



Merlin Entertainments plc – 2017 Preliminary Results

2017 results in line with guidance
Continued strategic progress throughout 2017
Positive outlook with structural growth opportunities

1 March 2018

Merlin Entertainments, Europe's leading and the world's second-largest visitor attraction operator, reports preliminary results for the year ended 30 December 2017.

Financial Summary

	52 weeks ended 30 December 2017	52 weeks ended 24 December 2016	Reported growth (actual currency)	Organic growth ⁽³⁾ (constant currency)	Like for like growth ⁽⁴⁾ (constant currency)
Visitors ⁽¹⁾ (m)	66.0	63.8	3.5%		
Revenue (£m)	1,594	1,428	11.6%	6.6%	0.7%
EBITDA (£m)	474	433	9.5%	3.5%	1.0%
Operating profit (£m)	323	302	6.8%	0.0%	
Profit before tax (£m)	271	259	4.8%		
Profit for the year (£m)	209	197	6.0%		
Adjusted earnings per share ⁽²⁾ (p)	20.5	19.5	5.5%		
Dividend per share (p)	7.4	7.1	4.2%		
Operating free cash flow ⁽⁵⁾	315	292	7.8%		
ROCE ⁽⁶⁾	9.1%	9.6%			

See footnotes on page 4

Summary

- A record 66 million visitors welcomed in 2017, up 3.5% on 2016.
- Total revenue growth of 11.6% driven by growth in like for like revenue, New Business Development and the benefit of favourable foreign exchange movements:
 - 18.2% organic revenue growth (constant currency) in LEGOLAND Parks revenue due to the opening of LEGOLAND Japan and continued strong like for like performance;
 - Midway Attractions organic revenue growth of 1.3% reflecting the roll out of new attractions offsetting a decline in like for like revenue due primarily to London trading;
 - Resort Theme Parks organic revenue decline of 0.4% reflecting adverse weather conditions in Europe.
- 2017 EBITDA in line with guidance, representing growth of 9.5% on 2016 (3.5% at constant currency).
- Continued strong cash flow generation, with operating free cash flow of £315 million, up 7.8% from 2016.
- Good strategic progress throughout 2017, including:
 - Six new Midway attractions opened, with nine scheduled for 2018
 - 383 accommodation rooms opened, with 644 expected in 2018
 - LEGOLAND Japan opened on 1 April, with LEGOLAND New York announced during the year and targeted to open in 2020 as previously stated.

Nick Varney, Merlin Entertainments Chief Executive Officer, said:

“A year that started well with positive momentum in almost every part of the Group was ultimately defined by the unprecedented spate of terror attacks in the UK and poor to extreme weather throughout the summer season in Europe. Despite this, thanks to the efforts of our extraordinary team, we have reported overall growth in revenue, profit and cash flow, welcoming 66 million visitors – our highest on record.

Against a difficult trading backdrop, we continued to make good strategic progress. We opened 383 new accommodation rooms, six new Midway attractions, including the launch of a new brand – ‘Little BIG City’ – in Berlin, as well as a new LEGOLAND park in Japan. We also announced in October plans to open a LEGOLAND park in New York State in 2020, and the launch of two new IP based attraction formats – ‘The Bear Grylls Adventure’ and ‘Peppa Pig’.

Furthermore, we were motivated throughout 2017 to review our approach to capital allocation and reflect upon recent performance which has fallen short of our expectations in some areas. This has resulted in a number of medium term adjustments - most notably the reduction in Midway and Resort Theme Parks existing estate capex which will be reallocated towards our highly successful accommodation roll out and increased focus on the Productivity Agenda.

Merlin continues to evolve and, with attractive market fundamentals and the right strategy in place, we remain highly confident in the long term prospects for the business.”

Delivering on the strategy

The Group has made good progress against its strategic growth drivers in 2017 and has further expanded and diversified its portfolio:

Growing the existing estate through planned investment cycles

- Compelling new propositions opened across the estate, including:
 - Midway Attractions – new product including ‘Ocean Invaders’ at SEA LIFE London Aquarium and ‘Fashion Week Experience’ at Madame Tussauds Sydney.
 - LEGOLAND Parks – ‘NINJAGO World’ now open at six of our parks.
 - Resort Theme Parks – ‘The Gruffalo River Ride Adventure’ at Chessington World of Adventures and ‘Ghostbusters: 5D’ at Heide Park.
- Major 2018 investments to include ‘LEGO City: Deep Sea Adventure’ at LEGOLAND California, ‘Wicker Man’ at Alton Towers and ‘Justice League’ features at Madame Tussauds Sydney and Orlando.

