in this first full year following the accident at Alton Towers in 2015. This first full year of trading also informs management's forecasts of the ongoing anticipated recovery of Alton Towers.

In undertaking sensitivity analysis for RTP, consideration has been given to increases in discount rates, movements in EBITDA and long term growth rates. At the year end the Directors consider that the forecasts used reflect the current best estimate of future trading in RTP. It is noted however that the calculations are inherently sensitive to the pace of the recovery at Alton Towers. While in the short term a delay in the pace of the ongoing recovery 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 drive the terminal value) would have a more significant impact. If EBITDA for RTP as a whole were forecast to be 3% *(2015: 6%)* lower than currently anticipated for 2021, headroom would be absorbed in full. While it is not impossible for such a shortfall to occur, the Directors do not consider it to be probable based on the strength of the product development, diversity across the businesses in RTP and our proven track record in scaling our cost base to respond to changing demand.

Discount rates have been derived from market data. As these rates are intended to be long term in nature they are expected to be reasonably stable in the short term, however market discount rates could increase in future. If the discount rate used across RTP had been higher by a factor of 3% *(2015: 6%)*, headroom would have been absorbed in full. The Directors have formed their best estimate of the discount rate and do not consider that such a move in the rate is appropriate, but it is not impossible that a different view of discount rates could be required in the future.

The long term growth rate, which is applied to the cash flows of the final year in the business plan, 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. The Directors do not consider it probable that this rate will prove to be inappropriate in the future, but note that if circumstances caused the rate to lower to 2.1% *(2015: 1.7%)*, headroom would be absorbed in full.

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 receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

3.4 Working capital (Continued)

Inventories

	2016	2015
	£m	£m
Maintenance inventory	9	7
Goods for resale	27	23
	36	30

Trade and other receivables

	Current assets		Non-current assets	
	2016	2015	2016	2015
	£m	£m	£m	£m
Trade receivables	20	20	—	—
Other receivables	29	25	—	—
Prepayments and accrued income	37	31	13	11
	86	76	13	11

Ageing of trade receivables

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

	2016	2015
	£m	£m
Neither past due nor impaired	13	10
Up to 30 days overdue	4	8
Between 30 and 60 days overdue	1	1
Over 60 days overdue	2	1
	20	20

Trade and other payables

	Current liabilities		Non-current liabilities	
	2016	2015	2016	2015
	£m	£m	£m	£m
Trade payables	63	41	—	—
Accruals	139	108	1	2
Deferred income	84	72	—	—
Other payables	14	14	27	22
	300	235	28	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.

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 27 December 2015	40	15	55
Provisions made during the year	6	2	8
Utilised during the year	—	(2)	(2)
Unused amounts reversed	—	(1)	(1)
Unwinding of discount	2	—	2
Effect of movements in foreign exchange	4	2	6
Balance at 31 December 2016	52	16	68
2016			
Current	—	3	3
Non-current	52	13	65
	52	16	68
2015			
Current	—	4	4
Non-current	40	11	51
	40	15	55

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 ten 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 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.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

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 and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	27 December 2015	Net cash flows	Non-cash movement	Effect of movements in foreign exchange[(1)]	31 December 2016
	£m	£m	£m	£m	£m
Cash and cash equivalents	152	40	—	23	215
Interest-bearing loans and borrowings (note 4.2)	(1,007)	—	(4)	(141)	(1,152)
	(855)	40	(4)	(118)	(937)
Finance leases (note 4.4)	(82)	—	(1)	(5)	(88)
Net debt	(937)	40	(5)	(123)	(1,025)

(1) As disclosed in note 4.2 a substantial proportion of the Group's borrowings are denominated in Euros and US Dollars.

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 subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Interest-bearing loans and borrowings

	2016	2015
	£m	£m
Non-current		
Floating rate bank facilities due 2020	723	640
£300 million floating rate revolving credit facility due 2020	—	—
€500 million fixed rate notes due 2022	424	363
	1,147	1,003
Current		
Interest payable	5	4
	1,152	1,007

The Group's facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.37%, 0.99% and (0.32)% respectively at 31 December 2016 *(2015: 0.59%, 0.57% and (0.13)%)*. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 31 December 2016 was 2.0% *(2015: 2.0%)*.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 31 December 2016 was at a margin of 1.75% (*2015: 1.75%*) over the same floating interest rates when drawn.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

4.2 Interest-bearing loans and borrowings (Continued)

The fees related to the facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term. The borrowings under the bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Group is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €500 million 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 £215 million of cash and cash equivalents *(2015: £152 million)* and a £300 million revolving credit facility, of which £nil was drawn down *(2015: £300 million of which £nil drawn down)*, 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	1 to <2 years	2 to <5 years	5 years and over	Contractual cash flows
	£m	£m	£m	£m	£m
2016					
Floating rate bank facilities due 2020	(20)	(20)	(754)	—	(794)
€500 million fixed rate notes due 2022	(12)	(12)	(24)	(444)	(492)
Finance lease liabilities	(7)	(7)	(20)	(170)	(204)
Trade payables and derivatives	(66)	(3)	(4)	—	(73)
	(105)	(42)	(802)	(614)	(1,563)
2015					
Floating rate bank facilities due 2020	(17)	(17)	(685)	—	(719)
€500 million fixed rate notes due 2022	(10)	(10)	(31)	(382)	(433)
Finance lease liabilities	(6)	(6)	(19)	(162)	(193)
Trade payables and derivatives	(45)	(4)	(8)	—	(57)
	(78)	(37)	(743)	(544)	(1,402)

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 31 December 2016 the Group had €500 million of fixed rate debt *(2015: €500 million)*. Taken together with those floating rate bank facilities that have been swapped to a fixed rate using interest rate swaps (the accounting of which is set out below), in aggregate 74% *(2015: 75%)* of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 4.2 years *(2015: 5.2 years)*.

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 the income statement, except where the Group adopts hedge accounting.

4.3 Financial risk management (Continued)

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. The effective portion of changes in fair value is 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. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income would be recognised immediately in profit or loss. All interest rate swaps held by the Group are hedge accounted.

Sensitivity analysis

Based on the net debt position as at 31 December 2016, taking into account interest rate swaps, each 100 basis points (bp) fall or rise in market interest rates would result in an increase or decrease in net interest paid of £1 million *(2015: £nil)*. This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

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 31 December 2016 the fair value of foreign currency swaps was £1 million *(2015: £1 million)*.

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 are 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. The Group's debt is therefore denominated in Euros, US Dollars and Sterling and at 31 December 2016 consisted of €550 million, $540 million and £250 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 on the following page.

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.

4.3 Financial risk management (Continued)

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

	Closing rate for 2014	Weighted average rate for 2015	Closing rate for 2015	Weighted average rate for 2016	Closing rate for 2016
US Dollar	1.56	1.54	1.49	1.37	1.24
Euro	1.28	1.39	1.36	1.23	1.17
Australian Dollar	1.92	2.04	2.05	1.83	1.71

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

2016	Carrying value				
	Sterling	Euro	US Dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	117	10	27	61	215
Floating rate bank facilities due 2020	(248)	(42)	(433)	—	(723)
€500 million fixed rate notes due 2022	—	(424)	—	—	(424)
Finance lease liabilities	(54)	(34)	—	—	(88)
	(185)	(490)	(406)	61	(1,020)

2015	Carrying value				
	Sterling	Euro	US Dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	90	7	10	45	152
Floating rate bank facilities due 2020	(247)	(36)	(357)	—	(640)
€500 million fixed rate notes due 2022	—	(363)	—	—	(363)
Finance lease liabilities	(54)	(28)	—	—	(82)
	(211)	(420)	(347)	45	(933)

Sensitivity analysis on foreign currency risk

A 10% strengthening of all currencies against Sterling would increase net debt by £83 million *(2016: £72 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 £5 million *(2015: £4 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 *(2015: £nil)*. The Group has no collateral in respect of its investments.

4.3 Financial risk management (Continued)

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.

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.

		2016		2015	
	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
		£m	£m	£m	£m
Held at amortised cost					
Floating rate bank facilities due 2020	Level 2	(723)	(724)	(640)	(631)
€500 million fixed rate notes due 2022	Level 1	(424)	(445)	(363)	(358)
Finance lease liabilities	Level 3	(88)	(88)	(82)	(82)
Investments	Level 3	37	37	—	—
Held at fair value					
Derivative financial instruments	Level 2	(2)	(2)	1	1
Investments	Level 3	12	12	11	11
		(1,188)	(1,210)	(1,073)	(1,059)

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

There have been no transfers between levels in 2016 or 2015.

4.4 Lease obligations

Accounting policies

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. In January 2016 the IASB issued IFRS 16 ‘Leases’ which is expected to become effective from the 2019 accounting period. Details on our assessment of the impact of this new standard and how we are approaching its implementation are set out in note 5.5.

4.4 Lease obligations (Continued)

Finance lease payments

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

Operating lease payments

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

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. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

Each of these sale and leaseback agreements runs for a period of 35 years from inception and allows for annual rent increases based on the inflationary index in the United Kingdom 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.

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten 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.

Lease costs and commitments

During 2016 £96 million *(2015: £89 million)* was recognised as an expense in the income statement in respect of operating leases. Of this £13 million *(2015: £12 million)* was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

4.4 Lease obligations (Continued)

Finance leases

These tables provide information about the future minimum lease payments and contractual terms of the Group's finance lease liabilities, as follows:

	Future minimum lease payments 2016	Interest 2016	Present value of minimum lease payments 2016	Future minimum lease payments 2015	Interest 2015	Present value of minimum lease payments 2015
	£m	£m	£m	£m	£m	£m
Less than one year	7	7	—	6	6	—
Between one and five years	27	27	—	25	25	—
More than five years	258	170	88	244	162	82
	292	204	88	275	193	82

	Currency	Nominal interest rate	Year of maturity	2016	2015
				£m	£m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	34	28
				88	82

The nominal interest rate for finance leases in the table above represents the weighted average effective interest rate. This is used because the table above aggregates finance leases with the same maturity date and currency.

Operating leases

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

	2016	2015
	£m	£m
Less than one year	83	76
Between one and five years	329	291
More than five years	1,325	1,271
	1,737	1,638

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases from the date the parks start operating depending on the specific circumstances of each lease and the nature of the assets at the attractions.

4.5 Equity and capital management

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 4.2), cash and cash equivalents and equity attributable to equity holders of the parent Company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to ensure investor 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.

4.5 Equity and capital management (Continued)

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 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 have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market.

Share capital and reserves

Share capital

	2016	2016	2015	2015
	Number	£m	Number	£m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,013,746,032	10	1,013,746,032	10
Issued in the year	2,063,234	—	—	—
On issue and fully paid at end of year	1,015,809,266	10	1,013,746,032	10

Issue of new shares

During the year the Company issued 2,063,234 ordinary shares for consideration of £2 million (taken to the share premium account) in connection with the Group's employee share incentive plans (note 4.6).

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 Company has entered into a Relationship Agreement with its major shareholder, KIRKBI, in connection with the exercise of its rights as a major shareholder in the Company and the right to appoint Directors to the Board.

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

Dividends

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

	2016	2015
	£m	£m
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	—	43
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	—	21
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	45	—
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	22	—
Total dividends paid	67	64

4.5 Equity and capital management (Continued)

The Directors of the Company propose a final dividend of 4.9 pence per share for the year ended 31 December 2016 *(2015: 4.4 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.1 pence per share *(2015: 6.5 pence per share)*.

Translation reserve

The translation reserve of £(5) million *(2015: £(135) million)* comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, primarily relating to the statement of positions at reporting dates. The reporting date foreign exchange rates by major currency are provided in note 4.3.

Hedging reserve

The hedging reserve of £(3) million *(2015: £nil)* comprises the effective portion of the cumulative net change in interest rate swaps related to hedged transactions that have not yet occurred.

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

Equity-settled plans

The Group operates 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 Directors' Remuneration Report and the tables below. A summary of the rules for the plans and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

Analysis of share-based payment charge

	2016	2015
	£m	£m
PSP	7	1
DBP	1	—
CSOP	1	1
AESP	2	2
	11	4

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2016	Number of shares 2015
PSP	November 2013 - September 2016	—	2017 - 2019	1.2	7,430,215	5,633,093
DBP	March 2015 - March 2016	—	2018 - 2019	1.3	308,272	361,734
CSOP	November 2013 - September 2016	3.15 - 4.81	2017 - 2026	8.0	3,893,704	3,192,347
AESP	January 2014 - March 2016	2.96 - 3.53	2017 - 2019	1.6	6,311,715	5,502,199
Total					17,943,906	14,689,373

4.6 Share-based payment transactions (Continued)

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

	PSP[1]	DBP[1]	CSOP		AESP	
	Number	Number	Number	WAEP (£)	Number	WAEP (£)
At 28 December 2014	3,611,209	—	2,305,252	3.19	3,180,962	2.98
Granted during the year	2,426,028	383,843	1,083,850	4.38	2,823,813	3.24
Forfeited during the year	(404,144)	(22,109)	(196,755)	3.46	(473,366)	3.11
Exercised during the year	—	—	—	—	(4,213)	2.98
Expired during the year	—	—	—	—	(24,997)	2.98
At 26 December 2015	5,633,093	361,734	3,192,347	3.58	5,502,199	3.10
Granted during the year	2,300,004	27,519	1,337,925	4.61	1,692,389	3.19
Forfeited during the year	(502,882)	(5,518)	(382,014)	3.89	(530,897)	3.13
Exercised during the year	—	(75,463)	(239,561)	3.19	(235,360)	3.13
Expired during the year	—	—	(14,993)	3.61	(116,616)	3.10
At 31 December 2016	7,430,215	308,272	3,893,704	3.93	6,311,715	3.12
Exercisable at end of year						
At 26 December 2015	—	—	—	—	—	—
At 31 December 2016	—	—	1,584,579	3.15	—	—

(1) Nil cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2015 and 2016 are 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	2 April 2015	—	4.47	4.47	n/a	n/a	3.0	n/a
	1 April 2016	—	4.65	4.65	n/a	n/a	3.0	n/a
DBP	25 March 2015	—	4.45	4.45	n/a	n/a	3.0	n/a
	24 March 2016	—	4.54	4.54	n/a	n/a	3.0	n/a
CSOP	1 April 2015	4.42	4.42	0.99	1.4%	24%	4.7	1.0%
	1 April 2016	4.60	4.65	0.91	1.4%	21%	4.6	0.7%
AESP	17 February 2015	3.43	4.04	0.71	1.5%	18%	2.2	0.7%
	17 March 2015	3.23	4.38	1.20	1.4%	20%	3.3	0.9%
	16 February 2016	3.53	4.15	0.77	1.6%	21%	2.2	0.4%
	16 March 2016	3.15	4.62	1.46	1.4%	21%	3.3	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 estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.

SECTION 5 OTHER NOTES

53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.1 Investments

Accounting policy

The Group holds investments in two forms. Investments in loan notes are accounted for as financial assets at historic cost with interest accrued on an effective interest rate basis. This calculation requires estimation of the expected period over which the investment will be held together with the value of the investment at the end of that period. Interest on loan notes is recognised within finance income (see note 2.3). Minority equity investments are accounted for as 'available for sale' financial assets at fair value. They are not consolidated. As no observable market data is available for these minority equity holdings, fair value is determined by reference to discounted future cash flows, with movements recorded in other comprehensive income. No fair value movements have been recorded and there is no material sensitivity to the assumptions used.

	LEGOLAND Malaysia	LEGOLAND Korea	Big Bus Tours	Total
	£m	£m	£m	£m
Balance at 27 December 2015	8	3	—	11
Additions	—	—	32	32
Interest income receivable	—	—	1	1
Movements in fair value	—	—	—	—
Effects of movement in foreign exchange	1	—	4	5
At end of year	9	3	37	49

LEGOLAND Malaysia

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).

LEGOLAND Korea

The Group has a minority equity investment in the consortium company developing LEGOLAND Korea.

Big Bus Tours Group Holdings Limited

In 2016 the Group invested $44 million (£32 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The investment was substantially all in the form of loan notes. The transaction also provided Merlin with a minority equity investment valued at £nil.

Investments in joint ventures

On 16 June 2016 the Group acquired the remaining 50% of the SEA LIFE Helsinki joint venture *(2015: carrying value of £nil)*. The consideration was £1 million, settled in cash and the fair value of the net assets acquired was £1 million. SEA LIFE Helsinki was accounted for as a wholly owned subsidiary from 16 June 2016.

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.

5.2 Employee benefits (Continued)

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.

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 *(2015: £10 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 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 which was paid in 2014. The 2016 valuation is currently being finalised. We do not anticipate any material increase in ongoing contributions as a result.

The Group expects £1 million in ongoing contributions to be paid to its defined benefit schemes in 2017. The weighted average duration of the defined benefit obligation at 31 December 2016 was 21 years *(2015: 20 years)*.

The assets and liabilities of the schemes are:

	2016	2015
	£m	£m
Equities	22	19
Corporate bonds and cash	6	5
Property	4	4
Fair value of scheme assets	32	28
Present value of defined benefit obligations	(43)	(33)
Net pension liability	(11)	(5)

5.2 Employee benefits (Continued)

Movement in the net pension liability

	Present value of scheme assets	Present value of defined benefit obligations	Net pension liability
	£m	£m	£m
At 28 December 2014	28	(33)	(5)
Net interest	1	(1)	—
Contributions by employer	1	—	1
Benefits paid	(1)	1	—
Remeasurement loss	(1)	—	(1)
At 26 December 2015	28	(33)	(5)
Net interest	1	(1)	—
Contributions by employer	1	—	1
Benefits paid	(1)	1	—
Remeasurement gain/(loss)	3	(9)	(6)
Exchange adjustments	—	(1)	(1)
At 31 December 2016	32	(43)	(11)

The amount recognised in the income statement was £nil *(2015: £nil)*. The amount recognised in the statement of other comprehensive income was a loss of £6 million *(2015: loss of £1 million)*. This primarily results from changes in actuarial estimates in respect of discount rates.

Actuarial assumptions

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

	2016	2015
Discount rate	2.7%	3.9%
Future salary increases	3.7%	3.5%
Rate of price inflation	3.4%	3.2%

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 a major shareholder, key management personnel, joint ventures and IDR Resorts Sdn. Bhd. All dealings with related parties are conducted on an arm's length basis.

Transactions with shareholders

During the year the Group entered into transactions with a major shareholder, KIRKBI Invest A/S, and the LEGO Group, a related party of KIRKBI Invest A/S.

5.3 Related party transactions (Continued)

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 31 December 2016 and 26 December 2015, were as follows:

	Goods and services			
2016	**Sales**	**Amounts owed by related party**	**Purchases and royalties**	**Amounts owed to related party**
	£m	**£m**	**£m**	**£m**
KIRKBI Invest A/S	1	2	11	5
LEGO Group	1	1	51	3
	2	3	62	8
2015				
KIRKBI Invest A/S	—	—	9	2
LEGO Group	1	1	47	2
	1	1	56	4

Transactions with key management personnel

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.2% *(2015: 1.7%)* of the voting shares of the Company.

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages – to –. The remuneration of key management is disclosed in note 2.1.

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park (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 31 December 2016 and 26 December 2015, are as follows:

	2016	**2015**
	£m	**£m**
Sales to related party	6	5
Amounts owed by related party	2	3

5.4 Contingent liabilities

The Group has no material contingent liabilities.

At 26 December 2015 the Group disclosed a contingent liability relating to the accident at Alton Towers Resort on 'The Smiler' ride. This was settled in 2016.

5.5 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IFRS 11 'Joint arrangements'—accounting for acquisitions of interests in joint operations.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'—clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements'—equity method.
- IFRS 5 'Non-current assets held for sale and discontinued operations'—changes in method for disposal.
- IFRS 7 'Financial Instruments: Disclosures'—continuing involvement for servicing contracts.
- IAS 19 'Employee Benefits'—discount rate in a regional market sharing the same currency—e.g. the Eurozone.
- IAS 1 'Presentation of financial statements'—disclosure initiative.

EU endorsed IFRS and interpretations with effective dates after 31 December 2016 relevant to the Group will be implemented in the financial year when the standards become effective.

The IASB has issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2017. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IAS 7 'Statement of cash flows'—disclosure initiative.
- IAS 12 'Income taxes'—recognition of deferred tax assets for unrealised losses.

During 2014 the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2018 accounting period. Therefore the new standard will be relevant to the 2017 comparative period in that year's financial statements. The Group's revenue is generated by high volumes of low value cash transactions. These are predominantly in respect of visits to the Group's attractions, stays in the Group's accommodation, or spend on retail sales or food and beverage while at an attraction and which require very limited judgement on the timing or pattern of revenue recognition compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

In January 2016 the IASB issued IFRS 16 'Leases', which is expected to become effective from the 2019 accounting period and will result in significant changes to the presentation of the Group's consolidated financial statements. Under IAS 17 the Group has lease commitments of £1,737 million (see note 4.4). Under IFRS 16 the Group's lease commitments will be accounted for 'on balance sheet'. Typically IFRS 16 will result in an increase in reported EBITDA as rentals will predominantly be accounted for as finance costs rather than as an operating expense. A combination of the 'front loading' impact of those finance costs together with depreciation charged on the right of use asset also may result in an initial reduction in reported earnings albeit this would even out over the lease term.

We are currently performing impact assessments and financial modelling on the potential impact of the new standard. Substantially all of the Group's lease costs and ongoing commitments are in respect of leases for attractions and support functions so our initial focus has therefore been on significant sites within the portfolio. We will expand this review across the estate during 2017.

5.5 New standards and interpretations (continued)

IFRS 9 'Financial instruments' is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard may require the Group to revise its accounting processes and internal controls related to reporting financial instruments. Based on its preliminary assessment, the Group's accounting for investments may be altered, but is not expected to be material.

5.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

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 2016	Ownership 2015
AAE Unit Trust	Australia(1)	—	100.0%	100.0%
AQDEV Pty Limited	Australia(2)	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia(3)	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia(3)	Ordinary	65.0%	65.0%
Illawarra Tree Topps Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia(2)	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd	Australia(4)	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia(1)	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia(1)	—	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia(1)	Ordinary	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(2)	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia(1)	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company 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(5)	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%

5.7 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
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%
Parkthorn Properties Pty Ltd(e)	Australia	Ordinary	—	100.0%
Sydney Attractions Group Pty Ltd	Australia(2)	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia(2)	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia(2)	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(2)	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%
White Crystal (Mount Hotham) Pty Ltd	Australia(3)	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria(6)	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria(6)	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium(7)	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	British Virgin Islands(8)	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada(9)	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China(10)	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China(11)	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China(12)	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China(13)	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China(14)	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China(15)	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd.	China(16)	Ordinary	100.0%	100.0%
LEGOLAND ApS.	Denmark(17)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark(17)	Ordinary	100.0%	100.0%
SEA LIFE Helsinki Oy(f)	Finland(18)	Ordinary	100.0%	50.0%
SEA LIFE France SARL	France(19)	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH.	Germany(20)	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH.	Germany(21)	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany(22)	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany(22)	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany(20)	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany(23)	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany(23)	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany(22)	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany(20)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany(20)	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany(20)	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany(24)	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany(21)	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany(21)	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited.	India(25)	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 1 Limited.	Ireland(26)	Ordinary	100.0%	100.0%
Merlin Entertainments Ireland 2 Limited.	Ireland(26)	Ordinary	100.0%	100.0%

5.7 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
SEA LIFE Centre Bray Limited	Ireland(27)	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy(28)	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy(29)	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy(28)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy(28)	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy(28)	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy(30)	Ordinary	49.4%(a)	49.4%(a)
Ronchi S.p.A.	Italy(28)	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan(31)	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan(32)	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.(b)	Luxembourg(33)	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg(33)	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg(33)	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd.	Malaysia(34)	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia(52)	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia(34)	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands(35)	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands(36)	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands(37)	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands(38)	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand(39)	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand(39)	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal(40)	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore(41)	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea(42)	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea(43)	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited	South Korea(42)	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain(44)	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand(45)	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand(46)	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S.	Turkey(47)	Ordinary	100.0%	100.0%
Madame Tussauds Museum LLC	UAE(48)	—	48.0%(c)	—
Merlin Holdings Limited	UAE(53)	Ordinary	1.0%(c)	—
Alton Towers Limited	UK(49)	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK(49)	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK(49)	—	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK(49)	—	100.0%	100.0%
Charcoal Holdco Limited	UK(49)	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK(49)	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK(49)	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK(49)	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK(49)	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK(49)	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK(49)	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK(49)	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK(49)	Ordinary	100.0%	100.0%
Iconic Images International Limited	UK(49)	Ordinary	100.0%	100.0%
KZ China Holdco Limited(d)	UK(49)	Ordinary	—	100.0%
KZ Mexico Holdco Limited(d)	UK(49)	Ordinary	—	100.0%

5.7 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
LEGOLAND US Holdings Limited	UK[49]	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK[49]	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK[49]	Ordinary	100.0%	100.0%
London Dungeon Limited	UK[49]	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK[49]	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK[49]	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK[49]	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK[49]	Ordinary	100.0%	100.0%
M.E.G.H. Limited[d]	UK[49]	Ordinary	—	100.0%
Merlin Attractions Management Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited[d]	UK[49]	Ordinary	—	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited[d]	UK[49]	Ordinary	—	100.0%
Merlin Entertainments Group Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK[49]	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK[49]	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK[49]	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited *(formerly Tussauds Hotels Limited)*	UK[49]	Ordinary	100.0%	100.0%
SEA LIFE Trustees Limited	UK[49]	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK[49]	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK[49]	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK[49]	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK[49]	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK[49]	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK[49]	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK[49]	Ordinary	100.0%	100.0%
Tussauds Holdings Limited[d]	UK[49]	Ordinary	—	100.0%
Tussauds Limited	UK[49]	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited[d]	UK[49]	Ordinary	—	100.0%
Warwick Castle Limited	UK[49]	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited[d]	UK[49]	Ordinary	—	100.0%
Wizard BondCo Limited[d]	UK[49]	Ordinary	—	100.0%
Wizard EquityCo Limited[d]	UK[49]	Ordinary	—	100.0%
Wizard NewCo Limited[d]	UK[49]	Ordinary	—	100.0%
Lake George Fly LLC	USA[50]	—	100.0%	100.0%
LEGOLAND California LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA[51]	—	100.0%	100.0%

SECTION 5 OTHER NOTES (Continued)
53 weeks ended 31 December 2016 (52 weeks ended 26 December 2015)

5.7 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2016	Ownership 2015
LEGOLAND Discovery Center Boston LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA[51]	—	100.0%	100.0%
LEGOLAND Discovery Centre US LLC	USA[51]	—	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA[51]	—	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA[51]	—	100.0%	100.0%
Madame Tussauds Nashville LLC	USA[51]	—	100.0%	—
Madame Tussaud's New York LLC	USA[51]	—	100.0%	100.0%
Madame Tussauds Orlando LLC	USA[51]	—	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA[51]	—	100.0%	100.0%
Madame Tussauds Washington LLC	USA[51]	—	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA[51]	Ordinary	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA[51]	—	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc.	USA[51]	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA[51]	—	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA[51]	—	100.0%	100.0%
Merlin Entertainments North America LLC	USA[51]	—	100.0%	100.0%
Merlin Entertainments Short Breaks LLC	USA[51]	—	100.0%	—
Merlin Entertainments US NewCo LLC	USA[51]	—	100.0%	100.0%
San Francisco Dungeon LLC	USA[51]	—	100.0%	100.0%
SEA LIFE Charlotte LLC	USA[51]	—	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA[51]	—	100.0%	100.0%
SEA LIFE Michigan LLC	USA[51]	—	100.0%	100.0%
SEA LIFE Minnesota LLC	USA[51]	—	100.0%	100.0%
SEA LIFE Orlando LLC	USA[51]	—	100.0%	100.0%
SEA LIFE US LLC	USA[51]	—	100.0%	100.0%
The Tussauds Group LLC	USA[51]	—	100.0%	100.0%
Joint venture				
Pirate Adventure Golf Limited	UK[49]	Ordinary	50.0%	50.0%

(a) Merlin Entertainments plc 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.