Exploiting strategic synergies

- Accesso® e-commerce platform now rolled out to the majority of the estate.
- Future e-commerce to focus upon short breaks, annual passes and cluster sales.

Transforming our theme parks into destination resorts

- Total of 383 rooms opened in 2017, comprising:
 - 80 room expansion of the holiday village in LEGOLAND Billund;
 - 166 room holiday village at LEGOLAND Florida;
 - 61 room Castle Hotel at LEGOLAND Windsor;
 - 76 room CBeebies Land Hotel at Alton Towers.
- 644 rooms expected to open in 2018.
- Expect average annual capex to be in the range of £70 million to £80 million in the medium term.

Rolling out new Midway attractions

- Six new openings in 2017, comprising LEGOLAND Discovery Centres in Melbourne and Philadelphia, Madame Tussauds in Nashville and Delhi, SEA LIFE in Chongqing and Little BIG City in Berlin.
- Nine attractions scheduled to open in 2018, weighted towards the second half of the year, including the launch of ‘The Bear Grylls Adventure’ and ‘Peppa Pig’.
- Expect average annual capex to be in the range of £60 million to £70 million in the medium term.

New LEGOLAND parks

- LEGOLAND Japan successfully opened in April 2017.
- LEGOLAND New York targeted to open in 2020.
- Discussions ongoing regarding partner funding of LEGOLAND Korea.

- Study agreements in place regarding a number of opportunities in China.

Strategic acquisitions

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

Current trading and outlook

Trading at this seasonally quiet point in the year has been in line with expectations.

Whilst recent foreign exchange movements could materially affect our 2018 reported results, our underlying expectations remain positive and unchanged.

Results Webcast

An audio webcast for analysts will be held this morning at 08.30 and can be accessed via Merlin's corporate website, www.merlinentertainments.biz.

Participant Dial in:
UK : +44 (0) 2071 928000
Participant Pin Code: 2089059

Contact details:

For further information please contact:

Investors

Simon Whittington +44 (0)7968 552 473

Media

James Crampton +44 (0)1202 493 014

Brunswick

Fiona Micallef-Eynaud / Imran Jina +44 (0)20 7404 5959

Footnotes:

(1) Visitors represents all individual visits to Merlin owned or operated attractions.

(2) Basic earnings per share is 20.5p (2016: 20.8p).

(3) Like for like growth and contribution from New Business Development on a constant currency basis, using 2017 exchange rates.

(4) Like for like growth refers to the growth between 2016 and 2017 on a constant currency basis using 2017 exchange rates and includes all businesses owned and operated before the start of 2016.

(5) Defined as EBITDA less existing estate capex

(6) As defined on page 17.

Last year's financial statements were prepared on a 53 week basis to 31 December 2016. Reported figures were revenue £1,457 million, underlying operating profit £320 million, profit before tax £277 million, profit after tax £211 million and basic EPS 20.8 pence.

Notes to Editors :

MERLIN ENTERTAINMENTS plc is the leading name in location based, family entertainment. As Europe's Number 1 and the world's second-largest visitor attraction operator, Merlin operates over 120 attractions, 15 hotels and 6 holiday villages in 25 countries and across 4 continents. The Company aims to deliver memorable experiences to its nearly 70 million visitors worldwide, through its iconic global and local brands, and the commitment and passion of its circa 29,000 employees (peak season).

Since the formation of Merlin in 1999, the company's Strategic Statement has been "to create a high growth, high return, family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors".

To achieve this, Merlin has six Strategic Growth Drivers:

1. Growing the existing estate through planned investment cycles
2. Exploiting strategic synergies
3. Transforming our theme parks into destination resorts
4. Rolling out new Midway attractions
5. New LEGOLAND park developments
6. Strategic acquisitions

About our attractions:

Merlin operates two distinct products, managed in three Operating Groups.

Midway

'Midway' attractions are high quality, branded, indoor attractions, with a typical 1-2 hour dwell time, located in city centres or resorts. There are over 100 Midway attractions across 22 countries, with five established brands: SEA LIFE, Madame Tussauds, The Eye (observation attractions), The Dungeons and LEGOLAND Discovery Centres. Midway also incorporates our newest brand 'Little BIG City'.

In October 2017, Merlin announced global, exclusive partnership agreements to roll out location based entertainment based on two market-leading Intellectual Properties – Bear Grylls and Peppa Pig. The first attractions are scheduled to open in 2018.

Theme Parks

Merlin's theme parks are larger multi-day outdoor destination venues, incorporating on-site themed accommodation. These are organised into two specific Operating Groups.