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

(c) Merlin Entertainments plc has 100% of the beneficial ownership of these entities.

(d) Company dissolved in 2016.

(e) Company disposed of in 2016.

(f) The Group acquired the remaining 50% of the SEA LIFE Helsinki joint venture in 2016.

Registered offices

(1) Level 11, 50 Queen Street, Melbourne, VIC, 3000, Australia

(2) Level 16, 201 Elizabeth Street, Sydney, NSW, 2000, Australia

(3) 3 Ireland Street Bright, VIC, 3741, Australia

(4) Falls Creek Road, 3699 Falls Creek, Victoria, Australia

(5) Doncaster Road 861, 3109 Melbourne - Doncaster East, Victoria, Australia

(6) Riesenradplatz 5-6, 1020 Wien, Vienna, Austria

5.7 Subsidiary and joint venture undertakings (Continued)

(7) Koning Albert 1 Laan 116, 8370, Blankenberge, Belgium

(8) P.O. Box 3340, Road Town, Tortola, British Virgin Islands

(9) Suite 5300 Commerce Court West, 199 Bay Street, Toronto, ON, M5L 1B9, Canada

(10) No. 4, 6, 8, 10, 12, 14, 16, 18 Qianmen Avenue, Dongcheng District, Beijing, China

(11) 10/F New World Building, No 2-68 Nanjing Xi Road, Shanghai 200003, China

(12) 21, Han Street, Wuchang District, (Shops 40/41/42) Building 5, Lot J2, Wuhan, China

(13) Shop P101, The Peak Tower, The Peak, Hong Kong

(14) 4-11, Fu 9, No. 133, Nanpin Road, Nan'an District, Chongqing, China

(15) L2-25, 2F, 3F Parkside Plaza, Putuo District, Shanghai, China

(16) 189, Dadhue Road, Pu Tuo District, Shanghai, 200062, China

(17) Aastvej 10, 7190 Billund, Denmark

(18) Tivolitie 10, Helsinki 00510, Finland

(19) Centre Commercial Val d'Europe, Espace 502, 14 cours du Danube, Serris, 7711 MARNE LA VALLEE, France

(20) Cremon 11, 20457 Hamburg, Germany

(21) Heidenhof 1, 29614 Soltau, Germany

(22) Legoland Allee, 89312, Gunzburg, Germany

(23) Prinzregentenstrasse 18, 80538 Munich, Germany

(24) Klein Vehedig, Hafenstrasse 9, 78462 Konstanz, Germany

(25) 44, Regal Building, Connaught Place, New Delhi, Central Delhi DL, 110001, India

(26) 6th Floor, 2 Grand Canal Square, Dublin, 2, Ireland

(27) First Floor, Fitzwilton House, Wilton Place, Dublin 2, Ireland

(28) Via Derna 4, Castelnuovo del Garda, 37014, Verona, Italy

(29) Via Vivaldi n.7, Castelnuovo del Garda Verona, 37014, Verona, Italy

(30) Loc Ronchi, Castel del Garda Verona, 37014, Verona, Italy

(31) 2-2-1, Kinjoufutou Minato-ku, Nagoya-shi, Japan

(32) Island Mall, Decks Tokyo Beach, 1-6-1 Daiba, Minato-ku, Tokyo, Japan

(33) Polaris-Vertigo Building, 2-4 rue Eugene Rupprt, L-2453, Luxembourg

(34) Suite 2-4, Level 2, Tower Block, Menera Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia

(35) Fred. Roeskestraat 123, 1076 EE, Amsterdam, Netherlands

(36) Dam 20 GEBOUW P&C, 1012NP Amsterdam, Netherlands

(37) Croeselaan 18, Utrecht, Netherlands

(38) Rokin 78, 1012 KW Amsterdam, Netherlands

(39) Level 12, 55 Shortland Street, Auckland 1010, New Zealand

(40) Avenida Da Boavista 3265, 7th Floor, 4100 - 137 Porto, Portugal

(41) 10, Changi Business Park Central 2, #05-01, HansaPoint@CBP, 486030, Singapore

(42) 1411-4, Jung 1-dong, Haenudee-Gu, Busan, Republic of Korea

(43) Yoseon-dong, 8F Moorim Building, 16 Joongang-ro, Chuncheon-si, Gangwon-do, Republic of Korea

(44) Puerto Marina, Benalmadena-Costa, 29630 Benalmadena, Malaga, Spain

(45) 989 Siam Discovery Center 6th, 6Ath, 7th and 8th Floors, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok 10330, Thailand

5.7 Subsidiary and joint venture undertakings (Continued)

(46) B1-B2 Floor Siam Paragon, 991 Rama 1 Road, Khweng Patumwan, Bangkok, 10330, Thailand

(47) Kocatepe Mah, Pasa Cad, Forum Istanbul AVM No. 5/5, Bayrampasa, Turkey

(48) Office 1601, 48 Burj Gate, Burj Khalifa, Dubai, United Arab Emirates

(49) 3 Market Close, Poole, Dorset, BH15 1NQ, United Kingdom

(50) 80 State Street, Albany, New York 12207-2543, United States

(51) 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801, United States

(52) No. 7, Jalan LEGOLAND, Bandar Medini Iskandar Malaysia, 79250 Iskandar Puteri, Johor

(53) Emaar Square, Building 3, Level 5, P.O. Box 37172, Dubai, United Arab Emirates

MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Statement of Financial Position

at 31 December 2016 (2015: 26 December 2015)

	Note	2016	2015
		£m	£m
Non-current assets			
Investments	iii	3,126	3,115
Other receivables	iv	1,214	1,062
		4,340	4,177
Current assets			
Other receivables	iv	4	31
		4	31
Total assets		4,344	4,208
Current liabilities			
Interest-bearing loans and borrowings	vi	5	4
Other payables	v	2	91
		7	95
Non-current liabilities			
Interest-bearing loans and borrowings	vi	1,147	1,003
Total liabilities		1,154	1,098
Net assets		**3,190**	**3,110**
Issued capital and reserves attributable to owners of the Company	vii	3,190	3,110
Total equity		**3,190**	**3,110**

The notes on pages F-58 to F-63 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Anne-Françoise Nesmes
Chief Financial Officer

Company Statement of Changes in Equity

at 31 December 2016 (2015: 26 December 2015)

	Note	Share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
At 28 December 2014		10	—	3,157	3,167
Profit for the year		—	—	3	3
Total comprehensive income for the year		—	—	3	3
Equity dividends		—	—	(64)	(64)
Share incentive schemes:					
—movement in reserves for employee share schemes	iii	—	—	4	4
At 26 December 2015		**10**	—	**3,100**	**3,110**
Profit for the year		—	—	134	134
Total comprehensive income for the year		—	—	134	134
Shares issued		—	2	—	2
Equity dividends		—	—	(67)	(67)
Share incentive schemes:					
—movement in reserves for employee share schemes	iii	—	—	11	11
At 31 December 2016	vii	**10**	**2**	**3,178**	**3,190**

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

i Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2015/16 Cycle) issued in July 2016 have been applied.

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

The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 3 Market Close, Poole, Dorset, BH15 1NQ. Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

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

- IFRS 2 'Share-based 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 53 weeks ended 31 December 2016 *(2015: 52 weeks ended 26 December 2015)*.

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.

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 are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. 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 operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are 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 Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group’s own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group’s own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

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 Group subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Dividends

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

ii Employees

The average number of employees of the Company during the year was nine (2015: seven). All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report on pages – to –. One Director accrued benefits under defined contribution schemes during the year *(2015: one)*.

iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking
	£m
Cost and carrying value	
At 28 December 2014	3,111
Capital contributions to subsidiaries	4
At 26 December 2015	3,115
Capital contributions to subsidiaries	11
At 31 December 2016	3,126

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in 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 page F-49.

iv Other receivables

	Current assets		Non-current assets	
	2016	2015	2016	2015
	£m	£m	£m	£m
Amounts owed by group undertakings	4	31	1,214	1,062

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. The non-current loans have maturities of 2020 and 2022 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

v Other payables

	2016	2015
	£m	£m
Amounts owed to group undertakings	1	90
Accruals	1	1
	2	91

vi Borrowings

	2016	2015
	£m	£m
Non-current		
Floating rate bank facilities due 2020	723	640
£300 million floating rate revolving credit facility due 2020	—	—
€500 million fixed rate notes due 2022	424	363
	1,147	1,003
Current		
Interest payable	5	4
	1,152	1,007

The facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.37%, 0.99% and (0.32)% respectively at 31 December 2016. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 31 December 2016 was 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 31 December 2016 was at a margin of 1.75% over the same floating interest rates when drawn.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

The fees related to the facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term. The borrowings under the bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

The Company is required to comply with certain financial and non-financial covenants in the bank facilities, including a requirement to maintain certain ratios of EBITDA to both net finance costs and net debt. It is also required to comply with certain non-financial covenants in the €500 million notes. All covenant requirements were satisfied throughout the year.

vii Equity

Share capital

	2016 Number	2016 £m	2015 Number	2015 £m
Ordinary shares of £0.01 each				
At beginning of the year	1,013,746,032	10	1,013,746,032	10
Shares issued	2,063,234	–	–	–
At end of the year	1,015,809,266	10	1,013,746,032	10

Issue of new shares

During the year the Company issued 2,063,234 ordinary shares for consideration of £2 million (taken to the share premium account) in connection with the Group's employee share incentive plans (note 4.6).

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.

Retained earnings

The profit after tax for the year in the accounts of Merlin Entertainments plc is £134 million *(2015: profit after tax of £3 million*).

All of the Company's retained earnings are distributable (with the exception of those movements in reserves for employee share schemes).

Dividends

	2016 £m	2015 £m
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	—	43
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	—	21
Final dividend for the 52 weeks ended 26 December 2015 of 4.4 pence per share	45	—
Interim dividend for the 53 weeks ended 31 December 2016 of 2.2 pence per share	22	—
Total dividends paid	67	64

The Directors of the Company propose a final dividend of 4.9 pence per share for the year ended 31 December 2016 *(2015: 4.4 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 7.1 pence per share *(2015: 6.5 pence per share)*.

In making this proposal the Directors have considered the resources available to the Company and its subsidiaries. Specifically they have taken 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 as explained in the Group going concern disclosures on page F-14.

SHAREHOLDER *Information*

FINANCIAL *Record*

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Results					
Revenue	1,457	1,278	1,249	1,192	1,074
Underlying EBITDA	451	402	411	390	346
Underlying operating profit	320	291	311	290	258
Operating profit	320	291	311	260	199
Profit before tax	277	237	226	172	98
Adjusted earnings per share (p)	20.8	17.8	17.7	16.9	n/a
Dividend per share (p)	7.1	6.5	6.2	n/a	n/a
Consolidated statement of financial position					
Property, plant and equipment	1,841	1,495	1,410	1,321	1,290
Intangible assets	1,017	923	942	961	970
Cash and cash equivalents	215	152	285	264	142
Non-current interest-bearing loans and borrowings	1,147	1,003	1,131	1,179	1,333
Total equity	1,428	1,149	1,063	944	617
Consolidated statement of cash flows					
Net cash flow from operating activities	433	325	357	365	348
Changes in working capital	23	(19)	(4)	30	24
Net increase/(decrease) in cash and cash equivalents	40	(137)	16	125	81

Merlin Entertainments plc

Independent auditor's report and audited consolidated financial statements
for the 52 weeks ended 26 December 2015

Registered number 08700412

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 52 week period ended 26 December 2015 set out on pages F-72 to F-124. 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 2015 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

The context for our audit is that there has been:

- a generally stable environment in which the Group has operated, though parts of the Resort Theme Parks business have been affected by a major accident at Alton Towers in the year, which increased the risk over carrying values of certain associated assets;
- no significant changes to the Group's strategy and operations that our audit has had to consider. The accesso® admissions system has not had a significant bearing on our audit this year; and
- a slight, but not significant lowering in our assessed materiality given the increasing public profile of the Group.

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of significance were as set out below. While these risks are the same as in the prior year, we have noted changes in the nature and emphasis of these risks and in our responses to them below.

Our audit approach

Materiality

- £14.3 million, representing 6.0% of profit before tax.

Scope

- 75% of total profits before tax arise in audited components.
- All other components are subject to specified audit procedures or analysis at an aggregated level.

Key risks

- valuation of non-current assets; and
- revenue recognition.

Carrying value of non-current assets £2,475 million (2014: £2,414 million): *Risk vs 2014:* ▲

Refer to page – (Audit Committee Report) and pages F-91 to F-92 (accounting policy and financial disclosures).

- **The risk**—A history of business combinations and the capital intensive nature of the business model means that the Group has significant balances of goodwill, intangible assets and property, plant and equipment. There is a risk that the future performance of these assets may lead to their carrying values not being recoverable in full. When impairment testing is required there are inherent uncertainties in estimating the value of assets to the business through discounted cash flows. These uncertainties arise principally in the inputs used in forecasting future cash flows (for example expected changes in visitation at existing attractions, particularly where there have been recent changes in the overall offering, new and ongoing promotions or planned customer experience improvements).

Uncertainty arises partly due to the unpredictable impact of factors such as competition, the weather, and the political and economic environment on trading performance but also as the Group's new attractions are often in unproven locations. Additionally and specifically in relation to the Resort Theme Parks goodwill, events during the year at Alton Towers have meant that previous trading patterns have been disrupted and greater uncertainty exists over forecasting visitor numbers. The reduced EBITDA since June 2015 and the risk that a return to previous levels of performance may not be achieved immediately has reduced valuation headroom. This increases the risk over this asset's valuation. There is also uncertainty around the most appropriate rate at which to discount these expected future cash flows.

- **Our response**—Our audit procedures included, amongst others, an analysis of the Group's previous ability to forecast cash flows accurately and challenging the reasonableness of current forecasts. These current forecasts include assumptions such as the expected change in visitation and revenues arising from activities such as new and ongoing promotions and customer experience improvements, as well as the response to specific events, including the accident at Alton Towers. Our challenge of the forecasts included an assessment of the Group's assumptions around these activities, including a comparison of expected changes against the past results of similar activities carried out by the Group. In addition, specific to Alton Towers, we considered historic peer group data for incident recovery rates and their applicability to Merlin's business model and visitor market. We corroborated major assumed cost reductions to detailed plans and wherever possible contractual agreements. This allowed us to assess the level of the risk inherent in the current cash flow forecasts.

  The data used by the Group to determine its earnings multiple and calculate its discount rates was benchmarked against market data, including publicly available analysts' reports and peer comparisons. We were supported by our valuation specialists in this work. We performed a sensitivity analysis of the long term growth rate, discount rates and forecast cash flows to show the effect of possible downside scenarios and considered the resulting headroom across the valuations, as well as the appropriateness of the related disclosures. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of non-current assets.

Revenue recognition £1,278 million (2014: £1,249 million): *Risk vs 2014*: ◄►

Refer to page – (Audit Committee Report) and page F-101 (accounting policy).

- **The risk**—Merlin's revenues come from a number of different channels, such as admissions ticketing income, annual passes, spend in attractions on items such as food and drink and accommodation revenues. These revenues arise across a large portfolio of sites that due to the different jurisdictions in which the Group operates, and the Group's decentralised nature, use a number of different revenue systems or system configurations, many of which require manual processes to transfer data to the finance systems.

  Manual, rather than automated, processes across multiple decentralised income systems increase the risk of error. Such errors could arise through the under or over recording of outputs from these systems, or due to the need for the separate recording and appropriately timed release of deferred revenue, which arises when tickets are either bought in advance or bought to allow access to multiple attractions. Although the low value of individual transactions means an individual error would be both difficult to detect and insignificant, the high volume of transactions mean systemic failure could lead to errors that aggregate into material balances.

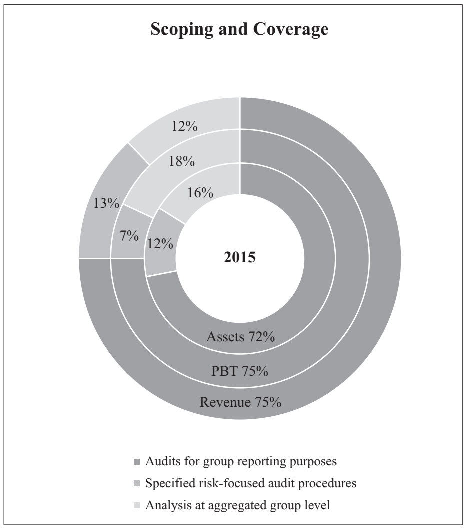
- **Our response**—As described in 'Our application of materiality and an overview of the scope of our audit' we selected sites for audit to ensure appropriate coverage of key financial measures, including revenue.

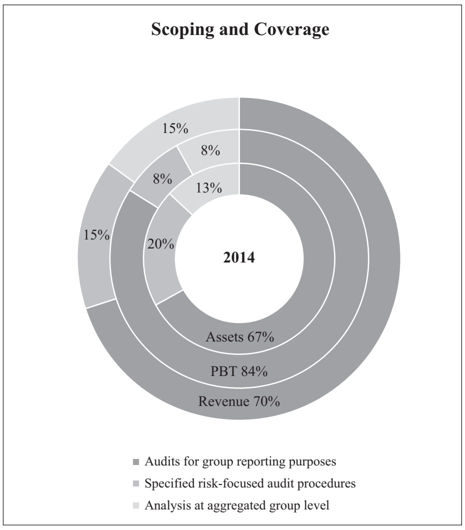
  At certain sites we performed testing of the general IT control environment of the systems used to record revenue, followed by testing of the processes to assess the completeness and accuracy of revenue entries arising from these systems. At other sites, we performed testing of the design, implementation and operating effectiveness of manual controls supporting these systems, including reconciliations of till records to revenue journal entries in the accounting records.

  This controls testing was supported by substantive audit procedures including, amongst others, performing reconciliations of total cash received to revenue recorded, predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation), confirmation of the appropriate timing of sales cut-off by checking the specific posting of revenue for days either side of the period end; and substantive testing of deferred and accrued revenue balances through agreeing back to ticketing system records and checking underlying calculations, corroboration of ticket usage terms to underlying contracts and predictive analytical procedures based on revenue movements.

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

Scope of our work





All PBT percentages represent profits and losses before tax as calculated on an absolute basis, meaning the coverage is the proportion tested of total profits added to total losses of individual components.

The materiality for the Group financial statements as a whole was set at £14,300,000 for 2015 *(2014: £15,500,000)*. This was determined with reference to a benchmark of profit before tax, of which it represents 6.0% *(2014: 6.9%)*. This is lower than the benchmark percentage used in 2014, because our view of the increasing public profile of the Group meant we considered a lower percentage to be appropriate. We initially planned a higher materiality using 6.0% of budgeted profits and then lowered this in line with the Group's revised profit expectations following the Alton Towers accident, adjusting our audit procedures accordingly.

We agreed with the Audit Committee that following this revision to materiality, we would report all corrected and uncorrected misstatements identified through our audit with a value in excess of £715,000 *(2014: £750,000)*, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We audited 75% *(2014: 84%)* of the total profits and losses that made up Group profit before tax, 75% *(2014: 70%)* of total Group revenue and 72% *(2014: 67%)* of total Group assets. This included the audit, for group reporting purposes, of the financial information of certain components. It also included audit procedures on finance costs and assets arising on consolidation; the total of these balances were audited at group level. Audits for group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: UK, USA, Australia, Denmark, Germany, Italy, Hong Kong and China.

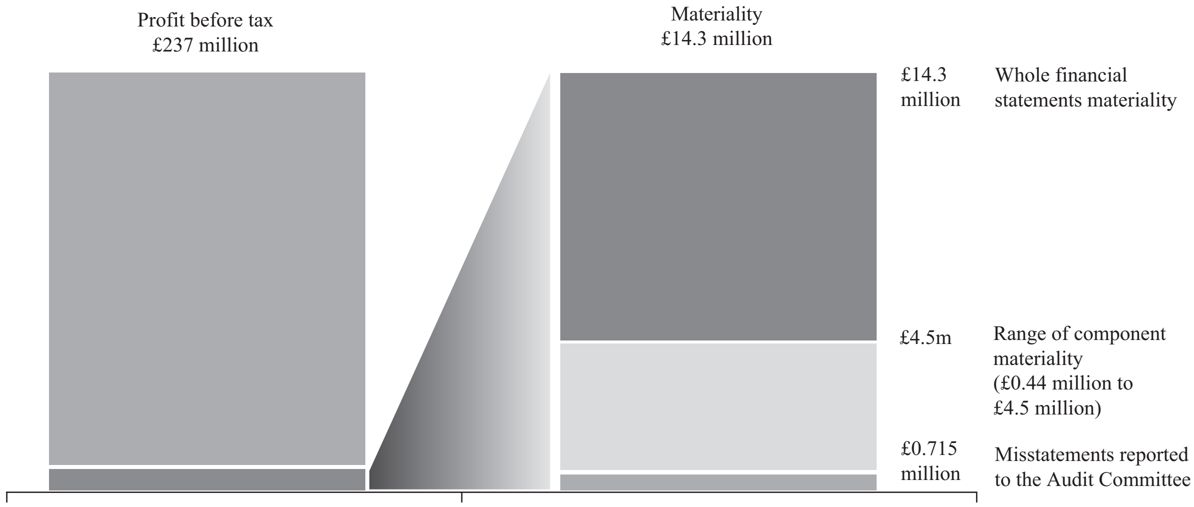
Our coverage of profits has decreased year on year as the results at some larger sites (particularly Alton Towers) has reduced their relative contribution.

The remaining 25% of total profits and losses that made up Group profit before tax, 25% of total Group revenue and 28% of total Group assets was represented by a large number of smaller reporting components. None of these components individually represent more than 4.4% of any of the total profits or losses that made up Group profit before tax, total Group revenue or total Group assets. We obtained further coverage by performing specified risk-focused audit procedures over the reasonableness of the financial result and position at 17 of these reporting components covering a further 7% of total profits or losses that made up Group profit before tax. We have refined our scoping compared to the approach we have followed in the past to include more Midway attractions as, although each site tends to be relatively small, this is an area where the Group is growing via the roll out of new attractions. We adjusted the sites selected for these procedures during the course of our work in response to a change in perceived risk resulting from findings of Merlin's Internal Audit function. For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these components.

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 39% of the total profits and losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, gaining coverage over a further 6% of the total profits and losses that made up Group profit before tax. The largest component audited by a component audit team represented 12% of the total profits and losses that made up Group profit before tax.

Materiality of the Group financial statements

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component by the Group audit team and ranged from £440,000 to £4,500,000 having regard to the mix of size and risk profile of the Group across components. Detailed audit and specified procedure instructions were sent to component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team. The Group audit team visited three key component locations in Hong Kong, China and Australia, which included assessing the audit risk and strategy. Teleconferences were also held with these component auditors and all key reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail, with any further work required by the Group audit team then performed by the component auditor.



4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- information given in the Corporate Governance Statement set out on pages – to – with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer term viability on page 42, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group continuing in operation over the four years to 2019; or
- the disclosures in note 1.1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 and the part of the Directors' Remuneration Report to be audited 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 100, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on page 58 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page –, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Hugh Green (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Gateway House, Tollgate
Chandlers Ford
Southampton
SO53 3TG

24 February 2016

FINANCIAL STATEMENTS—CONTENTS

CONSOLIDATED INCOME STATEMENT
For the 52 weeks ended 26 December 2015
(2014: 52 weeks ended 27 December 2014)

		2015			2014		
	Note	Underlying trading	Exceptional items[3]	Total	Underlying trading	Exceptional items[3]	Total
		£m	£m	£m	£m	£m	£m
Revenue	2.1	1,278	—	1,278	1,249	—	1,249
Cost of sales	2.1	(193)	—	(193)	(181)	—	(181)
Gross profit		1,085	—	1,085	1,068	—	1,068
Staff expenses	2.1	(327)	—	(327)	(312)	—	(312)
Marketing		(68)	—	(68)	(62)	—	(62)
Rent		(87)	—	(87)	(83)	—	(83)
Other operating expenses		(201)	—	(201)	(200)	—	(200)
EBITDA[1]	2.1	402	—	402	411	—	411
Depreciation and amortisation	3.1, 3.2	(111)	—	(111)	(100)	—	(100)
Operating profit		291	—	291	311	—	311
Finance income	2.3	5	1	6	2	—	2
Finance costs	2.3	(46)	(14)	(60)	(64)	(23)	(87)
Profit before tax		250	(13)	237	249	(23)	226
Taxation	2.4	(70)	3	(67)	(70)	6	(64)
Profit for the year[2]		**180**	**(10)**	**170**	**179**	**(17)**	**162**
Earnings per share							
Basic and diluted earnings per share (p)	2.5			16.8			16.0

(1) EBITDA—this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

(2) Profit for the year for 2015 and 2014 is wholly attributable to the owners of the Company.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 December 2015

(2014: 52 weeks ended 27 December 2014)

	Note	2015	2014
		£m	£m
Profit for the year		170	162
Other comprehensive income			
Items that cannot be reclassified to the consolidated income statement			
Defined benefit plan remeasurement gains and losses	5.2	(1)	(1)
Recognition of the assets and liabilities of the defined contribution section of the defined benefit scheme	5.2	—	(1)
		(1)	(2)
Items that may be reclassified to the consolidated income statement			
Exchange differences on the retranslation of net assets of foreign operations		(36)	(23)
Exchange differences relating to the net investment in foreign operations		3	7
Cash flow hedges—effective portion of changes in fair value		(2)	(9)
Cash flow hedges—reclassified to profit and loss	2.2	14	—
Income tax on items relating to components of other comprehensive income	2.4	(2)	—
		(23)	(25)
Other comprehensive income for the year net of income tax		(24)	(27)
Total comprehensive income for the year(1)		**146**	**135**

(1) Total comprehensive income for 2015 and 2014 is wholly attributable to the owners of the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 26 December 2015
(2014: 27 December 2014)

	Note	2015	2014
		£m	£m
Non-current assets			
Property, plant and equipment	3.1	1,495	1,410
Goodwill and intangible assets	3.2	923	942
Investments	5.1	11	6
Other receivables	3.4	11	7
Deferred tax assets	2.4	35	49
		2,475	2,414
Current assets			
Inventories	3.4	30	26
Trade and other receivables	3.4	76	60
Derivative financial assets		2	1
Cash and cash equivalents	4.1	152	285
		260	372
Total assets		2,735	2,786
Current liabilities			
Interest-bearing loans and borrowings	4.2	4	5
Derivative financial liabilities		1	12
Trade and other payables	3.4	235	226
Tax payable		22	27
Provisions	3.5	4	4
		266	274
Non-current liabilities			
Interest-bearing loans and borrowings	4.2	1,003	1,131
Finance leases	4.4	82	84
Other payables	3.4	24	23
Provisions	3.5	51	50
Employee benefits	5.2	5	5
Deferred tax liabilities	2.4	155	156
		1,320	1,449
Total liabilities		1,586	1,723
Net assets		**1,149**	**1,063**
Issued capital and reserves attributable to owners of the Company		1,145	1,059
Non-controlling interest		4	4
Total equity	4.5	**1,149**	**1,063**

The financial statements were approved by the Board of Directors on 24 February 2016 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Andrew Carr
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 26 December 2015
(2014: 52 weeks ended 27 December 2014)

	Note	Share capital	Share premium	Capital reserve	Translation reserve	Hedging reserve	Retained earnings	Total parent equity	Non-controlling interest	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m
At 29 December 2013		10	3,183	(2,250)	(85)	(2)	84	940	4	944
Profit for the year		—	—	—	—	—	162	162	—	162
Other comprehensive income for the year net of income tax		—	—	—	(16)	(9)	(2)	(27)	—	(27)
Total comprehensive income for the year		—	—	—	(16)	(9)	160	135	—	135
Equity dividends	4.5	—	—	—	—	—	(20)	(20)	—	(20)
Capital restructure	4.5	—	(3,183)	2,250	—	—	933	—	—	—
Equity-settled share-based transactions	4.6	—	—	—	—	—	4	4	—	4
At 27 December 2014		**10**	**—**	**—**	**(101)**	**(11)**	**1,161**	**1,059**	**4**	**1,063**
Profit for the year		—	—	—	—	—	170	170	—	170
Other comprehensive income for the year net of income tax		—	—	—	(34)	11	(1)	(24)	—	(24)
Total comprehensive income for the year		—	—	—	(34)	11	169	146	—	146
Equity dividends	4.5	—	—	—	—	—	(64)	(64)	—	(64)
Equity-settled share-based transactions	4.6	—	—	—	—	—	4	4	—	4
At 26 December 2015	4.5	**10**	**—**	**—**	**(135)**	**—**	**1,270**	**1,145**	**4**	**1,149**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 26 December 2015

(2014: 52 weeks ended 27 December 2014)

	Note	2015	2014
		£m	£m
Cash flows from operating activities			
Profit for the year		170	162
Adjustments for:			
Depreciation and amortisation	3.1, 3.2	111	100
Finance income	2.3	(6)	(2)
Finance costs	2.3	60	87
Taxation	2.4	67	64
		402	411
Working capital changes		(19)	(4)
Changes in provisions and other non-current liabilities		1	4
		384	411
Tax paid		(59)	(54)
Net cash inflow from operating activities		325	357
Cash flows from investing activities			
Interest received		1	2
Acquisition of investments	5.1	(5)	(3)
Acquisition of property, plant and equipment		(215)	(192)
Net cash outflow from investing activities		(219)	(193)
Cash flows from financing activities			
Equity dividends paid	4.5	(64)	(20)
Proceeds from bank loans		1,002	—
Financing costs		(14)	—
Interest paid		(42)	(58)
Settlement of interest rate swaps	2.2	(13)	—
Repayment of borrowings		(1,112)	(70)
Net cash outflow from financing activities		(243)	(148)
Net (decrease)/increase in cash and cash equivalents		(137)	16
Cash and cash equivalents at beginning of year	4.1	285	264
Effect of movements in foreign exchange		4	5
Cash and cash equivalents at end of year	4.1	**152**	**285**

SECTION 1 BASIS OF PREPARATION
52 weeks ended 26 December 2015

1.1 Basis of preparation

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom and its registered office is 3 Market Close, Poole, Dorset, BH15 1NQ.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The accounting policies set out in the sections below 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 2015 *(2014: 52 weeks ended 27 December 2014)*. 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 profit for the year of £170 million *(2014: £162 million)* and generated operating cash inflows of £325 million *(2014: £357 million)*. Following a refinancing in March 2015, extending maturities and diversifying the Group's sources of funding, the Group is now funded by bank facilities due for repayment in 2020 and fixed rate notes due for repayment in 2022. The Group has access to a £300 million revolving credit facility to support its liquidity needs of which £nil was drawn down at the year end. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.2.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc, its subsidiaries and branches 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.

1.1 Basis of preparation (Continued)

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 year.
- All resulting exchange differences are recognised in equity in the translation reserve.

Classification of financial instruments issued by the Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

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.

In this regard the impairment testing (note 3.3) involves a higher degree of judgement or complexity and is explained in more detail in the related note.

New standards and interpretations

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

SECTION 2 RESULTS FOR THE YEAR
52 weeks ended 26 December 2015

2.1 Profit before tax

Segmental information

An operating segment 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. An operating segment's results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

2015	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results
	£m	£m	£m	£m
Segment revenue	561	429	285	1,275
Segment profit, being segment EBITDA(1)	21	169	47	437
Segment depreciation and amortisation	(54)	(23)	(29)	(106)
Segment operating profit(1)	167	146	18	331

2014	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results
	£m	£m	£m	£m
Segment revenue	529	386	331	1,246
Segment profit, being segment EBITDA(1)	214	142	87	443
Segment depreciation and amortisation	(47)	(22)	(27)	(96)
Segment operating profit(1)	167	120	60	347

(1) During 2015 the Group has revised how certain costs are internally allocated to its three Operating Groups. There has been no change to the operating segments or their composition. This change does not affect the 2014 figures. The effect has been to increase the 2015 reported segment EBITDA and operating profit in Midway Attractions, LEGOLAND Parks and Resort Theme Parks by £4 million, £1 million and £2 million respectively, with an equivalent increase in costs of £7 million reported within 'Other items' in the tables above.

Reconciliation to statutory items included in the consolidated income statement

2015	Revenue	EBITDA	Depreciation and amortisation	Operating profit
	£m	£m	£m	£m
Segment results	1,275	437	(106)	331
Other items(1), (2)	3	(35)	(5)	(40)
Total per consolidated income statement	1,278	402	(111)	291

2014	Revenue	EBITDA	Depreciation and amortisation	Operating profit
	£m	£m	£m	£m
Segment results	1,246	443	(96)	347
Other items(1), (2)	3	(32)	(4)	(36)
Total per consolidated income statement	1,249	411	(100)	311

(1) During 2015 the Group has revised how certain costs are internally allocated to its three Operating Groups. There has been no change to the operating segments or their composition. This change does not affect the 2014 figures. The effect has been to increase the 2015 reported segment EBITDA and operating profit in Midway Attractions, LEGOLAND Parks and Resort Theme Parks by £4 million, £1 million and £2 million respectively, with an equivalent increase in costs of £7 million reported within 'Other items' in the tables above.

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

SECTION 2 RESULTS FOR THE YEAR (Continued)
52 weeks ended 26 December 2015

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 2015	Non-current assets 2015	Revenues 2014	Non-current assets 2014
	£m	£m	£m	£m
United Kingdom	467	851	490	811
Continental Europe	300	764	318	794
North America	336	481	274	429
Asia Pacific	175	333	167	325
	1,278	2,429	1,249	2,359
Deferred tax		35		49
Investments		11		6
		2,475		2,414

Revenue

Accounting policy

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts (excluding VAT and similar taxes) received from customers for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Ticket revenue is recognised at point of entry.

From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in the current and previous years is not material.

Cost of sales

Cost of sales of £193 million *(2014: £181 million)* represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Retail inventory and food and beverage consumables are the principal expenses included under 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:

	2015	2014
Operations	16,980	15,567
Attraction management and central administration	1,841	1,760
	18,821	17,327

SECTION 2 RESULTS FOR THE YEAR (Continued)
52 weeks ended 26 December 2015

2.1 Profit before tax (Continued)

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£m	£m
Wages and salaries	279	266
Share-based payments (note 4.6)	4	4
Social security costs	34	32
Other pension costs	10	10
	327	312

Auditor's remuneration

	2015	2014
	£m	£m
Audit of these financial statements	1.2	1.2
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services	0.4	0.4
Other services relating to taxation	0.4	0.4
	2.3	2.3

2.2 Exceptional items

Accounting policy

Due to their nature, certain one-off and non-trading items have been 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:

	2015	2014
	£m	£m
Within finance income and costs		
Foreign exchange gain[(1)]	(1)	—
Cash flow hedges—reclassified to profit and loss[(1)]	14	—
Loss on re-measurement of financial liabilities measured at amortised cost[(2)]	—	23
Exceptional items before income tax	13	23
Income tax credit on exceptional items above	(3)	(6)
Exceptional items for the year	10	17

(1) As part of the refinancing undertaken during the year (see note 4.2), the Group incurred net exceptional financing costs of £13 million. The Group restructured its interest rate swaps as part of a wider refinancing of the debt facilities, and paid a net £13 million to cash settle certain swaps. In respect of these swaps, £14 million had previously been hedge accounted through equity and was therefore recycled through the income statement. This was then offset by foreign exchange gains of £1 million as part of the wider refinancing. These have been separately presented in order to better present the underlying finance cost for the Group. Further details of the Group's borrowings are presented in note 4.2.

(2) The Group determined at 27 December 2014 that a more reliable estimate could be formed of the likelihood and timeframe for an earlier refinancing of its existing bank facilities than the contractual repayment date of July 2019. This was determined following reviews undertaken by management and external advisors of refinancing options. As a result the Group accelerated the amortisation of financing costs and the resulting adjustment was recognised as a loss on re-measurement and separately presented in the income statement as an exceptional charge as it was not part of the Group's underlying finance cost.

2.3 Finance income and costs

Accounting policies

Income and costs

Finance income comprises interest income, 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

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of assets taking a substantial period of time to get ready for their intended use as part of the cost of that asset.

Finance income and costs

Finance income

	2015	2014
	£m	£m
Underlying trading		
In respect of assets not held at fair value		
Interest income	2	2
Other		
Net foreign exchange gain	3	—
	5	2
Exceptional items		
Other		
Net foreign exchange gain (note 2.2)	1	—
	6	2

Finance costs

	2015	2014
	£m	£m
Underlying trading		
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	44	62
Other interest expense	2	2
	46	64
Exceptional items		
In respect of liabilities not held at fair value		
Loss on re-measurement of financial liabilities measured at amortised cost (note 2.2)	—	23
In respect of liabilities held at fair value		
Cash flow hedges — reclassified to profit and loss (note 2.2)	14	—
	14	23
	60	87

Capitalised borrowing costs amounted to £2 million in 2015 *(2014: £2 million)*, with a capitalisation rate of 3.2% *(2014: 4.2%)*. Tax relief on capitalised borrowing costs amounted to £nil in 2015 *(2014: £1 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.

Recognised in the income statement

	2015	2014
	£m	£m
Current tax expense		
Current year	60	56
Adjustment for prior periods	(4)	3
Total current income tax	56	59
Deferred tax expense		
Origination and reversal of temporary differences	7	4
Changes in tax rate	—	(1)
Adjustment for prior periods	4	2
Total deferred tax	11	5
Total tax expense in income statement	67	64

Reconciliation of effective tax rate

	2015	2015	2014	2014
	%	£m	%	£m
Profit before tax		237		226
Income tax using the domestic corporation tax rate	20.3%	48	21.5%	48
Non-deductible expenses	3.8%	9	2.5%	6
Income not subject to tax	(1.9%)	(4)	(1.9%)	(4)
Effect of tax rates in foreign jurisdictions	7.6%	18	7.1%	16
Effect of changes in tax rate	—	—	(0.4%)	(1)
Unrecognised temporary differences	(0.1%)	—	(0.5%)	(1)
Effect of recognising deferred tax assets previously unrecognised	(1.6%)	(4)	(2.0%)	(5)
Adjustment for prior periods	—	—	2.1%	5
Total tax expense in income statement	28.1%	67	28.4%	64

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 28.1% and the UK standard weighted tax rate of 20.3% is mainly due to the different tax rates that apply in the various jurisdictions the Group operates in around the world.

The ETR based on underlying trading, excluding exceptional items, was 27.9% in 2015 *(2014: 28.0%).*

2.4 Taxation (Continued)

Recognised directly in equity through the statement of other comprehensive income

	2015	2014
	£m	£m
Foreign exchange translation differences relating to the net investment in foreign operations	1	—
Effective portion of changes in fair value of cash flow hedges	1	—
Total tax expense in statement of other comprehensive income	2	—

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	21	30	(123)	(114)	(102)	(84)
Other short term temporary differences	32	31	(6)	(7)	26	24
Intangible assets	—	—	(47)	(47)	(47)	(47)
Tax value of loss carry-forwards	3	—	—	—	3	—
Tax assets/(liabilities)	56	61	(176)	(168)	(120)	(107)
Set-off tax	(21)	(12)	21	12	—	—
Net tax assets/(liabilities)	35	49	(155)	(156)	(120)	(107)

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

	28 December 2014	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	26 December 2015
	£m	£m	£m	£m	£m
Property, plant and equipment	(84)	(18)	—	—	(102)
Other short term temporary differences	24	4	(2)	—	26
Intangible assets	(47)	—	—	—	(47)
Tax value of loss carry-forwards	—	3	—	—	3
Net tax liabilities	(107)	(11)	(2)	—	(120)

In 2015 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to movements in financial assets and liabilities, accruals and prepayments in the USA.

2.4 Taxation (Continued)

Movement in deferred tax during the previous year

	29 December 2013	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	27 December 2014
	£m	£m	£m	£m	£m
Property, plant and equipment	(72)	(10)	—	(2)	(84)
Other short term temporary differences	13	8	2	1	24
Intangible assets	(48)	—	—	1	(47)
Tax value of loss carry-forwards	3	(3)	—	—	—
Net tax (liabilities)/assets	(104)	(5)	2	—	(107)

In 2014 movements in net deferred tax liabilities recognised in income in respect of property, plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to increases in financial assets and liabilities, principally in the UK.

Unrecognised deferred tax assets

	2015	2014
	£m	£m
Property, plant and equipment	3	4
Other short term temporary differences	16	23
Intangible assets	1	3
Tax value of loss carry-forwards	47	51
Net unrecognised tax assets	67	81

The unrecognised deferred tax assets relating to loss carry-forwards include £1 million *(2014: £1 million)* which expire within five years and £1 million *(2014: £nil)* which expire within ten years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be utilised.

2.5 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share is calculated in the same way except that the profit for the year attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

SECTION 2 RESULTS FOR THE YEAR (Continued)
52 weeks ended 26 December 2015

2.5 Earnings per share (Continued)

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

	2015	2014
	£m	£m
Profit attributable to ordinary shareholders	170	162
Exceptional items net of tax (see note 2.2)	10	17
Adjusted profit attributable to ordinary shareholders	180	179

	2015	2014
Basic weighted average number of shares	1,013,746,032	1,013,746,032
Dilutive potential ordinary shares	1,720,789	434,077
Diluted weighted average number of shares	1,015,466,821	1,014,180,109

Share incentive plans (see note 4.6) are treated as dilutive to earnings per share when, at the reporting date, the awards are both 'in the money' and would be issuable had the performance period ended at that date.

In 2015, the PSP has a dilutive effect as the performance measures have been partially achieved, whereas the DBP, CSOP and AESP are dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

In 2014 the PSP had a dilutive effect as the performance measures had been partially achieved, whereas the DBP was not dilutive as the awards had not yet been issued, and the CSOP was not dilutive as the options were 'out of the money' after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2015 Pence	2014 Pence
Basic and diluted earnings per share on profit for the year	16.8	16.0
Exceptional items net of tax	1.0	1.7
Adjusted and diluted earnings per share on adjusted profit for the year	17.8	17.7

SECTION 3 OPERATING ASSETS AND LIABILITIES
52 weeks ended 26 December 2015

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.

On inception of a lease for a new site, the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set up as disclosed in note 3.5.

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

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold / long leasehold buildings	50 years
Leasehold buildings	20 - 50 years
Plant and equipment	5 - 30 years

SECTION 3 OPERATING ASSETS AND LIABILITIES (Continued)
52 weeks ended 26 December 2015

3.1 Property, plant and equipment (Continued)

Property, plant and equipment

	Land and buildings	Plant and equipment	Under construction	Total
	£m	£m	£m	£m
Cost				
Balance at 29 December 2013	862	861	62	1,785
Additions	29	46	123	198
Movements in asset retirement provisions	3	2	—	5
Disposals	(1)	(3)	—	(4)
Transfers	37	57	(94)	—
Effect of movements in foreign exchange	(11)	(9)	—	(20)
Balance at 27 December 2014	919	954	91	1,964
Additions	25	42	151	218
Movements in asset retirement provisions (note 3.5)	3	—	—	3
Disposals	(6)	(10)	—	(16)
Transfers	53	88	(141)	—
Effect of movements in foreign exchange	(17)	(16)	(1)	(34)
Balance at 26 December 2015	977	1,058	100	2,135
Depreciation				
Balance at 29 December 2013	161	303	—	464
Depreciation for the year—owned assets	26	69	—	95
Depreciation for the year—leased assets	1	3	—	4
Disposals	(1)	(3)	—	(4)
Effect of movements in foreign exchange	—	(5)	—	(5)
Balance at 27 December 2014	187	367	—	554
Depreciation for year—owned assets	28	78	—	106
Depreciation for year—leased assets	1	3	—	4
Disposals	(6)	(10)	—	(16)
Effect of movements in foreign exchange	—	(8)	—	(8)
Balance at 26 December 2015	210	430	—	640
Carrying amounts				
At 29 December 2013	701	558	62	1,321
At 27 December 2014	732	587	91	1,410
At 26 December 2015	**767**	**628**	**100**	**1,495**

PPE was tested for impairment in accordance with the Group's accounting policy, as referred to in note 3.3. No impairment charges have been made in the current or prior year.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 26 December 2015 the net carrying amount of leased buildings was £16 million *(2014: £18 million)* and the net carrying amount of leased plant and equipment was £30 million *(2014: £34 million)*. Further details in respect of leases and lease obligations are provided in note 4.4.

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 and for Midway attractions that are under construction. These are expected to be settled within two financial years of the reporting date. These amount to £32 million *(2014: £50 million)* for which no provision has been made.

In addition, at year end foreign exchange rates, the Group is expecting to invest a further £98 million in LEGOLAND Japan and LEGOLAND Korea over the period from 2016 to 2018.

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 regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the demonstrable 'chaining' of 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)

3.2 Goodwill and intangible assets (Continued)

Goodwill and intangible assets

		Intangible assets		
	Goodwill	Brands	Other	Total
	£m	£m	£m	£m
Cost				
Balance at 29 December 2013	942	191	25	1,158
Additions	—	—	1	1
Effect of movements in foreign exchange	(17)	(5)	—	(22)
Balance at 27 December 2014	925	186	26	1,137
Additions	—	—	3	3
Effect of movements in foreign exchange	(19)	(4)	(1)	(24)
Balance at 26 December 2015	906	182	28	1,116
Amortisation				
Balance at 29 December 2013	174	12	11	197
Amortisation for the year	—	—	1	1
Effects of movements in foreign exchange	(3)	—	—	(3)
Balance at 27 December 2014	171	12	12	195
Amortisation for the year	—	—	1	1
Effect of movements in foreign exchange	(2)	—	(1)	(3)
Balance at 26 December 2015	169	12	12	193
Carrying amounts				
At 29 December 2013	768	179	14	961
At 27 December 2014	754	174	14	942
At 26 December 2015	**737**	**170**	**16**	**923**

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 *(2014: £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 the underlying exchange rates.

	2015	2014
	£m	£m
Midway Attractions	524	530
LEGOLAND Parks	37	38
Resort Theme Parks	176	186
	737	754

3.2 Goodwill and intangible assets (Continued)

Brands

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2015	2014
	£m	£m
Midway Attractions		
Madame Tussauds	26	26
SEA LIFE	15	15
London Eye	10	10
Other	8	8
	59	59
Resort Theme Parks		
Gardaland Resort	42	45
Alton Towers Resort	32	32
THORPE PARK	15	15
Heide Park	10	11
Other	12	12
	111	115
	170	174

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. 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 and PPE are reviewed annually to determine whether there is any indication of impairment. If any such indication exists or if the asset has an indefinite life, the asset's recoverable amount is estimated.

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

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 individually.
PPE	PPE is reviewed at an attraction level.

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.

3.3 Impairment testing (Continued)

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. 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 as 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. The Group uses EBITDA 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. Operating costs projections 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% *(2014: 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 an appropriate pre-tax discount rate of between 9.1% and 12.7% *(2014: 9.4% and 13.1%)*, derived from the Group's post-tax weighted average cost of capital of between 7.2% and 9.4% *(2014: 7.4% and 9.7%)*.

3.3 Impairment testing (Continued)

Sensitivity analysis

Impairment reviews are often sensitive to changes in key assumptions. Sensitivity analysis has therefore been performed on the calculated recoverable amounts considering incremental changes in the key assumptions of EBITDA, discount rate and long term growth rate in relation to value in use calculations.

When reviewing the outputs of the sensitivity analysis, particular focus is given to material amounts where headroom is more limited. As in prior years, this solely relates to goodwill attributed to the Resort Theme Parks Operating Group (RTP) where the headroom is £55 million. The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

For RTP, where recoverable amount was based upon value in use, testing was performed on forward looking data extracted from the Group’s strategic plan. As this plan was prepared before the accident at Alton Towers in June, revised amounts have been included in the four year outlook period reflecting significant cost saving initiatives implemented at Alton Towers during 2015, as well as to consider future performance of the Operating Group including, but not limited to, the anticipated recovery in trading for Alton Towers in 2016 and beyond.

In undertaking sensitivity analysis for RTP, consideration has been given to increases in discount rates and movements in EBITDA. It has also specifically considered the short and long term downside risks to EBITDA at Alton Towers. These calculations do not take account of further potential operational cost or capital expenditure controls which would be possible were they required.

At the year end the Directors consider that the forecasts used reflect the current best estimate of future trading in RTP. It is noted however that the calculations are inherently sensitive to the pace of the recovery at Alton Towers. While in the short term a delay in the pace of the recovery 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 drive the terminal value) would have a more significant impact. If EBITDA for RTP as a whole were forecast to be 6% lower than currently anticipated for 2020, headroom would be absorbed in full. While it is not impossible for such a shortfall to occur, the Directors do not consider it to be probable based on the strength of the product development, diversity across the businesses in RTP and our proven track record in scaling our cost base to respond to changing demand.

Discount rates have been derived from market data. As these rates are intended to be long term in nature they are expected to be reasonably stable in the short term, however market discount rates could increase in future. If the discount rate used across RTP had been higher by a factor of 6%, headroom would have been absorbed in full. The Directors have formed their best estimate of the discount rate and do not consider that such a move in the rate is appropriate, but it is not impossible that a different view of discount rates could be required in the future.

The long term growth rate, which is applied to the cash flows of the final year in the business plan, 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. The Directors do not consider it probable that this rate will prove to be inappropriate in the future, but note that if circumstances caused the rate to lower to 1.7%, headroom would be absorbed in full.

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 receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

Inventories

	2015	2014
	£m	£m
Maintenance inventory	7	6
Goods for resale	23	20
	30	26

Trade and other receivables

	Current assets		Non-current assets	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade receivables	20	16	—	—
Other receivables	25	17	—	—
Prepayments and accrued income	31	27	11	7
	76	60	11	7

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for uncollectible amounts, is as follows:

	2015	2014
	£m	£m
Neither past due nor impaired	10	10
Up to 30 days overdue	8	4
Between 30 and 60 days overdue	1	1
Over 60 days overdue	1	1
	20	16

Trade and other payables

	Current liabilities		Non-current liabilities	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade payables	41	31	—	—
Accruals	108	115	2	2
Deferred income	72	69	—	—
Other payables	14	11	22	21
	235	226	24	23

3.4 Working capital (Continued)

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.