- LEGOLAND Parks – Eight LEGO themed interactive theme parks appealing to younger families with children aged 2-12. The LEGOLAND Parks estate spans seven countries across three continents, with plans already announced for further parks in New York and South Korea, having most recently opened LEGOLAND Japan in April 2017.
- Resort Theme Parks – Six nationally recognised destination theme parks arranged around a central theme. Parks include Alton Towers, THORPE PARK, Chessington World of Adventures, Warwick Castle, Gardaland (Italy) and Heide Park (Northern Germany).

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

Visit <http://www.merlinentertainments.biz> for more information.

Attraction Numbers

Movement in attraction numbers between 31 December 2016 and 30 December 2017:

	UK		Cont. Europe			Americas			Asia Pacific			Total			
	31 Dec 2016	Mov't	30 Dec 2017	31 Dec 2016	Mov't	30 Dec 2017	31 Dec 2016	Mov't	30 Dec 2017	31 Dec 2016	Mov't	30 Dec 2017	31 Dec 2016	Mov't	30 Dec 2017
SEA LIFE	13	-	13	18	-	18	8	-	8	8	1	9	47	1	48
MT⁽¹⁾	2	-	2	4	-	4	6	1	7	9	1	10	21	2	23
Dungeons	5	-	5	3	-	3	1	-	1	-	-	-	9	-	9
LDC⁽²⁾	1	-	1	3	-	3	9	1	10	3	1	4	16	2	18
Eye	2	-	2	-	-	-	1	-	1	1	-	1	4	-	4
Other	1	-	1	-	1	1	-	-	-	6	-	6	7	1	8
Midway⁽³⁾	24	-	24	28	1	29	25	2	27	27	3	30	104	6	110
LLP⁽⁴⁾	1	-	1	2	-	2	2	-	2	2	1	3	7	1	8
RTP⁽⁵⁾	4	-	4	2	-	2	-	-	-	-	-	-	6	-	6
Group	29	-	29	32	1	33	27	2	29	29	4	33	117	7	124

Note:

⁽¹⁾ Madame Tussauds

⁽²⁾ LEGOLAND Discovery Centre

⁽³⁾ Midway Attractions Operating Group

⁽⁴⁾ LEGOLAND Parks Operating Group

⁽⁵⁾ Resort Theme Parks Operating Group

Attractions opened in 2017 comprise: Madame Tussauds Nashville, LEGOLAND Discovery Centre Philadelphia, LEGOLAND Discovery Centre Melbourne, SEA LIFE Centre Chongqing, Little BIG City Berlin, Madame Tussauds Delhi and LEGOLAND Japan.

Number of rooms

Movement in the number of accommodation rooms between 31 December 2016 and 30 December 2017:

	31 Dec 2016	Rooms opened	Other movements	30 Dec 2017
Billund (Denmark)	356	80	-	436
Windsor (UK)	150	61	(2)	209
California	250	-	-	250
Deutschland	319	-	-	319
Florida	152	166	-	318
Malaysia	249	-	9	258
Dubai	-	-	-	-
Japan	-	-	-	-
LEGOLAND Parks	1,476	307	7	1,790
Alton Towers (UK)	516	76	-	592
Chessington World of Adventures (UK)	254	-	-	254
Gardaland (Italy)	347	-	-	347
Heide Park (Germany)	329	-	-	329
THORPE PARK (UK)	90	-	-	90
Warwick Castle (UK)	71	-	(4)	67
Resort Theme Parks	1,607	76	(4)	1,679
Group	3,083	383	3	3,469

Note:

Excludes campsite pitches at LEGOLAND Deutschland and LEGOLAND Billund.

Information regarding the proposed final dividend

The timetable for the final dividend of payment of 5.0 pence per share is as follows:

Ex-dividend Date	12 April 2018
Record Date	13 April 2018
Payment Date	17 May 2018

The Company will also provide a Dividend Re-Investment Plan (DRIP). The last day for electing for the DRIP will be 25 April 2018.

References to dividend per share are quoted gross of tax.

Chief Executive Officer's review

2017 overview

A year that started well with positive momentum in almost every part of the Group was ultimately offset by the unprecedented spate of terror attacks in the UK and poor to extreme weather throughout the summer season in Europe. Nonetheless Merlin, due to its increasingly diversified portfolio, was still able to deliver total revenue growth of 11.6% (6.6% organic growth) and EBITDA of £474 million versus £433 million in 2016, welcoming a record 66 million visitors. Our extraordinary team worked hard and recorded significant achievements across the year but, frustratingly, due to these external events, this result was short of expectations and our budget.

During the year, we made good progress against our exciting New Business Development (NBD) programme which continues to offer significant structural growth opportunities. We rolled out further themed, on-site accommodation, opening 383 rooms in the year at four of our theme parks. Our Midway roll out included our first investment in India, Madame Tussauds Delhi, as well as the launch of a new brand – 'Little BIG City' – in Berlin. We opened a new LEGOLAND park in Japan in April, and in October announced our plans to open a park in New York State in 2020. Finally, we announced the launch of two new IP-based global partnerships – 'The Bear Grylls Adventure' and 'Peppa Pig' – and are on track to open our pilot attractions under these brands in 2018.

Merlin remains highly focused upon capital discipline, so it is disappointing that the challenging trading environment of recent years has resulted in returns in some parts of the business, particularly in Midway London, being below our expectations.

As a result, in addition to the cost control measures already in place, we announced in October 2017 our intention to make some medium term adjustments to our long-standing approach to capital allocation. While current volatile conditions endure, we will reduce our existing estate investment in Midway Attractions and Resort Theme Parks, reallocating this towards 'backing the winners' – principally our accommodation strategy where we continue to see strong returns, and to a Productivity Agenda.

Overall, thanks to the flexibility in our strategic model and long term structural growth in our markets, we therefore continue to target broadly similar levels of organic growth, for similar levels of investment, with a greater focus upon New Business Development.

Within our long-standing Midway roll out model we are also recognising a differentiated approach. Where we are opening core Midway brands in developed markets, we continue to expect EBITDA ROIC in the range of 15% to 25%. Recent openings such as LDC Melbourne and LDC Philadelphia are good examples of this. In emerging markets, and with new brands, we believe a longer term perspective to be more appropriate and therefore target a risk-adjusted Internal Rate of Return (IRR) of 14%.

Market overview

Merlin operates in a fundamentally attractive marketplace, benefiting from a number of structural growth drivers.

We believe that the long term trend for overall international tourism remains strong, which should lead to increased visitation and spend, particularly in key gateway cities. The emerging middle classes around the world want to travel and seek new experiences in their own and foreign countries. Combined with more affordable air travel and improved transportation, this has resulted in strong growth in international travel, with 1.8 billion international tourist arrivals expected in 2030 - a nearly threefold increase on the 2000 level. In recent years we have seen a number of 'shocks' to international tourism, ranging from the visa restrictions affecting travel from the People's Republic of China to Hong Kong, to the spate of terror attacks across Europe, driving visitors away from city centres and other high profile public places. Our view however is that, much like the impact of foreign exchange rates on international tourism flows, these have resulted in a temporary displacement of tourism, rather than a permanent reduction in the attractiveness of these markets. It is with this in mind that we continue to roll out new Midway attractions in markets which, in the short term, may be more volatile.

Furthermore, developed markets have seen a substantial decline in the traditional two week summer holiday in favour of shorter, more frequent breaks. This market dynamic benefits our theme parks which are predominantly domestic-focused and increasingly targeting the short break market with themed accommodation, as well as our Midway attractions located in city centres.

Finally, we also see broader trends benefiting our theme parks and Midway attractions located outside of gateway cities. Growth in overall wealth in both developed and emerging markets results in increased income available for leisure activities, and in many parts of the world, consumers are increasingly looking to spend this income on experiences, rather than goods. We believe that this is further accentuated as the world becomes more 'digital', increasing the value many consumers place on high-quality time shared with friends and family, away from smartphones and screens.

Strategy update

Against these attractive market dynamics, Merlin's strategy since 1999 has been to create a high growth, high return, family entertainment business naturally balanced against external factors. Specifically, it is our aim to continue to diversify our portfolio, by geography, brand and customer, ensuring a balance of indoor and outdoor attractions and international and domestic visitation.

To achieve this, Merlin has six strategic growth drivers. Progress against these in 2017 has been as follows:

1. *Existing estate capex* – investment in the existing estate allows us to grow visitation to the attraction, provides us with something new to market, and provides a degree of pricing power. In 2017 each of our attractions invested in new products and features, with notable investments including 'Ocean Invaders' at SEA LIFE London Aquarium, 'NINJAGO World' at our LEGOLAND parks, and 'The Gruffalo River Ride Adventure' at Chessington World of Adventures. In October 2017, we announced that we would be reallocating approximately £100 million of capital away from the existing estate over the period 2018 to 2021, as we seek to maintain our capital discipline in the face of a difficult external environment, focusing upon higher returning projects.
2. *Strategic synergies* – we continue to leverage the growing scale of the Group through better procurement, promotional activity and technology. Across Merlin annual passes and Group promotions, we generate more than £100 million in annual revenue. We have now rolled the accesso[®] e-commerce platform out across the majority of our estate, whilst the future focus of e-commerce will turn to opportunities in short breaks, annual passes and cluster sales.
3. *Short break positioning* – the rationale for investment in on-site themed accommodation and developing our theme parks into short break resorts remains compelling. We continue to enjoy strong financial returns, improved levels of guest satisfaction and increases in advanced bookings. In 2017 we opened 383 rooms across a range of accommodation, and anticipate opening 644 in 2018. We expect annual average capex to be in the range of £70 to £80 million in the medium term though this will vary depending upon timing and mix of openings.
4. *Midway roll out* – we seek to balance our Midway openings between core brands in developed markets where we target a 15% to 25% EBITDA ROIC, and new brands or emerging markets where we target a 14% risk-adjusted IRR. We opened six new Midway attractions in 2017 including MT Delhi – our first investment in India, and launched our new brand – 'Little BIG City' – in Berlin. We have nine attractions scheduled to open in the second half of 2018, which will include pilots of the recently announced brands – 'The Bear Grylls Adventure' and 'Peppa Pig'. We expect average annual capex to be in the range of £60 to £70 million in the medium term though this will vary depending upon timing and mix of openings.
5. *New LEGOLAND parks* – in April, we successfully opened LEGOLAND Japan on capital budget and ahead of schedule. Furthermore, we announced in October our plans to open the fully owned and operated LEGOLAND New York Resort, including a 250 room four star hotel, in 2020. This will see us invest approximately £250 million in the site over the period 2017 to 2021. We remain confident in the long term opportunity for the new LEGOLAND parks.
6. *Strategic acquisitions* – reflecting the strict criteria we apply in assessing investments, we made no acquisitions during 2017. We do however continue to assess opportunities which may provide a platform for further expansion, as well as smaller, single site Midway assets.

Productivity Agenda

Merlin continues to face a number of external cost headwinds. This is most notable in employment costs, which represent approximately half of our operating costs, where we see significant pressures on wages; in Asia from market forces, and Europe and the USA where legislation is driving increases well above the rate of broader inflation. Other fixed costs, including property taxes in the UK, insurance and utilities, are similarly increasing at rates ahead of broader inflation.

Against this backdrop, we have been successful throughout 2017 in limiting the effect of softer trading through a combination of short term cost savings such as variable labour costs. The self-service ticketing terminals installed in our London cluster, which will be rolled out more broadly, have been a good example of this, allowing for a more efficient operation, and also crucially resulting in positive guest feedback.

As announced in October, we will further evolve the way we work over the coming years as we seek more permanent, structural savings. During 2018, we will begin the process of increased investment in back office systems and infrastructure, allowing us ultimately to better leverage the growth of the Group. These actions seek to maintain Group margins at current levels despite the continued challenging cost environment, and market volatility.

Health and safety

We seek to be an industry leader, driving best in class health, safety and security standards. Throughout 2017 we have built upon the strong foundations of governance, operating standards and practices, and I am pleased that we have seen a continued improvement in the health and safety key performance indicator measuring medical treatment cases of guests. The safety and security of our guests and employees remains our number one priority and we will continue to invest in retaining our high standards.

Guest satisfaction

We maintain our relentless focus on delivering memorable experiences to our guests. Guest feedback is monitored on a daily basis by both local and central product excellence teams, and is shared across all levels of the organisation. In 2017 we delivered an average guest satisfaction score across the Group of 96%, whilst our average 'Net Promoter' score across our attractions remains very strong at over 50%.

Employee engagement

Our annual employee survey – 'The Wizard Wants to Know' – allows our employees to tell us what they think about Merlin. I am very pleased that this has again shown very high scores, with a 95% response rate, and 94% saying that they enjoy working at Merlin. We're not complacent however, and we continue to invest in our teams in order to create an engaged, motivated and diverse workforce.

In what turned out to be a difficult year, I would like to thank our exceptional employees for their continued hard work and commitment in delivering fun, safe, memorable experiences to all our guests.

Midway Attractions

	52 weeks ended 30 December 2017	52 weeks ended 24 December 2016	Reported growth (actual currency)	Organic growth (constant currency)	Like for like growth
Revenue	656	621	5.7%	1.3%	(1.2)%
EBITDA	220	224	(1.8)%	(5.9)%	
Operating profit	152	160	(5.0)%	(9.3)%	

Organic revenue grew by 1.3% in the Midway Attractions Operating Group. This was driven by the continued roll out of new attractions offsetting a like for like decline of 1.2%.