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 28 December 2014	36	18	54
Provisions made during the year	3	3	6
Utilised during the year	—	(3)	(3)
Unused amounts reversed	—	(2)	(2)
Unwinding of discount	1	—	1
Effect of movements in foreign exchange	—	(1)	(1)
Balance at 26 December 2015	40	15	55
2015			
Current	—	4	4
Non-current	40	11	51
	40	15	55
2014			
Current	—	4	4
Non-current	36	14	50
	36	18	54

3.5 Provisions (Continued)

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 ten and 60 years.

They are established on inception and discounted back to present value with the discount then being unwound through the income statement as part of finance costs. They are reviewed at least annually.

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.

SECTION 4 CAPITAL STRUCTURE AND FINANCING
52 weeks ended 26 December 2015

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 and finance lease liabilities. Cash and cash equivalents comprise cash balances, call deposits and other short term liquid investments such as money market funds which are subject to an insignificant risk of a change in value.

	28 December 2014	Net cash flows	Non-cash movement	Effect of movements in foreign exchange	26 December 2015
	£m	£m	£m	£m	£m
Cash and cash equivalents	285	(137)	—	4	152
Interest-bearing loans and borrowings (note 4.2)	(1,136)	124	(3)	8	(1,007)
	(851)	(13)	(3)	12	(855)
Finance leases (note 4.4)	(84)	—	—	2	(82)
Net debt	(935)	(13)	(3)	14	(937)

Restricted funds of £nil *(2014: £6 million)* are included in cash and cash equivalents.

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 subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Interest-bearing loans and borrowings

	2015	2014
	£m	£m
Non-current		
Floating rate bank facilities due 2020	640	—
Floating rate bank facilities due 2019 (repaid March 2015)	—	1,131
€500 million fixed rate notes due 2022	363	—
£300 million floating rate revolving credit facility due 2020	—	—
£150 million floating rate revolving credit facility due 2019 (cancelled March 2015)	—	—
	1,003	1,131
Current		
Interest payable	4	5
	1,007	1,136

In 2015 the Group refinanced its long term debt.

The new committed facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.59%, 0.57% and (0.13)% respectively at 26 December 2015. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and is currently 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and would currently be at a margin when drawn of 1.75% over the same floating interest rates.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

4.2 Interest-bearing loans and borrowings (Continued)

These new facilities enabled the repayment of the existing secured facilities due to mature in 2019. The fees related to the new facilities are being amortised to the maturity of the debt as the debt is currently expected to be held for its full term.

All 2014 facilities were secured by fixed charges over the shares in certain Group companies and certain intra-group receivables. This security was released in 2015. The borrowings under the new bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

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 jurisdictions bank cash pooling arrangements are in place to optimise the use of cash.

As at the reporting date the Group had £152 million of cash and cash equivalents *(2014: £285 million)* and a £300 million revolving credit facility, of which £nil was drawn down *(2014: £150 million of which £nil drawn down)*, 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 and excluding the impact of netting agreements. This analysis assumes that interest rates prevailing at the reporting date remain constant.

	0 to <1 year	1 to <2 years	2 to <5 years	5 years and over	Contractual cash flows
	£m	£m	£m	£m	£m
2015					
Floating rate bank facilities due 2020	(17)	(17)	(685)	—	(719)
€500 million fixed rate notes due 2022	(10)	(10)	(31)	(382)	(433)
Finance lease liabilities	(6)	(6)	(19)	(162)	(193)
Trade payables and derivatives	(45)	(4)	(8)	—	(57)
	(78)	(37)	(743)	(544)	(1,402)
2014					
Floating rate bank facilities due 2019	(42)	(45)	(1,237)	—	(1,324)
Finance lease liabilities	(6)	(6)	(19)	(171)	(202)
Trade payables and derivatives	(40)	(8)	(4)	—	(52)
	(88)	(59)	(1,260)	(171)	(1,578)

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 2015 the Group had €500 million of fixed rate debt. Taken together with the floating rate bank facilities, that have been swapped to a fixed rate using interest rate swaps (the accounting of which is set out below), in aggregate 75% *(2014: 80%)* of the year end interest-bearing loans and borrowings is at a fixed rate for a weighted average period of 5.2 years *(2014: 2.1 years)*.

4.3 Financial risk management (Continued)

Interest rate swaps are recognised at fair value which is determined by reference to market rates. It 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 the income statement, 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. The effective portion of changes in fair value is 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. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income would be recognised immediately in profit or loss. All interest rate swaps held by the Group are hedge accounted.

Sensitivity analysis

Based on the net debt position as at 26 December 2015, taking into account interest rate swaps, each 100 basis points (bp) fall or rise in market interest rates would result in an increase or decrease in net interest paid of £nil *(2014: £1 million)*. This has been calculated by applying the interest rate change to the Group's variable rate cash, borrowings and derivatives.

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.

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 are 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. The Group's debt is therefore denominated in Euros, US Dollars and Sterling and at 26 December 2015 consisted of €550 million, $540 million and £250 million.

Gains or losses 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 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 2015 the fair value of foreign currency swaps was £1 million *(2014: £nil)*.

4.3 Financial risk management (Continued)

Sensitivity analysis on foreign currency risk

2015	Carrying value				
	Sterling	Euro	US Dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	90	7	10	45	152
Floating rate bank facilities due 2020	(247)	(36)	(357)	—	(640)
€500 million fixed rate notes due 2022	—	(363)	—	—	(363)
Finance lease liabilities	(54)	(28)	—	—	(82)
	(211)	(420)	(347)	45	(933)

2014	Carrying value				
	Sterling	Euro	US Dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	202	8	47	28	285
Floating rate bank facilities due 2019	(408)	(332)	(318)	(73)	(1,131)
Finance lease liabilities	(54)	(30)	—	—	(84)
	(260)	(354)	(271)	(45)	(930)

A 10% strengthening of all currencies against Sterling would increase net debt by £72 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 £4 million *(2014: £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.

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.

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.

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Held at amortised cost				
Floating rate bank facilities due 2020	(640)	(631)	—	—
Floating rate bank facilities due 2019	—	—	(1,131)	(1,128)
€500 million fixed rate notes due 2022	(363)	(358)	—	—
Finance lease liabilities	(82)	(82)	(84)	(84)
Held at fair value				
Derivative financial instruments	1	1	(11)	(11)
Investments	11	11	6	6
	(1,073)	(1,059)	(1,220)	(1,217)

The bank facilities, loan notes and finance leases are held at amortised cost. The fair values shown above for the bank facilities and loan notes have been calculated using market values and are classified as Level 2 and Level 1 respectively. The fair values of the finance leases are determined by reference to similar lease agreements.

Of the financial assets and liabilities held at fair value, the derivative financial assets or liabilities are classified as Level 2 and the investments are classified as Level 3.

There have been no transfers between levels in 2015 or 2014.

4.4 Lease obligations

Accounting policies

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

Finance lease payments

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

Operating lease payments

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

4.4 Lease obligations (Continued)

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. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

Each of these sale and leaseback agreements runs for a period of 35 years from inception and allows for annual rent increases based on the inflationary index in the United Kingdom 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.

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten 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.

Lease costs and commitments

During 2015 £89 million *(2014: £86 million)* was recognised as an expense in the income statement in respect of operating leases. Of this £12 million *(2014: £12 million)* was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

Finance leases

These tables provide information about the future minimum lease payments and contractual terms of the Group's finance lease liabilities, as follows:

	Future minimum lease payments 2015	Interest 2015	Present value of minimum lease payments 2015	Future minimum lease payments 2014	Interest 2014	Present value of minimum lease payments 2014
	£m	£m	£m	£m	£m	£m
Less than one year	6	6	—	6	6	—
Between one and five years	25	25	—	26	25	1
More than five years	244	162	82	254	171	83
	275	193	82	286	202	84

4.4 Lease obligations (Continued)

	Currency	Nominal interest rate	Year of maturity	2015	2014
				£m	£m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	28	30
				82	84

The nominal interest rate for finance leases in the table above represents the weighted average effective interest rate. This is used because the table above aggregates finance leases with the same maturity date and currency.

Operating leases

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

	2015	2014
	£m	£m
Less than one year	76	76
Between one and five years	291	297
More than five years	1,271	1,326
	1,638	1,699

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases from the date the parks start operating depending on the specific circumstances of each lease and the nature of the assets at the attractions.

4.5 Equity and capital management

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 4.2), cash and cash equivalents and equity attributable to equity holders of the parent Company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to maintain investor 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 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 have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders. The Group's equity-settled share plans are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market.

4.5 Equity and capital management (Continued)

Share capital and reserves

Share capital

	2015 Number	2014 Number	2015 £m	2014 £m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning and end of year	1,013,746,032	1,013,746,032	10	10

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 Company has entered into a Relationship Agreement with its major shareholder, KIRKBI, in connection with the exercise of its rights as a major shareholder in the Company and the right to appoint Directors to the Board. Relationship Agreements with Blackstone and CVC (which were described in the Annual Report and Accounts for the year ended 27 December 2014) terminated in March 2015 when they ceased to hold any shares in 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.

Dividends

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

	2015 £m	2014 £m
Interim dividend for the 52 weeks ended 27 December 2014 of 2.0 pence per share	—	20
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	43	—
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	21	—
Total dividends paid	64	20

The Directors of the Company propose a final dividend of 4.4 pence per share for the year ended 26 December 2015 *(2014: 4.2 pence per share)*. The total dividend for the current year, subject to approval of the final dividend, will be 6.5 pence per share *(2014: 6.2 pence per share)*.

Capital reserve

Balances arose in the capital reserve when the Group's previous parent company, Merlin Entertainments S.à r.l. arranged its own acquisition by Merlin Entertainments plc, a new legal parent. The balances represented the difference between the value of the equity structure of the previous and new parent companies.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million. When the capital position of the parent Company was rearranged the capital reserve was adjusted appropriately such that the equity balances presented in the Group accounts best reflected the underlying structure of the Group's capital base.

4.5 Equity and capital management (Continued)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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

Equity-settled plans

The Group operates 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 Directors' Remuneration Report and the tables below. A summary of the rules for the plans and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

Analysis of share-based payment charge

	2015 £m	2014 £m
PSP	1	2
CSOP	1	1
AESP	2	1
	4	4

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2015	Number of shares 2014
PSP	November 2013 - December 2015	—	2017 - 2025	8.7	5,633,093	3,611,209
DBP	March 2015	—	2018 - 2025	9.2	361,734	—
CSOP	November 2013 - September 2015	3.15 - 4.42	2016 - 2025	8.4	3,192,347	2,305,252
AESP	January 2014 - March 2015	2.96 - 3.43	2016 - 2018	2.2	5,502,199	3,180,962
Total					14,689,373	9,097,423

4.6 Share-based payment transactions (Continued)

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

	PSP[1]	DBP[1]	CSOP		AESP	
	Number	Number	Number	WAEP (£)	Number	WAEP (£)
At 29 December 2013	3,633,489	—	2,298,375	3.15	—	—
Granted during the year	120,577	—	206,850	3.64	3,555,062	2.98
Forfeited during the year	(142,857)	—	(199,973)	3.17	(374,100)	2.99
At 27 December 2014	3,611,209	—	2,305,252	3.19	3,180,962	2.98
Granted during the year	2,426,028	383,843	1,083,850	4.38	2,823,813	3.24
Forfeited during the year	(404,144)	(22,109)	(196,755)	3.46	(473,366)	3.11
Exercised during the year	—	—	—	—	(4,213)	2.98
Expired during the year	—	—	—	—	(24,997)	2.98
At 26 December 2015	5,633,093	361,734	3,192,347	3.58	5,502,199	3.10
Exercisable at end of year						
At 27 December 2014	—	—	—	—	—	—
At 26 December 2015	—	—	—	—	—	—

(1) Nil cost options

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2014 and 2015 are 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	2 April 2015	—	4.47	4.47	n/a	n/a	3.0	n/a
DBP	25 March 2015	—	4.45	4.45	n/a	n/a	3.0	n/a
CSOP	1 April 2015	4.42	4.42	0.99	1.4%	24%	4.7	1.0%
AESP	13 January 2014	3.17	3.73	0.70	0.7%	20%	2.2	0.8%
	7 February 2014	2.96	3.54	0.84	0.7%	22%	3.3	1.2%
	17 February 2015	3.43	4.04	0.71	1.5%	18%	2.2	0.7%
	17 March 2015	3.23	4.38	1.20	1.4%	20%	3.3	0.9%

A description of the key assumptions used in calculating the share-based payments is as follows:

- The binomial valuation methodology is used for the PSP, CSOP and DBP. The Black-Scholes model is used to value the AESP.
- Due to limited trading history in the Group's shares, the expected volatility is based on a portfolio of comparator companies.
- 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 estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.

SECTION 5 OTHER NOTES
52 weeks ended 26 December 2015

5.1 Investments

Accounting policy

As no observable market data is available for the Group's existing investments, fair value is determined by reference to discounted future cash flows, with movements recorded in other comprehensive income. No fair value movements have been recorded and there is no material sensitivity to the assumptions used.

	2015	2014
	£m	£m
At beginning of year	6	3
Additions	5	3
At end of year	11	6

LEGOLAND Malaysia

In 2013 the Group acquired 16,350,300 shares in IDR Resorts Sdn. Bhd. (IDR) for the consideration of £3 million. During the year the Group acquired an additional 26,149,700 shares for the consideration of £5 million.

IDR is accounted for at fair value and is not consolidated. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 5.3).

LEGOLAND Korea

In 2014 the Group made a £3 million investment in the consortium company developing LEGOLAND Korea. The investment is accounted for at fair value and is not consolidated.

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.

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 £10 million *(2014: £10 million)*.

5.2 Employee benefits (Continued)

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 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 which was paid in 2014.

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2015. The weighted average duration of the defined benefit obligation at 26 December 2015 was 20 years.

The assets and liabilities of the schemes are:

	2015	2014
	£m	£m
Equities	23	23
Corporate bonds and cash	5	5
Fair value of scheme assets	28	28
Present value of defined benefit obligations	(33)	(33)
Net pension liability	(5)	(5)

Movement in the net pension liability

	Present value of scheme assets	Present value of defined benefit obligations	Net pension liability
	£m	£m	£m
At 29 December 2013	17	(21)	(4)
Net interest	1	(1)	—
Contributions by employer	1	—	1
Benefits paid	(1)	1	—
Remeasurement gain/(loss)	2	(3)	(1)
Recognition of defined contribution section assets and liabilities	8	(9)	(1)
At 27 December 2014	28	(33)	(5)
Net interest	1	(1)	—
Contributions by employer	1	—	1
Benefits paid	(1)	1	—
Remeasurement loss	(1)	—	(1)
At 26 December 2015	28	(33)	(5)

The amount recognised in the income statement was £nil *(2014: £nil)*. The amount recognised in the statement of comprehensive income was a loss of £1 million *(2014: loss of £2 million)*.

The closed Tussauds Group scheme operated a defined contribution section underpinned by a minimum level of benefit. Recent experience has indicated that this minimum level of benefit is now giving rise to a deficit; consequently the assets and liabilities of the defined contribution section of the scheme were recognised in 2014.

5.2 Employee benefits (Continued)

Actuarial assumptions

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

	2015	2014
Discount rate	3.9%	3.9%
Future salary increases	3.5%	3.5%
Rate of price inflation	3.2%	3.2%

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is S1PA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 85 and a female would have a life expectancy to age 88.

5.3 Related party transactions

Identity of related parties

The Group has related party relationships with a major shareholder, key management personnel, joint ventures and IDR Resorts Sdn. Bhd.

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

Transactions with shareholders

During the year the Group entered into transactions with a major shareholder, KIRKBI Invest A/S, and the LEGO Group, a related party of KIRKBI Invest A/S. During the year Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.) ceased to hold any shares.

Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 26 December 2015, were as follows:

	Goods and services			
2015	**Sales**	**Amounts owed by related party**	**Purchases**	**Amounts owed to related party**
	£m	**£m**	**£m**	**£m**
KIRKBI Invest A/S.	—	—	9	2
LEGO Group	1	1	47	2
	1	1	56	4
2014				
KIRKBI Invest A/S.	1	—	7	2
LEGO Group	1	—	37	2
	2	—	44	4

Prior to the refinancing in March 2015 (see note 4.2) KIRKBI Invest A/S, as a member of a banking syndicate, owned an element of the Group's bank loan portfolio. The balance outstanding at 26 December 2015 is £nil *(2014: £49 million)*.

5.3 Related party transactions (Continued)

Transactions with key management personnel

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 1.7% *(2014: 2.1%)* of the voting shares of the Company.

The compensation of key management was as follows:

	2015	2014
	£m	£m
Key management emoluments including social security costs	4.2	7.7
Contributions to money purchase pension schemes	0.3	0.5
Share-based payments and other related payments	1.4	0.8
	5.9	9.0

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group has subscribed for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park. On this basis, IDR and its subsidiaries are deemed to be related parties. At 26 December 2015 the Group had subscribed for 42,500,000 shares in IDR *(2014: 16,350,300 shares)*.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 26 December 2015, are as follows:

	2015	2014
	£m	£m
Sales to related party	5	5
Amounts owed by related party	3	3

5.4 Contingent liabilities

On 2 June 2015 an accident occurred at Alton Towers Resort on 'The Smiler' ride. The Group responded immediately to support those who were injured, and maintains appropriate insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive (HSE) as they undertake their investigation. It is possible that additional uninsured costs and, depending on the outcome of the HSE investigation, financial penalties may be incurred. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

The Group has contingent liabilities arising from local planning obligations and other obligations. The total liability under these obligations could amount up to £1 million *(2014: £1 million)*.

5.5 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IAS 19 (Amendment) 'Employee benefits'—defined benefit plans: employee contributions.
- IFRS 2 (Amendment) 'Share-based payment'—definition of 'vesting condition'.
- IFRS 3 (Amendment) 'Business combinations'—classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements.
- IFRS 8 (Amendment) 'Operating segments'—disclosures on the aggregation of operating segments.

5.5 New standards and interpretations (Continued)

- IFRS 13 (Amendment) 'Fair value measurement'—measurement of short term receivables and payables and scope of portfolio exception.
- IAS 16 (Amendment) 'Property, plant and equipment'.
- IAS 24 (Amendment) 'Related party disclosures'—definition of 'related party'.

EU endorsed IFRS and interpretations with effective dates after 26 December 2015 relevant to the Group will be implemented in the financial year when the standards become effective.

The IASB has issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2016. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IFRS 11 'Joint arrangements'—accounting for acquisitions of interests in joint operations.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'—clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements'—equity method.
- IFRS 5 'Non-current assets held for sale and discontinued operations'—changes in method for disposal.
- IFRS 7 'Financial Instruments: Disclosures'—continuing involvement for servicing contracts.
- IAS 19 'Employee Benefits'—discount rate in a regional market sharing the same currency—e.g. the Eurozone.
- IAS 1 'Presentation of financial statements'—disclosure initiative.

During 2014 the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2018 accounting period. The Group's revenue is generated by high volumes of low value transactions, thereby requiring limited judgement on accounting for revenue compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

In January 2016 the IASB issued IFRS 16 'Leases', which will become effective from the 2019 accounting period. It is anticipated that this will require many of the Group's leases to be accounted for 'on balance sheet' and will result in significant changes to the presentation of the Group's consolidated financial statements. It will therefore be a key area of focus.

5.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

5.7 Subsequent events

On 24 February 2016 the Group invested \$34.4 million (£24.6 million) in Big Bus Tours Group Holdings Limited, the leading global owner-operator of Hop On Hop Off City Tours. The consideration will be settled in cash and will provide Merlin with a minority equity holding and an investment in loan notes.

5.8 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 2015	Ownership 2014
AAE Unit Trust	Australia	—	100.0%	100.0%
AQDEV Pty Limited	Australia	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	Australia	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia	Ordinary	65.0%	65.0%
Illawarra Tree Topps Pty Ltd	Australia	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia	Ordinary	100.0%	100.0%
Limlimbu Ski Flats Ltd	Australia	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia	—	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia	—	100.0%	100.0%
LLA Aquariums Pty Limited	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Pty Ltd	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust	Australia	—	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia	—	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia	—	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia	—	100.0%	100.0%
Oceanis NB Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia	—	100.0%	100.0%
Oceanis Unit Trust	Australia	—	100.0%	100.0%
Parkthorn Properties Pty Ltd(3)	Australia	Ordinary	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd	Australia	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia	—	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia	Ordinary	100.0%	100.0%

SECTION 5 OTHER NOTES (Continued)
52 weeks ended 26 December 2015

5.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
Underwater World Sunshine Coast Pty Ltd	Australia	Ordinary	100.0%	100.0%
US Fly Trust	Australia	—	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China	Ordinary	100.0%	100.0%
Merlin Indoor Children's Playground (Shanghai) Company Limited	China	Ordinary	100.0%	—
Merlin Entertainments Hong Kong Limited	China	Ordinary	100.0%	100.0%
Merlin Exhibition (Chongqing) Company Limited	China	Ordinary	100.0%	—
Shanghai Chang Feng Oceanworld Co. Ltd.	China	Ordinary	100.0%	100.0%
LEGOLAND ApS.	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH.	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH.	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments India Private Limited.	India	Ordinary	100.0%	—
Merlin Entertainments Ireland 1 Limited.	Ireland	Ordinary	100.0%	—
Merlin Entertainments Ireland 2 Limited.	Ireland	Ordinary	100.0%	—
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy	Ordinary	49.4%(1)	49.4% (1)
Ronchi S.p.A.	Italy	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited.	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.(2)	Luxembourg	Ordinary	100.0%	100.0%

SECTION 5 OTHER NOTES (Continued)
52 weeks ended 26 December 2015

5.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
Merlin Lux Finco 1 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd.	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd.	Singapore	Ordinary	100.0%	100.0%
Merlin Entertainments Korea Company Limited *(formerly Aquaria Twenty-One Co. Ltd)*	South Korea	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC	South Korea	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S.	Turkey	Ordinary	100.0%	100.0%
Alton Towers Limited	UK	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK	—	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK	—	100.0%	100.0%
Charcoal Holdco Limited	UK	Ordinary	100.0%	100.0%
Charcoal Midco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK	Ordinary	100.0%	100.0%
Iconic Images International Limited	UK	Ordinary	100.0%	100.0%
KZ China Holdco Limited[(3)]	UK	Ordinary	100.0%	100.0%
KZ Mexico Holdco Limited[(3)]	UK	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK	Ordinary	100.0%	100.0%
London Dungeon Limited	UK	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK	Ordinary	100.0%	100.0%
Madame Tussauds Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%

5.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
M.E.G.H. Limited[3]	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (NBD) Limited *(formerly Tussauds (NBD) Limited)*	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Crown (UK) Limited	UK	Ordinary	100.0%	—
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited[3]	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited [3]	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited [3]	UK	Ordinary	100.0%	100.0%
SEA LIFE Trust Trustees Limited	UK	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK	Ordinary	100.0%	100.0%
Thorpe Park Operations Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	100.0%
Tussauds Holdings Limited[3]	UK	Ordinary	100.0%	100.0%
Tussauds Hotels Limited	UK	Ordinary	100.0%	100.0%
Tussauds Limited	UK	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited[3]	UK	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited[3]	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited[3]	UK	Ordinary	100.0%	100.0%
Wizard EquityCo Limited[3]	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited[3]	UK	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA	—	100.0%	100.0%
LEGOLAND California LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Center Boston LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	—	100.0%	100.0%

5.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2015	Ownership 2014
LEGOLAND Discovery Center Michigan LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Center Philadelphia LLC	USA	—	100.0%	—
LEGOLAND Discovery Centre US LLC	USA	—	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA	—	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA	—	100.0%	100.0%
Madame Tussaud's New York LLC	USA	—	100.0%	100.0%
Madame Tussauds Orlando LLC	USA	—	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA	—	100.0%	100.0%
Madame Tussauds Washington LLC	USA	—	100.0%	100.0%
Merlin Entertainments Crown (US) Inc	USA	Ordinary	100.0%	—
Merlin Entertainments Group Florida LLC	USA	—	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc.	USA	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA	—	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA	—	100.0%	100.0%
Merlin Entertainments North America LLC	USA	—	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA	—	100.0%	100.0%
San Francisco Dungeon LLC	USA	—	100.0%	100.0%
SEA LIFE Charlotte LLC	USA	—	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA	—	100.0%	100.0%
SEA LIFE Michigan LLC	USA	—	100.0%	100.0%
SEA LIFE Minnesota LLC	USA	—	100.0%	100.0%
SEA LIFE Orlando LLC	USA	—	100.0%	100.0%
SEA LIFE US LLC	USA	—	100.0%	100.0%
The Tussauds Group LLC	USA	—	100.0%	100.0%
Joint venture				
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

(1) Merlin Entertainments plc 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.

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

(3) Company sold or dissolved between 27 December 2015 and 24 February 2016.

Company Statement of Financial Position

at 26 December 2015 (2014: 27 December 2014)

	Note	2015	2014
		£m	£m
Non-current assets			
Investments	iii	3,115	3,111
Other receivables	iv	1,062	—
		4,177	3,111
Current assets			
Other receivables	iv	31	58
		31	58
Total assets		4,208	3,169
Current liabilities			
Interest-bearing loans and borrowings	vi	4	—
Other payables	v	91	2
		95	2
Non-current liabilities			
Interest-bearing loans and borrowings	vi	1,003	—
Total liabilities		1,098	2
Net assets		**3,110**	**3,167**
Issued capital and reserves attributable to owners of the Company	vii	3,110	3,167
Total equity		**3,110**	**3,167**

The notes on pages F-119 to F-124 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 24 February 2016 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Andrew Carr
Chief Financial Officer

Company Statement of Changes in Equity

at 26 December 2015 (2014: 27 December 2014)

	Note	Share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
At 29 December 2013		10	3,183	(11)	3,182
Profit for the year		—	—	1	1
Total comprehensive income for the year		—	—	1	1
Equity dividends		—	—	(20)	(20)
Capital restructure	vii	—	(3,183)	3,183	—
Share incentive schemes:					
—movement in reserves for employee share schemes	iii	—	—	4	4
At 27 December 2014		**10**	**—**	**3,157**	**3,167**
Profit for the year		—	—	3	3
Total comprehensive income for the year		—	—	3	3
Equity dividends		—	—	(64)	(64)
Share incentive schemes:					
—movement in reserves for employee share schemes	iii	—	—	4	4
At 26 December 2015	vii	**10**	**—**	**3,100**	**3,110**

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

i Accounting policies

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

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. The policies applied under the entity's previous accounting framework are not materially different to FRS 101 and have not impacted on equity or profits for the year.

The consolidated financial statements of Merlin Entertainments plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 3 Market Close, Poole, Dorset, BH15 1NQ. Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

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

- IFRS 2 'Share-based 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 and in preparing an opening FRS 101 IFRS statement of financial position at 29 December 2013 for the purposes of the transition to FRS 101 Adopted IFRSs.

These financial statements have been prepared for the 52 weeks ended 26 December 2015 *(2014: 52 weeks ended 27 December 2014)*.

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.

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 are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. 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 operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are 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 Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

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 Group subsequently determines that the expected life has changed, the resulting adjustment to the effective interest rate calculation is recognised as a gain or loss on re-measurement and presented separately in the income statement.

Dividends

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

ii Employees

The average number of employees of the Company during the year was seven (2014: seven). All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report on pages – to –. One Director accrued benefits under defined contribution schemes during the year *(2014: two)*.

iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking
	£m
Cost and carrying value	
At 29 December 2013	3,107
Capital contributions to subsidiaries	4
At 27 December 2014	3,111
Capital contributions to subsidiaries	4
At 26 December 2015	3,115

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in 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 5.8 of the consolidated financial statements on page F-112.

iv Other receivables

	Current assets		Non-current assets	
	2015	2014	2015	2014
	£m	£m	£m	£m
Amounts owed by group undertakings	31	58	1,062	—

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. The non-current loans have maturities of 2020 and 2022 and carry interest rates that are based on the costs of servicing the external bank facilities and loan notes.

v Other payables

	2015	2014
	£m	£m
Amounts owed to group undertakings	90	—
Accruals	1	2
	91	2

vi Borrowings

	2015	2014
	£m	£m
Non-current		
Floating rate bank facilities due 2020	640	—
€500 million fixed rate notes due 2022	363	—
£300 million floating rate revolving credit facility due 2020	—	—
	1,003	—
Current		
Interest payable	4	—
	1,007	—

In 2015 the Group refinanced its long term debt.

The new committed facilities are:

- Bank facilities comprising £250 million, $540 million and €50 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR, the USD benchmark rate and EURIBOR, which were 0.59%, 0.57% and (0.13)% respectively at 26 December 2015. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and is currently 2.0%.
- A £300 million multi-currency revolving credit facility. The margin on this facility is also dependent on the Group's adjusted leverage ratio and would currently be at a margin when drawn of 1.75% over the same floating interest rates.
- A bond in the form of €500 million seven year notes with a coupon rate of 2.75% to mature in March 2022.

The fees related to the new facilities are being amortised to the maturity of the debt.

The borrowings under the new bank facilities (including the revolving credit facility) and the €500 million bonds are unsecured but guaranteed by the Company and certain of its subsidiaries.

vii Equity

Share capital

	2015 Number	2015 £m	2014 Number	2014 £m
Ordinary shares of £0.01 each				
At beginning and end of the year	1,013,746,032	10	1,013,746,032	10

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.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

Retained earnings

The profit after tax for the year in the accounts of Merlin Entertainments plc is £3 million *(2014: profit after tax of £1 million)*.

Dividends

	2015 £m	2014 £m
Interim dividend for the 52 weeks ended 27 December 2014 of 2.0 pence per share	—	20
Final dividend for the 52 weeks ended 27 December 2014 of 4.2 pence per share	43	—
Interim dividend for the 52 weeks ended 26 December 2015 of 2.1 pence per share	21	—
Total dividends paid	64	20

The Directors of the Company propose a final dividend of 4.4 pence per share for the year ended 26 December 2015 (*2014: 4.2 pence per share*). The total dividend for the current year, subject to approval of the final dividend, will be 6.5 pence per share *(2014: 6.2 pence per share)*.

In making this proposal the Directors have considered the resources available to the Company and its subsidiaries. Specifically they have taken 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 as explained in the Group going concern disclosures on page F-77.

SHAREHOLDER *Information*

FINANCIAL *Record*

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Results					
Revenue	1,278	1,249	1,192	1,074	946
Underlying EBITDA	402	411	390	346	306
Underlying operating profit	291	311	290	258	232
Operating profit	291	311	260	199	230
Profit before tax	237	226	172	98	96
Consolidated statement of financial position					
Property, plant and equipment	1,495	1,410	1,321	1,290	1,112
Intangible assets	923	942	961	970	970
Cash and cash equivalents	152	285	264	142	60
Non-current interest-bearing loans and borrowings	1,003	1,131	1,179	1,333	1,178
Total equity	1,149	1,063	944	617	555
Consolidated statement of cash flows					
Net cash flow from operating activities	325	357	365	348	292
Changes in working capital	(19)	(4)	30	24	3
Net (decrease)/increase in cash and cash equivalents	(137)	16	125	81	(4)

Merlin Entertainments plc

Independent auditor's report and audited consolidated financial statements
for the 52 weeks ended 27 December 2014

Registered number 08700412

INDEPENDENT AUDITOR'S REPORT

To the Members of Merlin Entertainments plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Merlin Entertainments plc for the 52 week period ended 27 December 2014 set out on pages F-133 to F-188. 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 27 December 2014 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

Carrying value of non-current assets £2,414 million (2013: £2,344 million)

Refer to page F-153 (accounting policy and financial disclosures).

- **The risk**—A history of business combinations and the capital intensive nature of the business model means that the Group has significant balances of goodwill, intangible assets and property, plant and equipment. There is a risk the future performance of the assets may not lead to their carrying values being recoverable in full. This risk is prevalent as there is inherent uncertainty in estimating their recoverable value, principally arising in the inputs used in both forecasting (for example the expected change in visitation and revenues arising from new projects) and discounting future cash flows, and assessing an appropriate earnings multiple (for use in the estimation of Fair Value less Costs to Sell and sensitivity assessments). This uncertainty arises partly due to the unpredictable impact of factors such as competition, the weather, and the political and economic environment on trading performance; but also as the Group's new attractions are often in unproven locations.

Our audit approach

Materiality

- £15.5m, representing 6.9% of profit before tax.

Scope

- 84% of total profits before tax arise in audited components.
- All other components are subject to specified audit procedures or analysis at an aggregated level.

Key risks

- Valuation of non-current assets; and
- Revenue recognition.

  A combination of the significance of the asset balances and the inherent uncertainty in the assumptions supporting the valuations of goodwill, brands and any assets showing impairment indicators, means that an assessment of the carrying value of non-current assets is one of the key judgemental areas that our audit concentrated on.

- **Our response**—Our audit procedures included, among others, an analysis of the Group's previous ability to forecast cash flows accurately and challenging the reasonableness of current forecasts. These current forecasts include assumptions such as the expected change in visitation and revenues arising from new projects. Our challenge included an assessment of the Group's assumed effect of such projects, including a comparison of this expected change against the past results of similar projects carried out by the Group at other attractions; thereby allowing us to assess the level of the risk inherent in the current cash flow forecasts.

The data used by the Group to determine its earnings multiple and calculate its discount rates was benchmarked against market data, including publicly available analysts' reports and peer comparisons. We performed a sensitivity analysis of the earnings multiple, discount rates and forecast cash flows to show the effect of possible downside scenarios and considered the resulting headroom across the valuations, as well as the appropriateness of the related disclosures. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of non-current assets.

Revenue recognition £1,249 million (2013: £1,192 million)

Refer to page F-158 (accounting policy).

- **The risk**—Merlin's revenues come from a number of different channels, such as admissions ticketing income, spend in attractions on items such as food and drink, annual passes and hotel revenues. These revenues arise across a large estate of sites that due to the different jurisdictions in which the Group operates, and the Group's decentralised nature, use a number of different revenue systems or system configurations, many of which require manual processes to transfer data to the main finance system.

  Manual, rather than automated, processes across multiple decentralised income systems increase the risk of error. Such errors could arise through the under or over recording from outputs from these systems, or due to the need for the separate recording and appropriately timed release of deferred revenue, which arises when tickets are either bought in advance or bought to allow access to multiple attractions. Although the low value of individual transactions mean an individual error would be both difficult to detect and insignificant, the high volume of transactions mean systemic failure could lead to errors that aggregate into material balances.

- **Our response**—As described in 'Our application of materiality and an overview of the scope of our audit' we selected sites for audit to ensure appropriate coverage of key financial measures, including revenue.

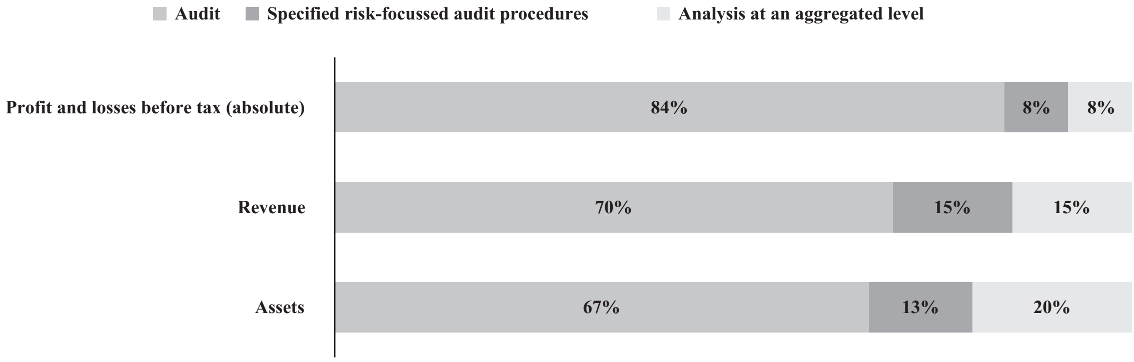
  At certain sites we performed testing of the general IT control environment of the systems used to record revenue, followed by testing of the processes to assess the completeness and accuracy of revenue entries arising from these systems. Alternatively, at other sites, we performed testing of the design, implementation and operating effectiveness of manual controls supporting these systems, including reconciliations of till records to revenue entries in the accounting records.

  This controls testing was supported by substantive audit procedures including, amongst others, performing reconciliations of total cash received to revenue recorded, predictive analytical procedures (taking into account factors such as trends in seasonality, changes in pricing and visitation), confirmation of the appropriate timing of sales cut-off through journals testing; and substantive testing of deferred and accrued revenue balances through testing back to ticketing system records, corroboration of ticket usage terms to underlying contracts and predictive analytical procedures based on revenue movements.

In 2013 we reported on certain risks that arose as a result of the Group's IPO. Without the recurrence of these risks, our focus on revenue recognition was a proportionately larger part of our work for 2014 and so is reported here, despite the nature of the revenue streams and the inherent risks associated with them not changing significantly from the previous year.

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

Scope of our work



The materiality for the Group financial statements as a whole was set at £15,500,000 for 2014. This was determined with reference to a benchmark of profit before tax, of which it represents 6.9%. In 2013, materiality was determined with reference to a benchmark of revenue. Following the Group's IPO at the end of 2013, which led to a significant reduction in the level of debt and therefore the amount of interest paid, we consider that profit before tax better aligns with the principal considerations of the shareholders of the Company, so for 2014 we changed our benchmark measure accordingly.

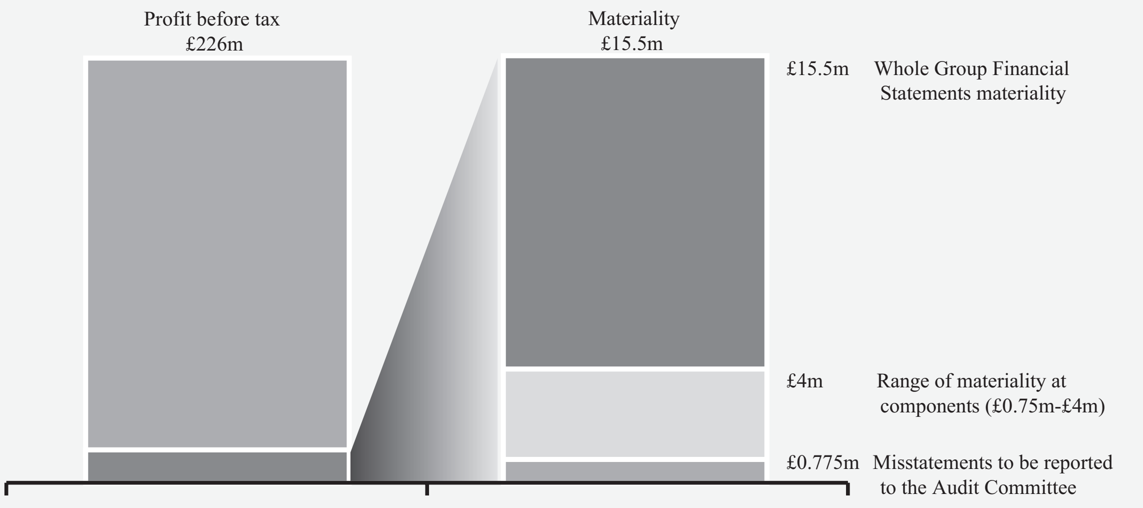
We agreed with the Audit Committee that we would report all corrected and uncorrected misstatements identified through our audit with a value in excess of £775,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We audited 84% of the total profits and losses that made up Group profit before tax, 70% of total Group revenue and 67% of total Group assets. This included the audit, for group reporting purposes, of the financial information of certain components, audit procedures on certain total Group account balances that present individual risks, specifically interest expenses, and assets arising on consolidation. The components containing these Group account balances were not individually financially significant and therefore did not require an audit for group reporting purposes. Audits for group reporting purposes, including those performed by the Group audit team, were performed at components in the following locations: UK, USA, Australia, Denmark, Germany, Italy and Hong Kong.

The remaining 16% of total profits and losses that made up Group profit before tax, 30% of total Group revenue and 33% of total Group assets was represented by a large number of smaller reporting components, as the majority of attractions sit within their own statutory entity and there are a large number of intermediary holding companies. None of these components individually represent more than 3.2% of any of the total profits or losses that made up Group profit before tax, total Group revenue or total Group assets. We obtained further coverage by performing specified risk-focussed audit procedures over the reasonableness over the financial result and position at 15 of these reporting components. For the remaining components, analysis at an aggregated level was performed to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team carried out audits for group reporting purposes of the financial information of components covering 47% of the total profits and losses that made up Group profit before tax, including the only individually financially significant component, Merlin Attractions Operations Limited. The Group audit team also undertook all audit procedures of certain total Group account balances as mentioned above, gaining coverage over a further 15% of the total profits and losses that made up Group profit before tax. The largest component audited by a component audit team represented 8% of the total profits and losses that made up Group profit before tax.

Materiality of the Group Financial Statements



The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component by the Group audit team and ranged from £750,000 to £4,000,000.

Detailed audit and specified procedure instructions were sent to key component auditors. These instructions covered the significant audit areas that should be addressed by these audits, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the Group audit team. The Group audit team visited three key component locations in Italy, Hong Kong and Florida, which included assessing the audit risk and strategy. Teleconferences were also held with these component auditors and all key reporting components that were not visited. During these meetings, the findings reported to the Group audit team were discussed in more detail; with any further work required by the Group audit team then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors’ statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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 and the part of the Directors' Remuneration Report to be audited 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mark Summerfield (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Dukes Keep, Marsh Lane,
Southampton
SO14 3EX

25 February 2015

FINANCIAL STATEMENTS—CONTENTS

CONSOLIDATED INCOME STATEMENT
For the 52 weeks ended 27 December 2014
(2013: 52 weeks ended 28 December 2013)

		2014			2013		
	Note	Underlying trading	Exceptional items[3]	Total	Underlying trading	Exceptional items[3]	Total
		£m	£m	£m	£m	£m	£m
Revenue	2.1	1,249	—	1,249	1,192	—	1,192
Cost of sales	2.1	(181)	—	(181)	(170)	—	(170)
Gross profit		1,068	—	1,068	1,022	—	1,022
Staff expenses	2.1	(312)	—	(312)	(297)	—	(297)
Marketing		(62)	—	(62)	(63)	—	(63)
Rent		(83)	—	(83)	(80)	—	(80)
Other operating expenses		(200)	—	(200)	(192)	(30)	(222)
EBITDA[1]	2.1	411	—	411	390	(30)	360
Depreciation and amortisation	4.1, 4.2	(100)	—	(100)	(100)	—	(100)
Operating profit		311	—	311	290	(30)	260
Finance income	5.5	2	—	2	1	20	21
Finance costs	5.5	(64)	(23)	(87)	(105)	(4)	(109)
Profit before tax		249	(23)	226	186	(14)	172
Taxation	2.3	(70)	6	(64)	(24)	(3)	(27)
Profit for the year[2]		**179**	**(17)**	**162**	**162**	**(17)**	**145**
Earnings per share							
Basic and diluted earnings per share (p)	2.4			16.0			15.1

(1) EBITDA—this is defined as profit before finance income and costs, taxation, depreciation and amortisation and is after taking account of attributable profit after tax of joint ventures.

(2) Profit for the year for 2014 and 2013 is wholly attributable to the owners of the Company.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 27 December 2014

(2013: 52 weeks ended 28 December 2013)

	Note	2014	2013
		£m	£m
Profit for the year		162	145
Other comprehensive income			
Items that cannot be reclassified to profit and loss			
Defined benefit plan remeasurement gains and losses	6.2	(1)	—
Recognition of the assets and liabilities of the defined contribution section of the defined benefit scheme	6.2	(1)	—
		(2)	—
Items that may be reclassified to profit and loss			
Exchange differences on the retranslation of net assets of foreign operations		(23)	(8)
Exchange differences relating to the net investment in foreign operations	5.5	7	(8)
Effective portion of changes in fair value of cash flow hedges		(9)	5
Income tax on items relating to components of other comprehensive income	2.3	—	(1)
		(25)	(12)
Other comprehensive income for the year net of income tax		(27)	(12)
Total comprehensive income for the year(1)		**135**	**133**

(1) Total comprehensive income for 2014 and 2013 is wholly attributable to the owners of the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 27 December 2014
(2013: 28 December 2013)

	Note	2014	2013
		£m	£m
Non-current assets			
Property, plant and equipment	4.1	1,410	1,321
Goodwill and intangible assets	4.2	942	961
Investments	6.1	6	3
Other receivables	4.4	7	3
Deferred tax assets	2.3	49	56
		2,414	2,344
Current assets			
Inventories	4.4	26	24
Trade and other receivables	4.4	60	64
Other financial assets	5.4	1	6
Cash and cash equivalents	5.1	285	264
		372	358
Total assets		2,786	2,702
Current liabilities			
Interest-bearing loans and borrowings	5.2	5	6
Other financial liabilities	5.4	12	9
Trade and other payables	4.4	226	223
Tax payable		27	21
Provisions	4.5	4	11
		274	270
Non-current liabilities			
Interest-bearing loans and borrowings	5.2	1,131	1,179
Finance leases	5.1	84	85
Other payables	4.4	23	23
Provisions	4.5	50	37
Employee benefits	6.2	5	4
Deferred tax liabilities	2.3	156	160
		1,449	1,488
Total liabilities		1,723	1,758
Net assets		**1,063**	**944**
Issued capital and reserves attributable to owners of the Company		1,059	940
Non-controlling interest		4	4
Total equity	5.7	**1,063**	**944**

The financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Andrew Carr
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 27 December 2014
(2013: 52 weeks ended 28 December 2013)

	Note	Share capital	Share premium	Capital reserve	Translation reserve	Hedging reserve	Retained earnings	Total parent equity	Non-controlling interest	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m
At 30 December 2012		1	4	737	(68)	(7)	(54)	613	4	617
Profit for the year		—	—	—	—	—	145	145	—	145
Other comprehensive income for the year net of income tax		—	—	—	(17)	5	—	(12)	—	(12)
Total comprehensive income for the year		—	—	—	(17)	5	145	133	—	133
Bonus issue	5.7	8	2,979	(2,987)	—	—	—	—	—	—
Shares issued	5.7	1	200	—	—	—	(7)	194	—	194
At 28 December 2013		**10**	**3,183**	**(2,250)**	**(85)**	**(2)**	**84**	**940**	**4**	**944**
Profit for the year		—	—	—	—	—	162	162	—	162
Other comprehensive income for the year net of income tax		—	—	—	(16)	(9)	(2)	(27)	—	(27)
Total comprehensive income for the year		—	—	—	(16)	(9)	160	135	—	135
Equity dividends	5.7	—	—	—	—	—	(20)	(20)	—	(20)
Capital restructure	5.7	—	(3,183)	2,250	—	—	933	—	—	—
Equity-settled share-based transactions	5.8	—	—	—	—	—	4	4	—	4
At 27 December 2014	5.7	**10**	**—**	**—**	**(101)**	**(11)**	**1,161**	**1,059**	**4**	**1,063**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 27 December 2014

(2013: 52 weeks ended 28 December 2013)

	Note	2014	2013
		£m	**£m**
Cash flows from operating activities			
Profit for the year		162	145
Adjustments for:			
Depreciation and amortisation	4.1, 4.2	100	100
Finance income	5.5	(2)	(21)
Finance costs	5.5	87	109
Taxation	2.3	64	27
		411	360
Working capital changes		(4)	30
Changes in provisions and other non-current liabilities		4	(3)
		411	387
Tax paid		(54)	(22)
Net cash inflow from operating activities		357	365
Cash flows from investing activities			
Interest received		2	1
Acquisition of subsidiaries	3.1	—	(6)
Acquisition of investments		(3)	—
Acquisition of property, plant and equipment		(192)	(152)
Net cash outflow from investing activities		(193)	(157)
Cash flows from financing activities			
Proceeds from issue of share capital		—	194
Equity dividends paid		(20)	—
Proceeds from bank loans		—	102
Financing costs		—	(11)
Interest paid		(58)	(93)
Settlement of interest rate swaps and foreign exchange contracts		—	(39)
Repayment of borrowings		(70)	(236)
Net cash outflow from financing activities		(148)	(83)
Net increase in cash and cash equivalents		16	125
Cash and cash equivalents at beginning of year		264	142
Effect of movements in foreign exchange		5	(3)
Cash and cash equivalents at end of year	5.1	**285**	**264**

SECTION 1 BASIS OF PREPARATION
52 weeks ended 27 December 2014

1.1 Basis of preparation

Merlin Entertainments plc (the Company) is a company incorporated in the United Kingdom and its registered office is 3 Market Close, Poole, Dorset, BH15 1NQ.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

The accounting policies set out in the sections below 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 27 December 2014 *(2013: 52 weeks ended 28 December 2013)*. 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.

Additional analysis of other operating expenses has been provided in the consolidated income statement. This has not resulted in any restatement of the 2013 consolidated income statement.

The consolidated financial statements are presented in Sterling.

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

Going concern

The Group continues to trade profitably reporting a profit for the year of £162 million *(2013: £145 million)* and continues to generate cash with operating cash inflows of £357 million *(2013: £365 million)*. As highlighted in note 5.2, the Group is funded by a bank loan facility, due for renewal in 2019. Subsequent to the year end, the Group has secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities (see note 6.7). The Group's forecasts show that it is expected to be able to operate within the terms of both the existing and proposed facilities.

After reviewing the Group's cash flow forecasts and trading budgets and making appropriate enquiries, the Directors believe the Group to be operationally and financially robust and that it will generate sufficient cash to meet its borrowing requirements for the next twelve months. The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Merlin Entertainments plc and its subsidiaries and branches 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.

SECTION 1 BASIS OF PREPARATION (Continued)
52 weeks ended 27 December 2014

1.1 Basis of preparation (Continued)

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, 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 year.
- All resulting exchange differences are recognised in equity in the translation reserve.

Classification of financial instruments issued by the Group

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

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.

On an ongoing basis the following area involves a higher degree of judgement or complexity and is explained in more detail in the related note:

- Impairment testing (note 4.3).

During the year the following specific item also involved a higher degree of judgement or complexity:

- Treasury accounting—consideration of the likelihood of refinancing the Group's debt before the contractual end date of the Group's existing lending facility (note 5.2).

New standards and interpretations

A full list of new accounting standards and interpretations that have been implemented in the year or will be implemented next year, and which have no significant impact, can be found in note 6.5.

SECTION 2 RESULTS FOR THE YEAR
52 weeks ended 27 December 2014

2.1 Profit before tax

Segmental information

An operating segment 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. An operating segment's results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Performance is measured based on segment EBITDA, as included in internal management reports. Segment operating profit is included below for information purposes.

Information regarding the results of each operating segment is included below.

2014	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results
	£m	£m	£m	£m
Segment revenue	529	386	331	1,246
Segment profit, being segment EBITDA	214	142	87	443
Segment depreciation and amortisation	(47)	(22)	(27)	(96)
Segment operating profit	167	120	60	347

2013	Midway Attractions	LEGOLAND Parks	Resort Theme Parks	Segment results
	£m	£m	£m	£m
Segment revenue	524	352	314	1,190
Segment profit, being segment EBITDA	212	127	81	420
Segment depreciation and amortisation	(48)	(21)	(27)	(96)
Segment operating profit	164	106	54	324

Reconciliation to statutory items included in the consolidated income statement

2014	Revenue	EBITDA	Depreciation and amortisation	Operating profit
	£m	£m	£m	£m
Segment results	1,246	443	(96)	347
Other items[1]	3	(32)	(4)	(36)
Exceptional items	—	—	—	—
Total per consolidated income statement	1,249	411	(100)	311

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

2013	Revenue	EBITDA	Depreciation and amortisation	Operating profit
	£m	£m	£m	£m
Segment results	1,190	420	(96)	324
Other items[1]	2	(30)	(4)	(34)
Exceptional items	—	(30)	—	(30)
Total per consolidated income statement	1,192	360	(100)	260

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

SECTION 2 RESULTS FOR THE YEAR (Continued)
52 weeks ended 27 December 2014

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 2014	Non-current assets 2014	Revenues 2013	Non-current assets 2013
	£m	£m	£m	£m
United Kingdom	490	811	466	778
Continental Europe	318	794	307	829
North America	274	429	247	373
Asia Pacific	167	325	172	305
	1,249	2,359	1,192	2,285
Deferred tax		49		56
Investments		6		3
		2,414		2,344

Revenue

Revenue arises from the operation of visitor attractions and theme park resorts. Revenue represents the amounts (excluding VAT and similar taxes) received from customers for admissions tickets, accommodation revenue, retail, food and beverage sales and sponsorship. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Ticket revenue is recognised at point of entry.