2017 saw the opening of six new Midway attractions, comprising LEGOLAND Discovery Centres in Philadelphia and Melbourne, a Madame Tussauds in Nashville, a SEA LIFE Centre in Chongqing, the first of our new brand 'Little BIG City' in Berlin and Madame Tussauds Delhi – our first attraction in India. Including the full year benefit of the five attractions opened in 2016, the Midway roll out contributed an additional £16 million of revenue in 2017.

After a strong start to the year, Midway like for like revenue growth slowed following the spate of terror attacks in the UK which particularly impacted trading in London. The attacks led to a significant and immediate decline in domestic visitation, with international visitation falling from the summer onwards. This resulted in an estimated 17% drop in the London visitor attraction market over the key trading period. London is the largest and most profitable of Midway's five regional Divisions and therefore represented the greatest factor in trading performance in 2017.

Trading in North America was affected by lower levels of LEGO sales in our LEGOLAND Discovery Centres as well as reduced international visitation to New York.

Outside of London and North America, our three remaining regional Divisions enjoyed good growth.

Organic EBITDA declined by 5.9% reflecting the reduction in margin from 36.1% to 33.5%. A key contributor to this was the significant decline in visitation to London given its higher levels of profitability. The margin was further impacted by continued underlying cost pressures which were only partly offset by management action, as well as the effect of the new openings which typically have lower margins than the existing estate. Furthermore, a £2 million credit related to a sales tax rebate was recognised in 2017, compared to £5 million in 2016.

Higher depreciation driven by continued investment in the estate resulted in operating profit declining by 9.3% at constant currency.

Reflecting the capital efficiency of the Midway model, Midway operating free cash flow conversion was 77%. This is expected to increase in the medium term as existing estate capex is reduced.

LEGOLAND Parks

	52 weeks ended 30 December 2017	52 weeks ended 24 December 2016	Reported growth (actual currency)	Organic growth (constant currency)	Like for like growth
Revenue	609	486	25.1%	18.2%	4.7%
EBITDA	230	188	22.0%	15.0%	
Operating profit	191	160	19.0%	12.1%	

Organic revenue grew by 18.2% in the LEGOLAND Parks Operating Group, driven by the opening of LEGOLAND Japan, the continued accommodation roll out and like for like revenue growth of 4.7%.

The opening of LEGOLAND Japan in April, and the full year benefit of LEGOLAND Dubai, contributed an additional £59 million of revenue in 2017. LEGOLAND Japan opened on capital budget and ahead of schedule, delivering a small EBITDA

contribution which reflected pre-opening costs and the part year opening. The resort will be extended in 2018 with the addition of a SEA LIFE Centre and 252 bedroom hotel.

A total of 307 rooms were opened in 2017, comprising an 80 room expansion of the holiday village in LEGOLAND Billund, a 166 room holiday village at LEGOLAND Florida and the 61 room Castle Hotel at LEGOLAND Windsor.

Like for like revenue growth of 4.7% was driven by continued product investment and, in particular, the success of 'NINJAGO World' which is now open at six of our parks, and which benefited from the launch of 'The LEGO NINJAGO Movie' towards the end of the year.

Organic EBITDA grew by 15.0%. The reduction in margin from 38.7% to 37.8% was primarily the result of the pre-opening costs and lease charges associated with LEGOLAND Japan.

Operating profit growth of 12.1% was slightly lower than that of EBITDA as a result of increased depreciation following the opening of LEGOLAND Japan.

Resort Theme Parks

	52 weeks ended 30 December 2017	52 weeks ended 24 December 2016	Reported growth (actual currency)	Organic growth (constant currency)	Like for like growth
Revenue	329	319	3.2%	(0.4)%	(1.9)%
EBITDA	72	69	4.8%	(0.9)%	
Operating profit	36	37	(1.3)%	(8.8)%	

Organic revenue declined by 0.4% in the Resort Theme Parks Operating Group, as the continuing accommodation roll out partly offset a like for like revenue decline of 1.9%.

Accommodation investment in Resort Theme Parks in 2017 represented the 76 room CBeebies Land Hotel at Alton Towers which opened in July, whilst we also benefited from the full year effect of the 163 rooms opened in 2016.

After a strong start to the year, the UK theme park market slowed in the key summer period following the series of terror attacks and the Government's subsequent raising of the threat level. The parks enjoyed positive momentum during Halloween however which, combined with the ongoing recovery of Alton Towers, resulted in good growth for the UK parks overall. In Continental Europe, exceptionally poor weather in Italy led to significant shortfalls in visitation to Gardaland – the largest and most profitable of our six theme parks, whilst unfavourable weather in Northern Germany also impacted trading at Heide Park.

Organic EBITDA decreased by 0.9%. As a result of cost saving measures introduced throughout 2016 and 2017, the EBITDA margin increased from 21.5% to 21.8%.

Operating profit decreased by 8.8% as a result of the decline in EBITDA, on a constant currency basis.

Geographic performance

Merlin has the longer term aim of sourcing revenues equally from the Europe, the Americas and Asia Pacific regions. 2017 performance against this is as follows:

Europe (55% of revenue, 2016: 59%) saw organic revenue growth of 0.4%, driven by the opening of 217 accommodation rooms and one new Midway attraction. In the existing estate, significant declines in Gardaland and Midway London more than offset growth elsewhere in the region.

The Americas (27% of revenue, 2016: 27%) saw organic revenue growth of 5.2% driven by new accommodation at LEGOLAND Florida, with strong like for like growth in the two LEGOLAND parks offsetting a softer Midway performance.

Asia Pacific (18% of revenue, 2016: 14%) grew 35.7% on an organic basis. This is predominantly due to the opening of LEGOLAND Japan and, to a lesser extent, the continued focus of our Midway roll out in this region. The region also enjoyed strong like for like revenue growth.

Chief Financial Officer's review

	52 weeks ended 30 December 2017 £m	52 weeks ended 24 December 2016 £m	53 weeks ended 31 December 2016 £m	52 week growth (actual currency)	Organic growth (constant currency)
Revenue	1,594	1,428	1,457	11.6%	6.6%
EBITDA	474	433	451	9.5%	3.5%
Depreciation and amortisation	(151)	(131)	(131)	(15.5)%	(11.6)%
Operating profit	323	302	320	6.8%	0.0%
Net finance costs	(52)	(43)	(43)	(18.7)%	
Profit before tax	271	259	277	4.8%	
Taxation	(62)	(62)	(66)	(1.0)%	
Profit for the year	209	197	211	6.0%	
Adjusted earnings per share	20.5p	19.5p	20.8p	5.5%	
ROCE	9.1%	9.6%	10.2%		
Operating free cash flow	315	292	310	7.8%	
Leverage on net debt to underlying EBITDA	2.4x	–	2.3x		

To aid comparability, the trading commentary which follows is on a 52 week basis. Unless otherwise stated, all growth rates are presented on a constant currency basis, that is, as if the 2016 results were re-translated at 2017 average rates.

Revenue

Reported revenue for the 52 weeks to 30 December 2017 increased to £1,594 million. On a 52 week basis, organic revenue grew by 6.6%.

On a like for like basis, revenues grew by 0.7%, reflecting increased revenue per capita, offset by lower visitor volumes.

We made good progress with our new business development. We opened six new Midway attractions, which together with the full year benefit of 2016 openings, contributed £16 million to revenue growth. Similarly LEGOLAND Japan and LEGOLAND Dubai contributed £59 million, whilst new accommodation added a further £15 million.

EBITDA

Reported EBITDA for the 52 weeks to 30 December 2017 increased to £474 million, albeit held back by the significant decline in trading in London and Gardaland, the largest divisions in Midway Attractions and Resort Theme Parks, respectively. On a 52 week basis organic EBITDA increased by 3.5% as underlying cost increases in our existing estate and additional pre-opening costs in our new attractions offset revenue growth.

Group EBITDA margin fell slightly to 29.7% from 30.3%, primarily as a result of a decline in the Midway Attractions margin. In addition, the LEGOLAND Parks margin was affected by pre-opening costs and lease charges at LEGOLAND Japan. Central net costs of £48 million were flat on 2016, mainly from savings in variable remuneration.

The cost base at each of our attractions is relatively fixed so revenue increases and decreases are expected to flow through to its operating result. If revenue is anticipated to fall short of our expectations, we will implement focused cost management initiatives to protect profitability as far as possible.

Operating margins are also impacted by underlying uncontrollable external cost pressures, such as those arising from wage legislation or property taxes. In this case we look to offset any longer term trend with more structural productivity initiatives.

Operating Group margins are affected by the source and mix of revenue in the existing estate and the dilutive effect of new attractions and accommodation, which typically have lower margins than the existing estate and incur costs in the pre-opening period. The Group result is influenced by central costs, which whilst relatively fixed in nature, may rise over time to support the increasing breadth and scale of the business.