From time to time, the Group enters into service contracts for attraction development and revenue is recognised under these contracts on a percentage completion basis. Service contract revenue in the year is not material.

Cost of sales

Cost of sales of £181 million *(2013: £170 million)* represents variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. Retail inventory and food and beverage consumables are the principal expenses included under 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:

	2014	2013
Operations	15,567	14,573
Attraction management and central administration	1,760	1,712
	17,327	16,285

2.1 Profit before tax (Continued)

The aggregate payroll costs of these persons were as follows:

	2014	2013
	£m	£m
Wages and salaries	266	255
Share-based payments	4	—
Social security costs	32	32
Other pension costs	10	10
	312	297

Auditor's remuneration

	2014	2013
	£m	£m
Audit of these financial statements	1.2	1.0
Audit of financial statements of subsidiaries	0.3	0.3
Other assurance services(1)(2)	0.4	1.1
Other services relating to taxation	0.4	0.3
Services relating to corporate finance transactions(2)(3)	—	2.9
	2.3	5.6

(1) Other assurance services in 2013 included £1.0 million in relation to the half year audit undertaken as part of the IPO process.

(2) These costs were included within other operating expenses—exceptional items in 2013 (see note 2.2).

(3) Services relating to corporate finance transactions in 2013 included fees incurred as part of the IPO process.

2.2 Exceptional items

Accounting policy

Due to their nature, certain one-off and non-trading items have been 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 business performance of the Group more accurately.

2.2 Exceptional items (Continued)

Exceptional items

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

	2014	2013
	£m	£m
Within other operating expenses:		
Costs in respect of IPO[(1)]	—	28
Acquisition costs[(2)]	—	2
Exceptional items included within EBITDA and operating profit	—	30
Within finance income and costs:		
Unrealised gain on re-measurement of financial derivatives at fair value[(3)]	—	(20)
Unrealised loss on re-measurement of financial derivatives at fair value[(3)]	—	4
Loss on re-measurement of financial liabilities measured at amortised cost[(4)]	23	—
	23	(16)
Exceptional items before income tax	23	14
Exceptional items income tax (credit)/charge[(5)]	(6)	3
Exceptional items for the year	17	17

(1) Certain professional and advisory fees were incurred in 2013 as part of the process of listing shares in the Group through an Initial Public Offering. They are separately presented as they are not part of the Group's underlying operating expenses. In addition, £7 million was recognised directly in equity.

(2) Directly attributable acquisition and subsequent integration costs were incurred in respect of the acquisitions in 2013 described in note 3.1. These are separately presented as they are not part of the Group's underlying operating expenses.

(3) The Group has separately presented gains and losses on derivative financial instruments, where the items are not hedge accounted, in order to better present the underlying finance cost for the Group. Further details are provided in note 5.5.

(4) The loss on re-measurement of financial liabilities at amortised cost has been separately presented as this item represents an adjustment to the expected amortisation period of previous loan issuance costs and therefore is not part of the Group's underlying finance cost. Further details are provided in note 5.2.

(5) The exceptional items income tax charge reflects the tax effect of the exceptional items above.

2.3 Taxation

Accounting policies

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 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.

2.3 Taxation (Continued)

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.

Recognised in the income statement

	2014	2013
	£m	£m
Current tax expense		
Current year	56	26
Adjustment for prior periods	3	(1)
Total current income tax	59	25
Deferred tax expense		
Origination and reversal of temporary differences	4	4
Changes in tax rate	(1)	—
Adjustment for prior periods	2	(2)
Total deferred tax	5	2
Total tax expense in income statement	64	27

Reconciliation of effective tax rate

	2014	2014	2013	2013
	%	£m	%	£m
Profit before tax		226		172
Income tax using the domestic corporation tax rate	21.5%	48	23.0%	40
Non-deductible expenses	2.5%	6	9.8%	16
Income not subject to tax	(1.9)%	(4)	(9.9)%	(17)
Effect of tax rates in foreign jurisdictions	7.1%	16	10.6%	18
Effect of changes in tax rate	(0.4)%	(1)	0.1%	—
Unrecognised temporary differences	(0.5)%	(1)	1.0%	2
Effect of recognising deferred tax assets previously unrecognised	(2.0)%	(5)	(16.9)%	(29)
Adjustment for prior periods	2.1%	5	(2.0)%	(3)
Total tax expense in income statement	28.4%	64	15.7%	27

During 2013 a number of financing changes occurred which lowered the Group's ongoing finance cost. These included the restructuring of debt facilities, the settlement of interest rate swaps and the repayment of debt following the IPO, which led to an increased certainty over the availability of future taxable profits in the UK. This resulted in the recognition of deferred tax assets in the UK arising largely from unclaimed capital allowances.

Sensitivity analysis was performed when the asset was recognised. This showed that no reasonably foreseeable changes in the future taxable profits of the UK operations or the forecast capital spend would result in non-utilisation of the deferred tax assets. No significant sensitivities were noted in respect of the deferred tax assets recognised during 2014.

The effective tax rate (ETR) in 2014 and in particular 2013 was affected by the recognition of deferred tax assets, referred to above. Excluding the effect of this recognition, the ETR would be 30.4% *(2013: 32.6%)*. This ETR has reduced from 2013 to 2014 due to a reduction in tax due in overseas jurisdictions. The ETR based on underlying trading, excluding exceptional items, was 28.0% in 2014 *(2013: 12.7%)*.

2.3 Taxation (Continued)

Recognised directly in equity through the statement of other comprehensive income

Within other comprehensive income a tax charge totalling £nil (*2013: £1 million*) has been recognised relating to foreign exchange differences relating to the net investment in foreign operations.

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	30	40	(114)	(112)	(84)	(72)
Other short term temporary differences	31	26	(7)	(13)	24	13
Intangible assets	—	—	(47)	(48)	(47)	(48)
Tax value of loss carry-forwards	—	3	—	—	—	3
Tax assets/(liabilities)	61	69	(168)	(173)	(107)	(104)
Set-off tax	(12)	(13)	12	13	—	—
Net tax assets/(liabilities)	49	56	(156)	(160)	(107)	(104)

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 2013	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	27 December 2014
	£m	£m	£m	£m	£m
Property, plant and equipment	(72)	(10)	—	(2)	(84)
Other short term temporary differences	13	8	2	1	24
Intangible assets	(48)	—	—	1	(47)
Tax value of loss carry-forwards	3	(3)	—	—	—
Net tax (liabilities)/assets	(104)	(5)	2	—	(107)

In 2014 movements in net deferred tax liabilities recognised in income in respect of property plant and equipment were principally due to tax allowances utilised in the UK and USA. Net deferred tax asset movements in other short term temporary differences were primarily due to increases in financial assets and liabilities, principally in the UK.

2.3 Taxation (Continued)

Movement in deferred tax during the previous year

	30 December 2012	Recognised in income	Recognised in other comprehensive income	Effect of movements in foreign exchange	28 December 2013
	£m	£m	£m	£m	£m
Property, plant and equipment	(83)	10	—	1	(72)
Other short term temporary differences	19	(3)	(2)	(1)	13
Intangible assets	(49)	1	—	—	(48)
Tax value of loss carry-forwards	13	(10)	—	—	3
Net tax liabilities	(100)	(2)	(2)	—	(104)

In 2013 net deferred tax liabilities in respect of property plant and equipment decreased because previously unrecognised deferred tax assets were recognised in the year, offset by amounts utilised in the period. The previously unrecognised deferred tax assets related primarily to unclaimed capital allowances on UK property, plant and equipment where their recoverability was reassessed based on expected profitability of the business given the financing changes which occurred during the year. The movement in net deferred tax assets in respect of other short term temporary differences primarily related to movements in various accruals and prepayments. The movement in deferred tax assets due to losses was as a result of the use of losses in the USA.

Unrecognised deferred tax assets

	2014	2013
	£m	£m
Property, plant and equipment	4	7
Other short term temporary differences	23	30
Intangible assets	3	4
Tax value of loss carry-forwards	51	55
Net tax assets	81	96

The unrecognised deferred tax assets relating to loss carry-forwards include £1 million *(2013: £nil)* which expire within five years and £nil *(2013: £1 million)* which expire within ten years. The remaining losses and other timing differences do not expire under current tax legislation.

The tax losses arose in jurisdictions which are not expected to generate taxable profits in the foreseeable future and therefore there is currently no expectation that the losses will be recognised.

2.4 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share is calculated in the same way except that the profit for the period attributable to ordinary shareholders is adjusted for exceptional items (see note 2.2).

2.4 Earnings per share (Continued)

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

	2014	2013
	£m	£m
Profit attributable to ordinary shareholders	162	145
Exceptional items net of tax (see note 2.2)	17	17
Adjusted profit attributable to ordinary shareholders	179	162

	2014	2013
Basic weighted average number of shares	1,013,746,032	957,880,691
Dilutive potential ordinary shares	434,077	—
Diluted weighted average number of shares	1,014,180,109	957,880,691

Share incentive schemes (see note 5.8) are treated as dilutive to earnings per share when, at the balance sheet date, the awards are both 'in the money' and would be issuable had the performance period ended at that date. Accordingly, the PSP has a dilutive effect as the performance measures have been partially achieved, whereas the DBP is not dilutive as the awards have not yet been issued, and the CSOP is not dilutive as the options are 'out of the money' after accounting for the value of services rendered in addition to the option price.

For 2013, the PSP performance period had not commenced and the CSOP was 'out of the money', therefore no awards were treated as dilutive.

Earnings per share

	2014	2013
	Pence	Pence
Basic and diluted earnings per share on profit for the year	16.0	15.1
Exceptional items net of tax	1.7	1.8
Adjusted and diluted earnings per share on adjusted profit for the year	17.7	16.9

SECTION 3 BUSINESS COMBINATIONS
52 weeks ended 27 December 2014

3.1 Business combinations

Accounting policies

When a business combination takes place, the Directors consider the rights and intentions of the directors of both entities and the overall controlling parties before and after acquisition to determine who the acquiring party is, and then account for business combinations by applying the purchase method. Having determined the acquiring party, any individually identifiable assets, liabilities and contingent liabilities acquired are valued. These include the property, plant and equipment and any intangible assets which can be sold separately or which arise from legal rights regardless of whether those rights are separable, with any remaining balance being assigned to goodwill.

Given the specialised nature of the property, plant and equipment 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 in note 4.1. Residual values are based on industry specific indices.

2014

The Group undertook no business combinations during 2014.

2013

Rays Ski Shop

On 9 January 2013 the Group acquired Rays Ski Shop in Victoria, Australia for the consideration of £1 million settled in cash. The net assets acquired were £nil. Goodwill arose on this acquisition as it provided an opportunity for the Group to expand its offering to customers visiting the Hotham and Falls Creek Ski Resorts.

Turkuazoo Aquarium

On 19 September 2013 the Group acquired the Turkuazoo Aquarium in Istanbul, Turkey for the consideration of £1 million settled in cash for 100% of the share capital of Istanbul Sualti Dunyasi Turizm Ticaret A.S. The net assets acquired were £1 million. No goodwill arose on this acquisition.

Iconic Images

On 3 December 2013 the Group acquired Iconic Images International Limited for the consideration of £4 million settled in cash. The net assets acquired were £nil. Goodwill arose on this acquisition as it provided an opportunity for the Group to expand its retail offering on the South Bank, where the London Eye, SEA LIFE London Aquarium and the London Dungeon are all located.

These acquisitions had the following combined effect on the Group's assets and liabilities:

	Fair values at acquisition
	£m
Acquirees' net assets at the acquisition date:	
Property, plant and equipment	6
Bank loans	(5)
Net identifiable assets and liabilities	1
Goodwill	5
Consideration, being cash paid at acquisition	6

The goodwill on these transactions was not deductible for tax purposes.

In the period to 28 December 2013 these acquisitions contributed £1 million to the consolidated revenue and a profit of £nil to the consolidated underlying operating profit of the Group. Had the acquisitions occurred on 30 December 2012, the estimated Group revenue to 28 December 2013 would have been £1,196 million and the estimated underlying operating profit would have been £290 million.

SECTION 4 OPERATING ASSETS AND LIABILITIES
52 weeks ended 27 December 2014

4.1 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.

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.

On inception of a lease for a new site, the estimated cost of decommissioning any additions is included within PPE and depreciated over the lease term. A corresponding provision is set up as disclosed in note 4.5.

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 useful life of, 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 is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of PPE. Land is not depreciated. Assets under construction are not depreciated until they come into use, when they are transferred to buildings or plant and equipment as appropriate.

The estimated useful lives are as follows:

Asset class	Depreciation policy
Freehold/long leasehold buildings	50 years
Leasehold buildings	20 - 50 years
Plant and equipment	5 - 30 years

4.1 Property, plant and equipment (Continued)

Property, plant and equipment

	Land and buildings	Plant and equipment	Under construction	Total
	£m	£m	£m	£m
Cost				
Balance at 30 December 2012	812	774	90	1,676
Acquisitions through business combinations (note 3.1)	—	6	—	6
Additions	9	34	106	149
Movements in asset retirement provisions	2	(1)	—	1
Disposals	(5)	(11)	—	(16)
Transfers	63	73	(136)	—
Effect of movements in foreign exchange	(19)	(14)	2	(31)
Balance at 28 December 2013	862	861	62	1,785
Additions	29	46	123	198
Movements in asset retirement provisions (note 4.5)	3	2	—	5
Disposals	(1)	(3)	—	(4)
Transfers	37	57	(94)	—
Effect of movements in foreign exchange	(11)	(9)	—	(20)
Balance at 27 December 2014	919	954	91	1,964
Depreciation				
Balance at 30 December 2012	139	247	—	386
Depreciation for the year—owned assets	28	67	—	95
Depreciation for the year—leased assets	1	3	—	4
Disposals	(5)	(11)	—	(16)
Effect of movements in foreign exchange	(2)	(3)	—	(5)
Balance at 28 December 2013	161	303	—	464
Depreciation for year—owned assets	26	69	—	95
Depreciation for year—leased assets	1	3	—	4
Disposals	(1)	(3)	—	(4)
Effect of movements in foreign exchange	—	(5)	—	(5)
Balance at 27 December 2014	187	367	—	554
Carrying amounts				
At 30 December 2012	673	527	90	1,290
At 28 December 2013	701	558	62	1,321
At 27 December 2014	**732**	**587**	**91**	**1,410**

PPE was tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. No impairment charges have been made in the current or prior year. No residual values are typically considered.

The Group leases buildings and plant and equipment under finance lease agreements secured on those assets. At 27 December 2014 the net carrying amount of leased buildings was £18 million *(2013: £19 million)* and the net carrying amount of leased plant and machinery was £34 million *(2013: £37 million)*. Further details in respect of leases and lease obligations are provided in note 5.3.

4.1 Property, plant and equipment (Continued)

Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to £50 million *(2013: £35 million)*, for which no provision has been made. These commitments are expected to be settled within two financial years of the reporting date.

In addition to the contractual commitments disclosed above, the Group intends to invest circa £53 million in LEGOLAND Japan and circa £57 million in LEGOLAND Korea over the period from 2014 to 2017, as previously announced.

4.2 Goodwill and intangible assets

Accounting policies

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired and 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 regarded as having indefinite useful economic lives. This is based upon the strong historical performance of the brands over a number of economic cycles, the demonstrable ‘chaining’ of 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 definite 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)

4.2 Goodwill and intangible assets (Continued)

Goodwill and intangible assets

		Intangible assets		
	Goodwill	**Brands**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Balance at 30 December 2012	949	190	25	1,164
Acquisitions through business combinations (note 3.1)	5	—	—	5
Additions	—	—	1	1
Effect of movements in foreign exchange	(12)	1	(1)	(12)
Balance at 28 December 2013	942	191	25	1,158
Additions	—	—	1	1
Effect of movements in foreign exchange	(17)	(5)	—	(22)
Balance at 27 December 2014	925	186	26	1,137
Amortisation and impairment				
Balance at 30 December 2012	173	12	9	194
Amortisation for the year	—	—	1	1
Effects of movements in foreign exchange	1	—	1	2
Balance at 28 December 2013	174	12	11	197
Amortisation for the year	—	—	1	1
Effect of movements in foreign exchange	(3)	—	—	(3)
Balance at 27 December 2014	171	12	12	195
Carrying amounts				
At 30 December 2012	776	178	16	970
At 28 December 2013	768	179	14	961
At 27 December 2014	**754**	**174**	**14**	**942**

Intangible assets are tested for impairment in accordance with the Group's accounting policy, as referred to in note 4.3. As a result of these tests, no impairment charges have been made in the year *(2013: £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 the underlying exchange rates.

	2014	**2013**
	£m	**£m**
Midway Attractions	530	531
LEGOLAND Parks	38	39
Resort Theme Parks	186	198
	754	768

4.2 Goodwill and intangible assets (Continued)

Brands

The Group has valued the following acquired brands, all with indefinite useful economic lives. They are all denominated in their relevant local currencies and therefore the carrying value is subject to movements in the underlying exchange rates.

	2014	2013
	£m	£m
Midway Attractions		
Madame Tussauds	26	26
SEA LIFE	15	16
London Eye	10	10
Other	8	8
	59	60
Resort Theme Parks		
Gardaland Resort	45	48
Alton Towers Resort	32	32
Thorpe Park	15	15
Heide Park	11	12
Other	12	12
	115	119
	174	179

The Madame Tussauds brand value is predominantly related to the London attraction but includes value identified with the Group's other Madame Tussauds attractions. The SEA LIFE brand is related to the Group's portfolio of SEA LIFE attractions. The London Eye, Gardaland Resort, Alton Towers Resort, Thorpe Park and Heide Park brands all arise from those specific visitor attractions.

4.3 Impairment testing

Accounting policies

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

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

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 individually.
PPE	PPE is reviewed at an attraction level.

For assets that 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.

4.3 Impairment testing (Continued)

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. The Group uses a multiple of EBITDA to estimate fair value. This multiple 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 are used as the basis for these calculations, with cash flows beyond the five year business plan horizon 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 as 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. The Group uses EBITDA 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. Operating costs projections 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 rates	A growth rate of 2.5% *(2013: 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 an appropriate pre-tax discount rate of between 9.4% and 13.1% *(2013: 9.4% and 12.6%)*, derived from the Group's post-tax weighted average cost of capital of between 7.4% and 9.7% *(2013: 7.4% and 9.3%)*.
Sensitivity analysis	Impairment reviews and calculation of recoverable amounts are typically sensitive to changes in key assumptions, particularly relating to discount rates and EBITDA growth. At 27 December 2014 if the estimated EBITDA levels used in the value in use calculations had been 1% lower or the discount rate used been 0.1% higher no impairment charges would have arisen.

4.3 Impairment testing (Continued)

Projecting future growth involves a degree of judgement and uncertainty. The Group operates in geographically and politically diverse areas and although the Group has attained knowledge from the past performance of opening new attractions, inevitably the performance of new attractions, particularly in new markets, can be difficult to accurately predict. Similarly, the exposure of certain attractions to macro-economic volatility can give rise to uncertainties in these projections.

No impairment losses were recorded in 2014 or 2013. The Directors consider that no reasonably foreseeable change in any of the above key assumptions, in particular the discount rate and growth rate assumptions used, would significantly alter the outcome of the Group's impairment testing.

4.4 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 receivables are recognised and carried at the original invoice amount less an allowance for any amounts considered by management to be uncollectible. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

Inventories

	2014	2013
	£m	£m
Maintenance inventory	6	6
Goods for resale	20	18
	26	24

Trade and other receivables

	Current assets		Non-current assets	
	2014	2013	2014	2013
	£m	£m	£m	£m
Trade receivables	16	12	—	—
Other receivables	17	25	—	—
Prepayments and accrued income	27	27	7	3
	60	64	7	3

Ageing of trade receivables

The ageing analysis of trade receivables, net of allowance for uncollectible amounts, is as follows:

	2014	2013
	£m	£m
Neither past due nor impaired	10	6
Up to 30 days overdue	4	4
Between 30 and 60 days overdue	1	2
Over 60 days overdue	1	—
	16	12

4.4 Working capital (Continued)

Trade and other payables

	Current liabilities		Non-current liabilities	
	2014	2013	2014	2013
	£m	£m	£m	£m
Trade payables	31	28	—	—
Accruals	115	116	2	3
Deferred income	69	68	—	—
Other payables	11	11	21	20
	226	223	23	23

Accruals

Accruals comprises balances in relation to both operating and capital costs incurred at the balance sheet 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 balance sheet 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.

4.5 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.

4.5 Provisions (Continued)

Provisions

	Asset retirement provisions	Other	Total
	£m	£m	£m
Balance at 29 December 2013	30	18	48
Provisions made during the year	5	2	7
Utilised during the year	—	(2)	(2)
Unwinding of discount	1	—	1
Balance at 27 December 2014	36	18	54
2014			
Current	—	4	4
Non-current	36	14	50
	36	18	54
2013			
Current	—	11	11
Non-current	30	7	37
	30	18	48

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 ten and 60 years.

They are established on inception and discounted back to present value with the discount then being unwound through the income statement as part of finance costs. They are reviewed at least annually.

Other

Other provisions largely relate to the estimated cost arising from open insurance claims, tax matters and legal issues. As a result of changes in circumstances during the year, certain provisions were reclassified from current to non-current.

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.

SECTION 5 CAPITAL STRUCTURE AND FINANCING
52 weeks ended 27 December 2014

5.1 Net debt

Analysis of net debt

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

	2014	2013
	£m	£m
Cash and cash equivalents	285	264
Interest-bearing loans and borrowings (note 5.2)	(1,136)	(1,185)
Net bank debt	(851)	(921)
Current finance leases (note 5.3)	—	—
Non-current finance leases (note 5.3)	(84)	(85)
Net debt	(935)	(1,006)

Restricted funds of £6 million *(2013: £6 million)* are included in cash and cash equivalents.

5.2 Borrowings

Accounting policy

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value, being consideration received less any directly attributable transaction costs. Thereafter, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. To calculate this effective interest rate the Group estimates the expected future gearing during the life of the facility based on the Group’s business plans and forecasts, and expected future interest rates. This includes the amortisation of all transaction costs over the same period. The Group assesses whether the terms of the borrowings provide a clear commercial incentive or a contractual commitment to repay them over a specific period that is shorter than the contractual life of the facility, or if the Group’s current plans or forecasts suggest an early repayment or refinancing is probable. If this is the case the Group will adopt that as the period used for the purposes of the effective interest rate calculations. If neither of these conditions exists the Group calculates its effective interest rate and hence amortises transaction costs based on the contractual term of the facility. If the Group determines that a different date should be adopted for the purposes of the effective interest rate calculations, the resulting adjustment is recognised as a gain or loss on re-measurement and presented separately in the income statement.

If the Group modifies its debt arrangements, it considers how substantive the change is in determining the appropriate accounting. This includes both qualitative analysis, and quantitative analysis of the level of change in the cash flows of the new and old arrangements.

Interest-bearing loans and borrowings

	Current		Non-current		Total	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Secured bank loans	—	—	1,131	1,179	1,131	1,179
Bank interest payable	5	6	—	—	5	6
	5	6	1,131	1,179	1,136	1,185

5.2 Borrowings (Continued)

Terms and debt repayment schedule

This table provides information about the contractual terms of the Group's interest-bearing loans and borrowings. The principal value is the amount of debt owing at the end of the accounting period. The carrying value is measured at amortised cost, and presents the principal value as adjusted for any prepaid loan issue costs that are being amortised over the term of the facility.

	Currency	Nominal interest rate	Year of maturity	2014 Principal value	2014 Carrying amount	2013 Principal value	2013 Carrying amount
				£m	£m	£m	£m
Secured bank loan	GBP	3.75%	2019	409	408	412	401
Secured bank loan	EUR	3.26%	2019	332	332	378	368
Secured bank loan	USD	3.41%	2019	319	318	329	323
Secured bank loan	AUD	5.90%	2019	73	73	90	87
				1,133	1,131	1,209	1,179
Bank interest payable					5		6
					1,136		1,185

In 2013 the Group entered into an amendment of its existing bank facility that extended the contractual date of repayment from July 2017 to July 2019. The Group accounted for this amendment on a continuation basis, reflecting management's judgement that this was a non-substantive change to the existing facility. The terms of the Group's borrowings provided no clear commercial incentive or contractual commitment to repay them over a specific period that was shorter than the contractual life of the facility. Accordingly, the Group calculated its effective interest rate and estimated the period for amortisation of financing costs based on that contractual term.

The Group determined at 27 December 2014 that a more reliable estimate could be formed of the likelihood and timeframe for an earlier refinancing. This was determined following reviews undertaken by management and external advisors of refinancing options. As a result the Group has accelerated the amortisation of financing costs and the resulting adjustment has been recognised as a loss on re-measurement and separately presented in the income statement as an exceptional charge of £23 million (see note 2.2).

Subsequent to the year end, the Group has secured a new banking facility that, once drawn, will replace the existing debt facilities (see note 6.7).

The existing loans are secured by fixed charges over the shares in certain Group companies and certain intra-group receivables. The nominal interest rate for secured bank loans in the table above represents the floating interest rate, including applicable margin, which prevailed at the reporting date. The Group uses interest rate swaps to hedge its interest rate exposure and these are described in note 5.4.

5.3 Lease obligations

Accounting policies

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

Finance lease payments

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

5.3 Lease obligations (Continued)

Operating lease payments

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

Lease arrangements

The Group's most significant lease arrangements relate to a sale and leaseback transaction undertaken during 2007, involving the property, plant and equipment of certain attractions within the Midway Attractions and Resort Theme Parks Operating Groups. The leases are accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the attraction. For certain of the sites an individual lease agreement is split for accounting purposes as a combination of finance and operating leases, reflecting the varied nature of assets at the attraction. During 2012 the Group undertook a further sale and leaseback transaction of the LEGOLAND Windsor Hotel. This is being accounted for as an operating lease.

Each of these sale and lease back 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.

The Group also enters into operating leases for sites within the Midway Attractions Operating Group and central areas. These are typically of a duration between ten 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.

Lease costs and commitments

During 2014 £86 million *(2013: £83 million)* was recognised as an expense in the income statement in respect of operating leases. Of this £12 million *(2013: £11 million)* was contingent on performance.

The lease commitments in the following tables run to the end of the respective lease term, and do not include possible lease renewals. Where relevant, the lease commitments noted do not include the potential impact of future performance or rent increases based on inflationary indices.

5.3 Lease obligations (Continued)

The tables below set out the total future lease obligations for the Group:

Finance leases

These tables provide information about the future minimum lease payments and contractual terms of the Group's finance lease liabilities, as follows:

	Future minimum lease payments 2014	Interest 2014	Present value of minimum lease payments 2014	Future minimum lease payments 2013	Interest 2013	Present value of minimum lease payments 2013
	£m	£m	£m	£m	£m	£m
Less than one year	6	6	—	6	6	—
Between one and five years	26	25	1	26	26	—
More than five years	254	171	83	259	174	85
	286	202	84	291	206	85

	Currency	Nominal interest rate	Year of maturity	2014	2013
				£m	£m
Finance lease liabilities	GBP	5.64%	2042	54	54
Finance lease liabilities	EUR	9.11%	2042	30	31
				84	85

The nominal interest rate for finance leases in the table above represents the weighted average effective interest rate. This is used because the table above aggregates finance leases with the same maturity date and currency.

Operating leases

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

	2014	2013
	£m	£m
Less than one year	76	74
Between one and five years	297	291
More than five years	1,326	1,380
	1,699	1,745

The Group has also entered into lease agreements as part of the developments of LEGOLAND Japan and LEGOLAND Korea which are being developed under the Group's 'operated and leased' model. Following the opening of the parks in 2017, the Group's local operating company in each territory will lease the site and park infrastructure from each of the development partners for a period of 50 years. The leases will be accounted for as finance or operating leases depending on the specific circumstances of each lease and the nature of the assets at the attractions.

5.4 Derivative financial instruments

Accounting policies

The Group holds derivative financial instruments primarily to hedge its foreign currency and interest rate exposures.

Interest rate swaps and foreign exchange contracts

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss as incurred. Thereafter changes in fair value are recognised immediately in the income statement, except where the Group adopts hedge accounting as described below.

The fair value of interest rate swaps is determined by reference to market rates at the end of the accounting period. It is the estimated amount that the Group would receive or pay to exit the swap at the end of the reporting period, taking into account current interest rates, credit risks and bid/ask spreads.

The fair value of foreign exchange contracts is the present value of future cash flows and is determined by reference to market rates at the end of the accounting period.

Hedge accounting

The Group has designated its interest rate swaps as hedges against variable cash flows resulting from fluctuations in interest rates. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, and the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as 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 period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. Effectiveness testing is performed using regression analysis at inception and on a regular basis thereafter.

The effective portion of changes in fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss, and under the same line item in the statement of comprehensive income as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses previously recognised in other comprehensive income would be recognised immediately in profit or loss.

Other financial assets

	2014	2013
	£m	£m
Derivative financial instruments		
Hedge accounted interest rate swaps	—	4
Non-hedge accounted interest rate swaps	—	1
Non-hedge accounted foreign exchange contracts	1	1
	1	6

5.4 Derivative financial instruments (Continued)

Other financial liabilities

	2014	2013
	£m	£m
Derivative financial instruments		
Hedge accounted interest rate swaps	11	8
Non-hedge accounted interest rate swaps	—	1
Non-hedge accounted foreign exchange contracts	1	—
	12	9

The Group's exposure to interest rate, liquidity, foreign currency and credit risks is disclosed in note 5.6.

5.5 Finance income and costs

Accounting policies

Income and costs

Finance income comprises interest income, 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

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of assets taking a substantial period of time to get ready for their intended use as part of the cost of that asset.

Net investment in foreign entities

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. The Group 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.

Finance income and costs

Finance income

	2014	2013
	£m	£m
In respect of assets not held at fair value		
Interest income	2	1
In respect of liabilities held at fair value		
Unrealised gain on re-measurement of financial derivatives at fair value		
—Interest rate swaps and foreign exchange contracts	—	20
	2	21

5.5 Finance income and costs (Continued)

Finance costs

	2014	2013
	£m	£m
In respect of liabilities not held at fair value		
Interest expense on financial liabilities measured at amortised cost	62	102
Loss on re-measurement of financial liabilities measured at amortised cost (notes 2.2 and 5.2)	23	—
Other interest expense	2	1
In respect of liabilities held at fair value		
Unrealised loss on re-measurement of financial derivatives at fair value		
—Interest rate swaps and foreign exchange contracts	—	4
Other		
Net foreign exchange loss	—	2
	87	109

Capitalised borrowing costs amounted to £2 million in 2014 *(2013: £2 million)*, with a capitalisation rate of 4.2% *(2013: 6.8%)*. Tax relief on capitalised borrowing costs amounted to £1 million in 2014 *(2013: £1 million)*.

Recognised in consolidated statement of other comprehensive income

Foreign currency translation differences relating to the net investment in foreign operations amounted to a profit of £7 million in 2014 *(2013: loss of £8 million)*. They are stated before attributable income tax (note 2.3).

5.6 Financial risk factors and fair value analysis

Interest rate risk

Interest rate risk is the risk that the Group is impacted by changes in interest rates. At 27 December 2014 the Group had floating rate debt in Sterling, Euros, US Dollars and Australian Dollars.

The Group hedges its cash flow exposure to its floating rate loans with interest rate swaps. At the reporting date, over the next three years an average of 55% *(2013: 70%)* of the secured bank loans were hedged in this way.

The carrying amount of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2014	2013
	£m	£m
Fixed rate instruments		
Financial liabilities—finance leases	(84)	(85)
Financial liabilities—interest rate swaps	(11)	(4)
	(95)	(89)
Variable rate instruments		
Financial assets—cash and cash equivalents	285	264
Financial liabilities—bank loans and overdrafts	(1,131)	(1,179)
	(846)	(915)

Interest rate swaps have a fixed leg and a floating leg; they have been classified as fixed rate financial liabilities in the table above as the fair value of the swaps is dependent on the fixed rate.

5.6 Financial risk factors and fair value analysis (Continued)

Fair value sensitivity analysis

This analysis shows the Group's sensitivity to changes in interest rates. It is calculated by measuring the impact on profit and loss or equity of a change in the present value of interest rate swaps. This assumes a shift in the yield curve of +/− 50 basis points (bp) *(2013: 50bp)*.

If interest rates had been 50bp higher/lower and all other variables were held constant, the impact would be as follows:

	2014		2013	
	Profit or loss	Equity	Profit or loss	Equity
	£m	£m	£m	£m
50bp increase in interest rates	—	(9)	—	(14)
50bp reduction in interest rates	—	9	—	14

Cash flow sensitivity analysis

This analysis shows the sensitivity of the Group's cash flows to changes in interest rates by comparing the expected annual interest expense/income which would apply to year end balances at year end interest rates, to the annual expense/income which would arise had interest rates been 50bp higher.

This analysis assumes that all other variables remain constant.

	Profit or (loss)	
	2014	2013
	£m	£m
Bank loans and overdrafts	(6)	(5)
Interest rate swaps	5	5
Cash and cash equivalents	1	1
Cash flow sensitivity (net)	—	1

A decrease of 50bp would result in a loss of £1 million *(2013: loss of £1 million)*.

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 liquidity funds. In some jurisdictions bank cash pooling arrangements are in place to optimise the use of cash. As at the balance sheet date the Group had access to a revolving credit facility of £150 million *(2013: £150 million)* in addition to its existing borrowings to meet any shortfalls.

At 27 December 2014, the Group had cash and cash equivalents of £285 million *(2013: £264 million)* together with this revolving credit facility, which can be used to meet its contractual cash flows.

5.6 Financial risk factors and fair value analysis (Continued)

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

2014	Contractual cash flows	0 to <1 year	1 to <2 years	2 to <5 years	5 years and over
	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Secured bank loans	(1,324)	(42)	(45)	(1,237)	—
Finance lease liabilities	(202)	(6)	(6)	(19)	(171)
Trade payables	(31)	(31)	—	—	—
Derivative financial liabilities					
Hedge accounted interest rate swaps	(20)	(8)	(8)	(4)	—
Non-hedge accounted interest rate swaps	—	—	—	—	—
Non-hedge accounted foreign exchange contracts	(1)	(1)	—	—	—
	(1,578)	(88)	(59)	(1,260)	(171)

2013	Contractual cash flows	0 to <1 year	1 to <2 years	2 to <5 years	5 years and over
	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Secured bank loans	(1,462)	(45)	(45)	(139)	(1,233)
Finance lease liabilities	(206)	(6)	(6)	(20)	(174)
Trade payables	(28)	(28)	—	—	—
Derivative financial liabilities					
Hedge accounted interest rate swaps	(25)	(5)	(1)	(19)	—
Non-hedge accounted interest rate swaps	(1)	(1)	—	—	—
Non-hedge accounted foreign exchange contracts	—	—	—	—	—
	(1,722)	(85)	(52)	(178)	(1,407)

Foreign currency risk

The Group operates internationally with its operating assets, revenues and costs denominated primarily in the functional currencies of the relevant local territories. The Group is exposed to foreign currency risk on cash flows that are not denominated in an entity's local currency and to the translation of non-Sterling earnings. Net foreign exchange cash flow exposures, where material, are hedged by foreign exchange transactions.

The translation exposures to foreign currency earnings are hedged by bank debt denominated in the Group's principal currencies in ratios intended to provide a match between funding requirements and the cash generation capabilities of the Group's operations in each of its locations. The principal currencies are Sterling, Euros, US Dollars and Australian Dollars.

The Group's financial instruments are set out by currency below:

2014	Sterling	Euro	US Dollar	Australian Dollar	Other	Total
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	202	8	47	3	25	285
Trade receivables	7	2	3	1	3	16
Secured bank loans	(408)	(332)	(318)	(73)	—	(1,131)
Finance lease liabilities	(54)	(30)	—	—	—	(84)
Derivatives	(2)	(5)	(4)	—	—	(11)
Trade payables	(9)	(12)	(3)	(1)	(6)	(31)
	(264)	(369)	(275)	(70)	22	(956)

5.6 Financial risk factors and fair value analysis (Continued)

2013	Sterling	Euro	US Dollar	Australian Dollar	Other	Total
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	220	8	11	4	21	264
Trade receivables	6	2	2	1	1	12
Secured bank loans	(401)	(368)	(323)	(87)	—	(1,179)
Finance lease liabilities	(54)	(31)	—	—	—	(85)
Derivatives	5	(2)	(6)	—	—	(3)
Trade payables	(10)	(9)	(3)	(2)	(4)	(28)
	(234)	(400)	(319)	(84)	18	(1,019)

The Group treats certain external and intercompany loans as net investment hedging instruments. These hedge the impact of foreign exchange movements that would otherwise occur on both external and intercompany borrowings where the balance is not in the currency of the individual entity concerned. At 27 December 2014 the Group had hedged the following loans:

	2014	2013
	£m	£m
Sterling denominated loans	17	17
Euro denominated loans	320	251
US Dollar denominated loans	96	149
Other	17	—
	450	417

Translation movements on these loans are shown in other comprehensive income, see note 5.5.

Foreign currency sensitivity analysis

The table below shows the sensitivity to a 10% strengthening/weakening of Sterling against all foreign currencies at the reporting date.

The Group's sensitivity to foreign exchange rates is calculated by retranslating monetary assets and liabilities which are held in currencies other than the functional currencies of the reporting entities using exchange rates which have been flexed by +/- 10% from the Sterling exchange rates existing at the end of the reporting period. Where the Group has designated specific monetary assets or liabilities as hedging instruments that are hedging underlying foreign exchange exposures, this has been taken account of. The sensitivity analysis for forward foreign exchange contracts uses a discounted cash flow technique applying a 10% strengthening/weakening of Sterling against foreign currencies to which the group is exposed. The analysis assumes that all other variables remain constant.

5.6 Financial risk factors and fair value analysis (Continued)

The impact of these retranslations on profit/loss has been aggregated and is as follows, split by category of financial instrument:

10% strengthening of Sterling

		Profit or (loss) impact		
2014	Cash	Secured bank loans	Foreign exchange contracts	Total
	£m	£m	£m	£m
Euro	—	2	4	6
US Dollars	(1)	5	4	8
Danish Kroner	—	—	(2)	(2)
Hong Kong Dollars	—	—	(1)	(1)
Australian Dollars	—	(1)	1	—
Singapore Dollars	—	—	—	—
Japanese Yen	—	—	1	1
	(1)	6	7	12

		Profit or (loss) impact		
2013	Cash	Secured bank loans	Foreign exchange contracts	Total
	£m	£m	£m	£m
Euro	—	2	3	5
US Dollars	—	5	—	5
Danish Kroner	—	—	(1)	(1)
Hong Kong Dollars	—	—	(1)	(1)
Australian Dollars	—	(2)	1	(1)
Singapore Dollars	—	—	1	1
Japanese Yen	—	—	—	—
	—	5	3	8

10% weakening of Sterling

		Profit or (loss) impact		
2014	Cash	Secured bank loans	Foreign exchange contracts	Total
	£m	£m	£m	£m
Euro	—	(2)	(5)	(7)
US Dollars	1	(5)	(5)	(9)
Danish Kroner	—	—	2	2
Hong Kong Dollars	—	—	2	2
Australian Dollars	—	1	(1)	—
Singapore Dollars	—	—	(1)	(1)
Japanese Yen	—	—	(1)	(1)
	1	(6)	(9)	(14)

5.6 Financial risk factors and fair value analysis (Continued)

2013	Cash	Profit or (loss) impact Secured bank loans	Foreign exchange contracts	Total
	£m	£m	£m	£m
Euro	—	(2)	(4)	(6)
US Dollars	—	(5)	—	(5)
Danish Kroner	—	—	1	1
Hong Kong Dollars	—	—	1	1
Australian Dollars	—	1	(1)	—
Singapore Dollars	—	—	(1)	(1)
Japanese Yen	—	—	—	—
	—	(6)	(4)	(10)

A 10% strengthening/weakening of Sterling would have no impact on the hedging reserve.

Certain financial assets and liabilities of the Group are held by entities operating with a functional currency other than Sterling and do not have a base in local functional currency or Sterling. Accordingly, these instruments are sensitive to movements in foreign exchange rates but are not impacted by a strengthening or weakening of Sterling as presented above. The impact on profit/(loss) would be a loss of £4 million following a 10% strengthening of the relevant functional currency and would be a profit of £3 million following 10% weakening of the relevant functional currency.

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 very limited credit risk with its customers, the vast majority of whom pay in advance or at the time of their visit, however there are credit policies in place with regard to its trade receivables. Credit evaluations are 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 financial 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.

Fair values

Basis for determining fair values

Derivatives

Derivatives are carried at fair value, as defined in note 5.4.

Non-derivative financial assets

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Market values have been used to determine the fair values of secured bank loans. Where market values are not available, or are not reliable, fair values have been calculated by discounting cash flows at prevailing interest rates. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5.6 Financial risk factors and fair value analysis (Continued)

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Derivative assets and liabilities				
Hedge accounted interest rate swaps	(11)	(11)	(4)	(4)
Non-hedge accounted foreign exchange contracts	—	—	1	1
Non-derivative assets and liabilities				
Investments	6	6	3	3
Trade and other receivables	33	33	37	37
Cash and cash equivalents	285	285	264	264
Secured bank loans	(1,131)	(1,128)	(1,179)	(1,217)
Finance lease liabilities	(84)	(84)	(85)	(85)
Trade and other payables	(31)	(31)	(28)	(28)
	(933)	(930)	(991)	(1,029)

Fair value hierarchy

The Group analyses financial instruments carried at fair value by utilising one of the three following valuation methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

At 27 December 2014 the Group had £11 million *(2013: £3 million)* of derivative financial liabilities classified as Level 2.

At 27 December 2014 the Group had £6 million *(2013: £3 million)* of investments classified as Level 3. These are a £3 million investment made in 2014 in the consortium company developing LEGOLAND Korea and an investment in IDR Resorts Sdn. Bhd (IDR) acquired for £3 million in 2013, as disclosed in note 6.1. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 6.3).

There have been no transfers between levels in 2014 *(2013: nil)*. No other financial instruments are held at fair value. If the secured bank loans were held at fair value they would be classified as Level 1.

5.7 Equity and capital management

Capital management

The capital structure of the Group consists of debt which includes borrowings (see note 5.2), cash and cash equivalents and equity attributable to equity holders of the parent company, as disclosed below. The Group's objective when managing capital is to maintain a strong capital base so as to maintain investor 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.

5.7 Equity and capital management (Continued)

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 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 schemes have been created to allow employees of the Group to participate in the ownership of the Group's equity instruments, in order to ensure employees are focused on growing the value of the Group to achieve the aims of all the shareholders.

Share capital and reserves

Share capital

	2014	2013	2014	2013
	Number	Number	£m	£m
Ordinary shares of £0.01 each				
On issue and fully paid at beginning of year	1,013,746,032	156,767,050	10	1
Cancelled in the year	—	(10,868,759)	—	—
Bonus issue	—	804,101,709	—	8
Issued in the year	—	63,746,032	—	1
On issue and fully paid at end of year	1,013,746,032	1,013,746,032	10	10

Issue of new shares

2014

There was no issuance of new shares in 2014.

2013

The Company was incorporated on 20 September 2013. On incorporation one A ordinary share of £0.01 was issued for consideration of £0.01.

On 12 November 2013 the Company acquired the entire issued share capital of Merlin Entertainments S.à r.l. in consideration for the issue of 136,767,049 A ordinary shares of £0.01 to the previous shareholders of A class shares of Merlin Entertainments S.à r.l. and 20,000,000 B ordinary shares of £0.01 to the previous shareholders of B class ordinary shares of Merlin Entertainments S.à r.l.

On 13 November 2013 all of the A ordinary shares and 9,131,241 of the B ordinary shares of the Company were converted into ordinary shares of £0.01 in Merlin Entertainments plc. The remaining 10,868,759 B ordinary shares were converted into deferred ordinary shares in Merlin Entertainments plc and were subsequently gifted back to the Company and cancelled.

On 13 November 2013 a bonus issue of 804,101,709 shares was made to holders of the ordinary shares in the Company. No consideration was payable on the issue of the shares.

On 13 November 2013 the Company became listed on the London Stock Exchange and the issue of 63,492,064 ordinary shares for a total consideration of £200 million became unconditional. £7 million of directly attributable costs were recorded in equity in retained earnings. Costs not directly attributable to the issue of new shares were charged to the income statement.

On 13 November 2013 the Company issued 253,968 ordinary shares to certain Non-executive Directors for consideration of £1 million.

5.7 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. No shareholder holds shares carrying special rights relating to the control of the Company. However, the Company has entered into Relationship Agreements with each of the pre-IPO major shareholders, KIRKBI, Blackstone and CVC in connection with the exercise of their rights as major shareholders in the Company and their right to appoint Directors to the Board.

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

An interim dividend of 2.0 pence per share was paid on 25 September 2014 *(2013 nil)*. The Directors of the Company propose a final dividend of 4.2 pence per share for the year ended 27 December 2014 *(2013: nil)*.

Capital reserve

Balances arose in the capital reserve when the Group's previous parent company, Merlin Entertainments S.à r.l. arranged its own acquisition by Merlin Entertainments plc, a new legal parent. The balances represented the difference between the value of the equity structure of the previous and new parent companies.

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million. When the capital position of the parent company was rearranged the capital reserve was adjusted appropriately such that the equity balances presented in the Group accounts best reflect the underlying structure of the Group's capital base.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

5.8 Share-based payment transactions

Accounting policy

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 are settled either by the issue of shares by Merlin Entertainments plc or by the purchase of shares in the market. 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 operates cash-settled versions of the employee incentive schemes for employees in certain territories. The issues and resulting charges of these schemes are not material to the financial statements.

5.8 Share-based payment transactions (Continued)

Equity-settled schemes

The Group operates four employee share incentive schemes: the Performance Share Plan (PSP), the Company Share Option Plan (CSOP), the All Employee Sharesave Plan (AESP) and the Deferred Bonus Plan (DBP) as set out in the Directors' Remuneration Report and the tables below. A summary of the rules for the schemes and the performance conditions attaching to the PSP are given in the Directors' Remuneration Report.

Analysis of share-based payment charge

	2014	2013
	£m	£m
PSP	2	—
CSOP	1	—
AESP	1	—
	4	—

The charge in respect of the DBP is £nil *(2013: £nil)*. Awards over shares worth £2 million *(2013: £nil)* will be made under the DBP in March 2015 based on the share price prevailing at that time. The awards will vest in March 2018.

Analysis of awards

	Date of grant	Exercise price (£)	Period when exercisable	Average remaining contractual life (years)	Number of shares 2014	Number of shares 2013
PSP	November 2013 - September 2014	—	2017 - 2024	9.3	3,611,209	3,633,489
CSOP	November 2013 - September 2014	3.15 - 3.77	2016 - 2024	9.0	2,305,252	2,298,375
AESP	January 2014 - February 2014	2.96 - 3.17	2016 - 2017	2.7	3,180,962	—
Total					9,097,423	5,931,864

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

	PSP		CSOP		AESP	
	Number	WAEP (£)	Number	WAEP (£)	Number	WAEP (£)
Granted during the year	3,633,489	—	2,298,375	3.15	—	n/a
At 28 December 2013	3,633,489	—	2,298,375	3.15	—	n/a
Granted during the year	120,577	—	206,850	3.64	3,555,062	2.98
Forfeited during the year	(142,857)	—	(199,973)	3.17	(374,100)	2.99
At 27 December 2014	3,611,209	—	2,305,252	3.19	3,180,962	2.98
Exercisable at end of year						
At 28 December 2013	—	—	—	—	—	—
At 27 December 2014	—	—	—	—	—	—

The fair value per award granted and the assumptions used in the calculations for the significant grants in 2013 and 2014 are 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	12 November 2013	—	3.15	3.15	n/a	n/a	3.4	1.1%
CSOP	12 November 2013	3.15	3.15	0.97	0.8%	30%	4.9	1.7%
AESP	13 January 2014	3.17	3.73	0.70	0.7%	20%	2.2	0.8%
	7 February 2014	2.96	3.54	0.84	0.7%	22%	3.3	1.2%

5.8 Share-based payment transactions (Continued)

A description of the key assumptions used in calculating the share-based payments is as follows:

- The binomial valuation methodology is used for the PSP and CSOP schemes. The Black-Scholes model is used to value the AESP.
- Due to insufficient trading history in the Group's shares, the expected volatility is based on a portfolio of comparator companies.
- 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 estimated in estimating the award life.
- The charge is spread over the vesting period on a straight-line basis.

Equity-settled schemes *(closed)*

The Group previously operated equity-settled schemes that enabled certain senior employees to acquire B class ordinary shares in Merlin Entertainments S.à r.l. at market value. Market value was determined based on an analysis of profit multiples in the Group's industry sector. At the discretion of the CEO further shares could also be granted in recognition of long service and/or outstanding contribution. These shares vested on the IPO of the Company in November 2013.

No charge arose during the year *(2013: £nil)*. The number of shares issued was as follows:

	Number 2014	Number 2013
At beginning of year	—	19,283,150
Issued during the year	—	1,320,725
Forfeited during the year	—	(603,875)
Converted into B ordinary shares of Merlin Entertainments plc	—	(20,000,000)
At end of year	—	—

SECTION 6 OTHER NOTES

52 weeks ended 27 December 2014

6.1 Investments

	2014	2013
	£m	£m
At beginning of year	3	—
Additions	3	3
At end of year	6	3

2014

During the year the Group made a £3 million investment in the consortium company developing LEGOLAND Korea. The investment is accounted for at fair value and is not consolidated.

2013

In November 2013 the Group acquired 16,350,300 shares in IDR Resorts Sdn. Bhd. (IDR) for the consideration of £3 million. IDR is accounted for at fair value and is not consolidated. IDR and its subsidiaries are deemed to be related parties as the Group is committed to subscribing for share capital in IDR which together with its subsidiaries owns LEGOLAND Malaysia (see note 6.3).

6.2 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 employees. 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.

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 £10 million (*2013: £10 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 1 January 2013. As a result, the Group agreed to pay deficit reduction contributions of £455,500 per annum until 2018, together with an additional one-off payment of £350,000 to be paid before 1 March 2014.

6.2 Employee benefits (Continued)

The Group expects £1 million in contributions to be paid to its defined benefit schemes in 2015. The weighted average duration of the defined benefit obligation at 27 December 2014 was 22 years.

The assets and liabilities of the schemes are:

	2014	2013
	£m	£m
Equities	23	11
Corporate bonds and cash	5	5
Property	—	1
Fair value of scheme assets	28	17
Present value of defined benefit obligations	(33)	(21)
Net pension liability	(5)	(4)

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 2012	15	(20)	(5)
Transfers out	—	1	1
Net interest	1	(1)	—
Remeasurement gain/(loss)	1	(1)	—
At 28 December 2013	17	(21)	(4)
Net interest	1	(1)	—
Contributions by employer	1	—	1
Benefits paid	(1)	1	—
Remeasurement gain/(loss)	2	(3)	(1)
Recognition of defined contribution section assets and liabilities	8	(9)	(1)
At 27 December 2014	28	(33)	(5)

The amount recognised in the income statement was £nil (*2013: £nil*). The amount recognised in the statement of comprehensive income was a loss of £2 million (*2013: £nil*).

The closed Tussauds Group scheme operated a defined contribution section underpinned by a minimum level of benefit. Recent experience has indicated that this minimum level of benefit is now giving rise to a deficit; consequently the assets and liabilities of the defined contribution section of the scheme have been recognised in the year.

Actuarial assumptions

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

	2014	2013
Discount rate	3.9%	4.6%
Future salary increases	3.5%	3.7%
Rate of price inflation	3.2%	3.4%

Assumptions regarding future mortality are based on published statistics and mortality tables. For the Tussauds Group scheme the actuarial table used is S1PA. The mortality assumption adopted predicts that a current 65 year old male would have a life expectancy to age 85 and a female would have a life expectancy to age 88.

6.3 Related party transactions

Identity of related parties

The Group has related party relationships with its pre-IPO major shareholders, key management personnel, joint ventures and IDR Resorts Sdn. Bhd.

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

Transactions with shareholders

During the year the Group entered into transactions with, or is partly funded by, the pre-IPO major shareholders, KIRKBI Invest A/S, Blackstone Capital Partners and funds advised by CVC Capital Partners (via Lancelot Holdings S.à r.l.). The Group also entered into transactions with CVC Capital Partners and the LEGO Group, a related party of KIRKBI Invest A/S. Transactions entered into, including the purchase and sale of goods, payment of fees and royalties, and trading balances outstanding at 27 December 2014, are as follows:

	Goods and services			
	Sales	Amounts owed by related party	Purchases	Amounts owed to related party
	£m	£m	£m	£m
2014				
KIRKBI Invest A/S	1	—	7	2
Blackstone Capital Partners	—	—	—	—
CVC Capital Partners	—	—	—	—
LEGO Group	1	—	37	2
	2	—	44	4
2013				
KIRKBI Invest A/S	—	—	7	1
Blackstone Capital Partners	—	—	1	—
CVC Capital Partners	—	—	1	—
LEGO Group	1	1	37	1
	1	1	46	2

As members of a banking syndicate, certain shareholders (or other parties related to those shareholders) are owners of elements of the Group's bank loan portfolio as described in note 5.2. Balances outstanding at 27 December 2014 are; parties related to KIRKBI Invest A/S £49 million *(2013: £56 million)*, funds advised by parties related to Blackstone Capital Partners £33 million *(2013: £36 million)* and funds advised by parties related to CVC Capital Partners £10 million *(2013: £31 million)*.

Interest is paid and accrued on the same terms as the rest of the banking syndicate as described in note 5.2.

Transactions with key management personnel

Key management of the Group, being the Executive and Non-executive Directors of the Board, the members of the Executive Committee and their immediate relatives control 2.1% *(2013: 2.6%)* of the voting shares of the Company.

The compensation of key management was as follows:

	2014	2013
	£m	£m
Key management emoluments including social security costs	7.7	4.2
Contributions to money purchase pension schemes	0.5	0.4
Share-based payments and other related payments	0.8	0.2
	9.0	4.8

6.3 Related party transactions (Continued)

The comparative figures for 2013 reflect the fact that the Group was under private ownership until the Listing in November of that year. Consequently they are not directly comparable with the 2014 figures. In particular, the Board structure changed on Listing with a number of new Non-executive Director positions put in place. In addition the reward structure changed, with a different balance between ongoing salary and share-based long term incentive plans.

Transactions with other related parties

As part of the agreement for the development and operation of LEGOLAND Malaysia, the Group is committed to subscribing for share capital in IDR Resorts Sdn. Bhd. (IDR) which together with its subsidiaries owns the park. On this basis, IDR and its subsidiaries are deemed to be related parties. At 27 December 2014 and 28 December 2013 the Group had subscribed for 16,350,300 shares in IDR.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 27 December 2014, are as follows:

	2014	2013
	£m	£m
Sales to related party	5	2
Amounts owed by related party	3	3

6.4 Contingent liabilities

The Group has contingent liabilities arising from local planning obligations and other obligations. The total liability under these obligations could amount up to £1 million *(2013: £1 million)*.

6.5 New standards and interpretations

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Group with no significant impact on its consolidated financial statements:

- IFRS 10 ‘Consolidated financial statements’.
- IFRS 11 ‘Joint arrangements’.
- IFRS 12 ‘Disclosure of interests in other entities’.
- IAS 27 ‘Separate financial statements’.
- IAS 28 ‘Investments in associates and joint ventures’.
- IAS 32 (Amendment) ‘Financial instruments: presentation’—offsetting financial assets and financial liabilities.

EU endorsed IFRS and interpretations with effective dates after 27 December 2014 relevant to the Group will be implemented in the financial year when the standards become effective.

The IASB has issued the following standards, amendments to standards and interpretations that will be effective for the Group as from 1 January 2015 or after. The Group does not expect any significant impact on its consolidated financial statements from these amendments.

- IAS 19 (Amendment) ‘Employee benefits’—defined benefit plans: employee contributions.
- IFRS 2 (Amendment) ‘Share-based payment’—definition of ‘vesting condition’.
- IFRS 3 (Amendment) ‘Business combinations’—classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements.
- IFRS 8 (Amendment) ‘Operating segments’—disclosures on the aggregation of operating segments.

6.5 New standards and interpretations (Continued)

- IFRS 13 (Amendment) 'Fair value measurement'—measurement of short term receivables and payables and scope of portfolio exception.
- IAS 16 (Amendment) 'Property, plant and equipment' and IAS 38 (Amendment) 'Intangible assets'—restatement of accumulated depreciation (amortisation) on revaluation.
- IAS 24 (Amendment) 'Related party disclosures'—definition of 'related party'.

During the year the IASB issued IFRS 15 'Revenue from contracts with customers', which will become effective from the 2017 accounting period. The Group's revenue is generated by high volumes of low value transactions, thereby requiring limited judgement on accounting for revenue compared to other industry sectors. The Group considers that the implementation of this new standard will not have any significant impact on the consolidated financial statements.

6.6 Ultimate parent company information

The largest group in which the results of the Company are consolidated is that headed by Merlin Entertainments plc, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

6.7 Subsequent events

Subsequent to the year end, the Group has secured a new £1,300 million banking facility that, once drawn, will replace the existing debt facilities.

The new senior unsecured facilities will comprise circa £1,000 million in floating rate term debt, with maturities in 2018 and 2020, along with an increased £300 million revolving credit facility and lower average margins. The reduction in drawn term debt will be funded through the use of circa £130 million of the Group's existing cash balance. The increased revolving credit line will ensure that the Group has adequate committed liquidity facilities to support our seasonality and strategic growth objectives. Under the new facilities we will be required to comply with certain financial and non-financial covenants.

6.8 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 2014	Ownership 2013
AAE Unit Trust	Australia	—	100.0%	100.0%
AQDEV Pty Limited	Australia	Ordinary	100.0%	100.0%
Aquia Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Enterprises Pty Ltd	Australia	Ordinary	100.0%	100.0%
Australian Alpine Reservation Centre Pty Ltd	Australia	Ordinary	100.0%	100.0%
Christchurch Investment Company Limited	Australia	Ordinary	100.0%	100.0%
Falls Creek Ski Lifts Pty Ltd	Australia	Ordinary	100.0%	100.0%
Gebi Falls Creek Pty Ltd	Australia	Ordinary	57.0%	57.0%
Hotham Heights Developments Ltd	Australia	Ordinary	65.0%	65.0%
Hotham Ski Services Pty Ltd	Australia	Ordinary	100.0%	100.0%
Illawarra Tree Topps Pty Ltd	Australia	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Melbourne Pty Ltd	Australia	Ordinary	100.0%	—
Limlimbu Ski Flats Ltd	Australia	Ordinary	64.0%	64.0%
Living and Leisure Australia Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Australia Trust	Australia	—	100.0%	100.0%
Living and Leisure Australia Management Limited	Australia	Ordinary	100.0%	100.0%
Living and Leisure Finance Trust	Australia	—	100.0%	100.0%
LLA Aquariums Pty Limited	Australia	Ordinary	100.0%	100.0%

6.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Melbourne Underwater World Pty Ltd.	Australia	Ordinary	100.0%	100.0%
Melbourne Underwater World Trust.	Australia	—	100.0%	100.0%
ME LoanCo (Australia) Pty Limited	Australia	Ordinary	100.0%	100.0%
Merlin Entertainments (Australia) Pty Ltd.	Australia	Ordinary	100.0%	100.0%
MHSC DP Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Hotels Pty Ltd	Australia	Ordinary	100.0%	100.0%
MHSC Properties Pty Ltd.	Australia	Ordinary	100.0%	100.0%
MHSC Transportation Services Pty Ltd.	Australia	Ordinary	100.0%	100.0%
Mount Hotham Management and Reservation Pty Ltd	Australia	Ordinary	100.0%	100.0%
Mount Hotham Skiing Company Pty Ltd	Australia	Ordinary	100.0%	100.0%
MUW Holdings Pty Ltd	Australia	Ordinary	100.0%	100.0%
Northbank Development Trust	Australia	—	100.0%	100.0%
Northbank Place (Vic) Pty Ltd	Australia	Ordinary	50.0%	50.0%
Oceanis Australia Pty Ltd.	Australia	Ordinary	100.0%	100.0%
Oceanis Australia Unit Trust	Australia	—	100.0%	100.0%
Oceanis Developments Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Foundation Pty Ltd.	Australia	Ordinary	100.0%	100.0%
Oceanis Holdings Limited	Australia	Ordinary	100.0%	100.0%
Oceanis Korea Unit Trust	Australia	—	100.0%	100.0%
Oceanis NB Pty Ltd	Australia	Ordinary	100.0%	100.0%
Oceanis Northbank Trust	Australia	—	100.0%	100.0%
Oceanis Unit Trust	Australia	—	100.0%	100.0%
Parkthorn Properties Pty Ltd	Australia	Ordinary	100.0%	100.0%
Sydney Attractions Group Pty Ltd	Australia	Ordinary	100.0%	100.0%
Sydney Tower Observatory Pty Limited	Australia	Ordinary	100.0%	100.0%
Sydney Wildlife World Pty Limited	Australia	Ordinary	100.0%	100.0%
The Otway Fly Pty Ltd.	Australia	Ordinary	100.0%	100.0%
The Otway Fly Unit Trust	Australia	—	100.0%	100.0%
The Sydney Aquarium Company Pty Limited	Australia	Ordinary	100.0%	100.0%
Underwater World Sunshine Coast Pty Ltd	Australia	Ordinary	100.0%	100.0%
US Fly Trust	Australia	—	100.0%	100.0%
White Crystal (Mount Hotham) Pty Ltd	Australia	Ordinary	82.6%	82.6%
Madame Tussauds Austria GmbH	Austria	Ordinary	100.0%	100.0%
MT Austria Holdings GmbH	Austria	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Merlin Entertainments (Canada) Inc	Canada	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Beijing) Company Limited	China	Ordinary	100.0%	—
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	100.0%
Madame Tussauds Exhibition (Wuhan) Company Limited	China	Ordinary	100.0%	100.0%
Merlin Entertainments Hong Kong Limited	China	Ordinary	100.0%	100.0%
Shanghai Chang Feng Oceanworld Co. Ltd.	China	Ordinary	100.0%	100.0%
LEGOLAND ApS[1]	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
SEA LIFE France SARL	France	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH.	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH.	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%

6.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Holidays Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
Madame Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
Tussauds Heide Metropole GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Incoming Gardaland S.r.l.	Italy	Ordinary	99.9%	99.9%
Merlin Attractions Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
Ronchi del Garda S.p.A.	Italy	Ordinary	49.4%(2)	49.4%(2)
Ronchi S.p.A.	Italy	Ordinary	90.4%	90.4%
LEGOLAND Japan Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments (Japan) Limited	Japan	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l.(3)	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 1 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
Merlin Lux Finco 2 S.à r.l.	Luxembourg	Ordinary	100.0%	100.0%
LEGOLAND Malaysia Hotel Sdn. Bhd.	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Group (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Merlin Entertainments Studios (Malaysia) Sdn. Bhd	Malaysia	Ordinary	100.0%	100.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	100.0%
Merlin Entertainments Holdings Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Auckland Aquarium Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (New Zealand) Limited	New Zealand	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE PORTO) Unipessoal Lda	Portugal	Ordinary	100.0%	100.0%
Merlin Entertainments Singapore Pte. Ltd	Singapore	Ordinary	100.0%	100.0%
Aquaria Twenty-One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
Busan Aquaria Twenty One Co. Ltd	South Korea	Ordinary	100.0%	100.0%
LEGOLAND Korea LLC *(formerly Merlin Entertainments (Korea) LLC)*	South Korea	Ordinary	100.0%	100.0%
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
Merlin Entertainments (Thailand) Limited	Thailand	Ordinary	100.0%	100.0%
Siam Ocean World Bangkok Co Ltd	Thailand	Ordinary	100.0%	100.0%
Istanbul Sualti Dunyasi Turizm Ticaret A.S.	Turkey	Ordinary	100.0%	100.0%
Alton Towers Limited	UK	Ordinary	100.0%	100.0%
Alton Towers Resort Operations Limited	UK	Ordinary	100.0%	100.0%
Charcoal CLG 1 Limited *(company limited by guarantee)*	UK	—	100.0%	100.0%
Charcoal CLG 2 Limited *(company limited by guarantee)*	UK	—	100.0%	100.0%
Charcoal Holdco Limited	UK	Ordinary	100.0%	100.0%

6.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Charcoal Midco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1 Limited	UK	Ordinary	100.0%	100.0%
Charcoal Newco 1a Limited	UK	Ordinary	100.0%	100.0%
Chessington Hotel Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Limited	UK	Ordinary	100.0%	100.0%
Chessington World of Adventures Operations Limited	UK	Ordinary	100.0%	100.0%
Chessington Zoo Limited	UK	Ordinary	100.0%	100.0%
CWA PropCo Limited	UK	Ordinary	100.0%	100.0%
Iconic Images International Limited	UK	Ordinary	100.0%	100.0%
KZ China Holdco Limited *(formerly Tussauds Finance Limited)*	UK	Ordinary	100.0%	100.0%
KZ Mexico Holdco Limited *(formerly Tussauds Intermediate Holdings Limited)*	UK	Ordinary	100.0%	100.0%
LEGOLAND US Holdings Limited	UK	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK	Ordinary	100.0%	100.0%
London Aquarium (South Bank) Limited	UK	Ordinary	100.0%	100.0%
London Dungeon Limited	UK	Ordinary	100.0%	100.0%
London Eye Holdings Limited	UK	Ordinary	100.0%	100.0%
London Eye Management Services Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Limited	UK	Ordinary	100.0%	100.0%
Madame Tussaud's Touring Exhibition Limited	UK	Ordinary	100.0%	100.0%
M.E.G.H. Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainment Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Asia Pacific) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin's Magic Wand Trustees Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 1 Limited	UK	Ordinary	100.0%	100.0%
Merlin UK Finco 2 Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Trust Trustees Limited *(formerly SEA LIFE Marine Conservation Trustees Limited)*	UK	Ordinary	100.0%	100.0%
The London Planetarium Company Limited	UK	Ordinary	100.0%	100.0%
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
The Tussauds Group Limited	UK	Ordinary	100.0%	100.0%

SECTION 6 OTHER NOTES (Continued)

52 weeks ended 27 December 2014

6.8 Subsidiary and joint venture undertakings (Continued)

Subsidiary undertaking	Country of incorporation	Class of share held	Ownership 2014	Ownership 2013
Thorpe Park Operations Limited	UK	Ordinary	100.0%	100.0%
Tussauds (NBD) Limited	UK	Ordinary	100.0%	100.0%
Tussauds Attractions Limited	UK	Ordinary	100.0%	100.0%
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	100.0%
Tussauds Holdings Limited	UK	Ordinary	100.0%	100.0%
Tussauds Hotels Limited	UK	Ordinary	100.0%	100.0%
Tussauds Limited	UK	Ordinary	100.0%	100.0%
Tussauds Theme Parks Limited	UK	Ordinary	100.0%	100.0%
Warwick Castle Limited	UK	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited	UK	Ordinary	100.0%	100.0%
Wizard EquityCo Limited	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited	UK	Ordinary	100.0%	100.0%
Lake George Fly LLC	USA	—	100.0%	100.0%
LEGOLAND California LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Center Arizona LLC	USA	—	100.0%	—
LEGOLAND Discovery Center Boston LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Centre (Dallas) LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Centre (Meadowlands) LLC	USA	—	100.0%	100.0%
LEGOLAND Discovery Center Michigan LLC	USA	—	100.0%	—
LEGOLAND Discovery Centre US LLC	USA	—	100.0%	100.0%
Madame Tussauds Hollywood LLC	USA	—	100.0%	100.0%
Madame Tussaud Las Vegas LLC	USA	—	100.0%	100.0%
Madame Tussaud's New York LLC	USA	—	100.0%	100.0%
Madame Tussauds Orlando LLC	USA	—	100.0%	100.0%
Madame Tussauds San Francisco LLC	USA	—	100.0%	100.0%
Madame Tussauds Washington LLC	USA	—	100.0%	100.0%
Merlin Entertainments Group Florida LLC	USA	—	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc.	USA	Ordinary	100.0%	100.0%
Merlin Entertainments Group US LLC	USA	—	100.0%	100.0%
Merlin Entertainments Group Wheel LLC	USA	—	100.0%	100.0%
Merlin Entertainments North America LLC	USA	—	100.0%	100.0%
Merlin Entertainments US NewCo LLC	USA	—	100.0%	100.0%
San Francisco Dungeon LLC	USA	—	100.0%	100.0%
SEA LIFE Charlotte LLC	USA	—	100.0%	100.0%
SEA LIFE Meadowlands LLC	USA	—	100.0%	—
SEA LIFE Michigan LLC	USA	—	100.0%	100.0%
SEA LIFE Minnesota LLC	USA	—	100.0%	100.0%
SEA LIFE Orlando LLC	USA	—	100.0%	100.0%
SEA LIFE US LLC	USA	—	100.0%	100.0%
The Tussauds Group LLC	USA	—	100.0%	100.0%
Joint venture				
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%

(1) LL Datterselskab af december 2012 ApS was merged with LEGOLAND ApS during the year.

(2) Merlin Entertainments plc 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.

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

MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

Company Balance Sheet

at 27 December 2014 (2013: 28 December 2013)

	Note	2014	2013
		£m	£m
Fixed assets			
Investment in subsidiary undertaking	iii	3,111	3,107
		3,111	3,107
Current assets			
Amounts owed by subsidiary undertakings	iv	58	78
Cash at bank and in hand and short term deposits		—	1
		58	79
Creditors: amounts falling due within one year	v	(2)	(4)
Net current assets		56	75
Net assets		**3,167**	**3,182**
Capital and reserves			
Called up share capital	vi	10	10
Share premium	vii	—	3,183
Profit and loss account	vii	3,157	(11)
Shareholders' funds—equity		**3,167**	**3,182**

The notes on pages F-185 to F-188 form part of these financial statements.

The parent Company financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:

Nick Varney
Chief Executive Officer

Andrew Carr
Chief Financial Officer

NOTES TO MERLIN ENTERTAINMENTS PLC COMPANY FINANCIAL STATEMENTS

i Accounting policies

These parent Company financial statements have been prepared on a going concern basis using the historical cost convention in accordance with generally accepted accounting principles in the UK ('UK GAAP') and the Companies Act 2006.

These financial statements have been prepared for the 52 weeks ended 27 December 2014 *(2013: the period from incorporation of the Company on 20 September 2013 to 28 December 2013)*.

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.

The Company has taken advantage of the exemption under FRS 1 'Cash Flow Statements' and has not presented a cash flow statement. The cash flows of the Company are included in the consolidated financial statements of Merlin Entertainments plc.

The Company has taken advantage of the exemption under FRS 8 'Related Party Transactions' from disclosing transactions with wholly owned subsidiaries that are part of the group headed by Merlin Entertainments plc.

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 profit and loss account.

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 profit and loss account.

Share-based payments

The fair value of employee share option plans is calculated at the date of grant using the binomial valuation methodology. The resulting cost is charged to the parent Company profit and loss account over the vesting period of the schemes. The value of the charge is adjusted to reflect the actual and expected levels of vesting of the schemes. Where the Company awards options to employees of subsidiary companies, this is treated as a capital contribution.

Debtors

Debtors are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments

Financial instruments and equity liabilities are classified according to the substance of the arrangements that have been entered into. Equity instruments issued by the Company are recorded as the proceeds received net of the direct costs of issuance.

Taxation

Corporation tax is provided on the taxable profit for the period, using the tax rates that have been enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and would give rise to an obligation to pay more or less tax in the future.

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.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates that have been substantively enacted at the balance sheet date.

Dividends

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

ii Employees

The average number of employees of the Company during the period was seven *(2013: six)*. All employees were Directors of the Company.

The employment costs of the Directors of the Company have been borne by Merlin Entertainments Group Limited for their services to the Group as a whole. The costs related to these Directors are included within the Directors' Remuneration Report. Two Directors accrued benefits under defined contribution schemes during the year *(2013: two)*.

iii Investment in subsidiary undertaking

	Shares in subsidiary undertaking
	£m
Cost and carrying value	
At 20 September 2013	—
Additions	3,107
At 28 December 2013	3,107
Capital contributions to subsidiaries	4
At 27 December 2014	3,111

Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

The subsidiary undertaking at the period 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 6.8.

iv Amounts owed by group undertakings

Amounts owed by group undertakings comprise funds loaned by the Company to fellow group undertakings. These funds are repayable on demand.

v Creditors: amounts falling due within one year

	2014	2013
	£m	£m
Other creditors	—	2
Accruals and deferred income	2	2
	2	4

vi Called up share capital

	2014 Number	2014	2013 Number	2013
		£m		£m
Ordinary shares of £0.01 each				
At beginning of the period	1,013,746,032	10	—	—
Incorporation	—	—	1	—
Share for share exchange	—	—	156,767,049	1
Cancelled in the period	—	—	(10,868,759)	—
Bonus issue	—	—	804,101,709	8
Shares issued	—	—	63,746,032	1
At end of the period	1,013,746,032	10	1,013,746,032	10
Redeemable ordinary shares of £50,000.00 each				
At beginning of the period	—	—	—	—
Incorporation	—	—	1	—
Redeemed	—	—	(1)	—
At end of the period	—	—	—	—

The Company was incorporated on 20 September 2013. On incorporation one A ordinary share of £0.01 was issued for consideration of £0.01 and one redeemable ordinary share of £50,000.00 was issued for consideration of £50,000 (in the form of an undertaking to pay).

On 12 November 2013 the Company redeemed the outstanding redeemable ordinary share at par for £50,000.

On 12 November 2013 the Company, under a share for share exchange agreement, acquired the entire issued share capital of Merlin Entertainments S.à r.l. in consideration for the issue of 136,767,049 A ordinary shares of £0.01 to the previous shareholders of A class ordinary shares of Merlin Entertainments S.à r.l. and 20,000,000 B ordinary shares of £0.01 to the previous shareholders of B class ordinary shares of Merlin Entertainments S.à r.l. Under a subsequent reorganisation, Merlin Entertainments plc acquired the entire issued share capital of Merlin Entertainments Group Luxembourg 3 S.à r.l. and Merlin Entertainments S.à r.l. was liquidated.

On 13 November 2013 all of the A ordinary shares in issue and 9,131,241 of the B ordinary shares of the Company were converted into ordinary shares of £0.01 in Merlin Entertainments plc. The remaining 10,868,759 B ordinary shares were converted into deferred ordinary shares in Merlin Entertainments plc and were subsequently gifted back to the Company and cancelled.

On 13 November 2013 the merger reserve of the Company was capitalised to effect a bonus issue of 804,101,709 shares to holders of the ordinary shares in the Company. No consideration was payable on the issue of the shares.

On 13 November 2013 the Company became listed on the London Stock Exchange and the issue of 63,492,064 ordinary shares for a total consideration of £200 million became unconditional.

On 13 November 2013 the Company issued 253,968 ordinary shares to certain Non-executive Directors for consideration of £1 million.

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.

SHAREHOLDER *Information*

vii Reconciliation of movements in shareholders' funds

	Share capital	Share premium	Merger reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m
At 20 September 2013	—	—	—	—	—
Loss for the period	—	—	—	(4)	(4)
Share for share exchange	1	—	2,991	—	2,992
Bonus issue	8	2,983	(2,991)	—	—
Issue of shares	1	200	—	(7)	194
At 28 December 2013	**10**	**3,183**	**—**	**(11)**	**3,182**
Profit for the year	—	—	—	1	1
Equity dividends	—	—	—	(20)	(20)
Capital restructure	—	(3,183)	—	3,183	—
Share incentive schemes:					
—movement in reserves for employee share schemes	—	—	—	4	4
At 29 December 2014	**10**	**—**	**—**	**3,157**	**3,167**

On 26 February 2014 the Company reduced its share capital by means of a court sanctioned reduction of capital, which resulted in an increase in available reserves for distribution by way of dividends to shareholders in the amount of £3,183 million.

The profit after tax for the period in the accounts of Merlin Entertainments plc is £1 million *(2013: loss after tax of £4 million)*.

The Directors of the Company propose a final dividend of 4.2 pence per share.

FINANCIAL *Record*

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Results					
Revenue	1,249	1,192	1,074	946	801
Underlying EBITDA	411	390	346	306	256
Underlying operating profit	311	290	258	232	198
Operating profit	311	260	199	230	158
Profit before tax	226	172	98	96	26
Consolidated statement of financial position					
Property, plant and equipment	1,410	1,321	1,290	1,112	951
Intangible assets	942	961	970	970	917
Cash and cash equivalents	285	264	142	60	67
Non-current interest-bearing loans and borrowings	1,131	1,179	1,333	1,178	1,061
Total equity	1,063	944	617	555	505
Consolidated statement of cash flows					
Net cash flow from operating activities	357	365	348	292	183
Changes in working capital	(4)	30	24	3	6
Net increase/(decrease) in cash and cash equivalents	16	125	81	(4)	(18)

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MERLIN
ENTERTAINMENTS

Merlin Entertainments plc

€200,000,000 2¾% SENIOR NOTES DUE 2022

OFFERING MEMORANDUM

Joint Physical Bookrunners

BNP PARIBAS **HSBC**

Bookrunners

Lloyds Bank **Société Générale Corporate & Investment Banking** **UniCredit Bank**

21 March 2017