Foreign exchange

Merlin is exposed to fluctuations in foreign currency exchange rates on transactions and the translation of our non Sterling earnings. Retranslating 2016 performance at 2017 rates would result in a £67 million benefit to revenue and a £25 million benefit to EBITDA.

Currency	2016 average FX rates	2017 average FX rates	%age movement in FX rates	Revenue impact £m	Currency	2016 average FX rates	2017 average FX rates	%age movement in FX rates	EBITDA impact £m
USD	1.37	1.29	6.1%	25	USD	1.37	1.28	6.8%	11
EUR	1.23	1.14	7.3%	22	EUR	1.21	1.13	7.0%	7
AUD	1.83	1.68	8.1%	8	AUD	1.81	1.67	8.4%	2
Other				12	Other				5
Increase in 2016 revenues at 2017 FX rates				67	Increase in 2016 EBITDA at 2017 FX rates				25

Operating profit

Depreciation and amortisation grew by 11.6% to £151 million. This primarily reflects the roll out of attractions and accommodation, as well as continued investment in assets, such as IT, that have shorter useful economic lives.

On a constant currency basis, underlying operating profit remained flat at £323 million.

Interest

Net finance costs of £52 million were incurred in 2017 (2016: £43 million), reflecting increased borrowings following the issuance of further senior notes in March 2017 (net of bank debt repayments), new finance lease liabilities at LEGOLAND Japan, the accounting impact of reassessing the refinancing date of our existing bank facilities, and the impact of movements in exchange rates.

We anticipate an interest charge of approximately £50 million in 2018.

Taxation

The tax charge of £62 million represents an effective tax rate of 22.9%, falling from 23.8% in 2016, primarily due to the impact of changes in tax legislation in the USA. We currently anticipate an effective tax rate in 2018 in the range of 22 to 24%.

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

Dividend

The Company's policy is to pay a dividend with a target range of 35-40% of underlying profit after tax, so as to maintain an appropriate level of dividend cover whilst retaining sufficient capital in the Group to fund continued re-investment in the business.

In September 2017 we paid an interim dividend of 2.4 pence per share and the Board is recommending a final dividend of 5.0 pence per share. This equates to a full year dividend of 7.4 pence per share and represents growth of 4.2% from 2016.

When making proposals for the payment of dividends, the Directors consider the resources available to the Company and its subsidiaries. Specifically, they have taken account of the Company's significant distributable profits, as well as the liquidity of the Group.

Cash flow

	2017 52 weeks £m	2016 53 weeks £m
EBITDA	474	451
Working capital and other movements	3	32
Tax paid	(64)	(50)
Net cash inflow from operating activities	413	433
Capital expenditure – existing estate	(159)	(141)
Capital expenditure – new business development	(177)	(118)
Other investing activities	(12)	(33)
Proceeds from share capital	8	2
Interest paid, net of interest received	(45)	(40)
Dividends paid	(74)	(67)
Other	4	4
Net cash (outflow)/inflow before refinancing and repayment of borrowings	(42)	40
Refinancing and repayment of borrowings (net)	132	–
Net cash inflow for the year	90	40

Merlin continues to be highly cash generative, delivering operating free cash flow (being EBITDA less existing estate capital expenditure) of £315 million in 2017 (2016 53 weeks: £310 million). Net cash flow from operating activities for the 52 weeks to 30 December 2017 was £413 million (2016 53 weeks: £433 million).

A total of £336 million was incurred on capital expenditure in 2017, comprising £159 million invested in the existing estate and £177 million on new business development (NBD). All major capital projects are appraised with clear project return targets based principally upon Internal Rate of Return and EBITDA ROIC.

NBD investment represented £90 million in developing new accommodation across our theme park estate and £52 million in new Midway attractions. Capital expenditure of £35 million was incurred in respect of the new LEGOLAND parks.

Capital expenditure is expected to increase in 2018 due primarily to the acceleration of our New Business Development, including the significant investment in LEGOLAND New York.

Other investing activities of £12 million reflects Merlin's share of funding for a hotel currently being constructed at LEGOLAND Dubai and in which Merlin has a 40% interest.

In March, we increased the issuance of our existing notes by €200 million at 103.5% of their nominal value (£178 million), using €50 million (£43 million) of the proceeds to repay bank facilities. We will continue to seek opportunities to further diversify our sources of funding away from the bank markets.

Leverage on net debt at the year end equates to 2.4x underlying EBITDA (2016: 2.3x).

Net assets

	2017 £m	2016 £m
Property, plant and equipment	2,092	1,841
Goodwill and intangible assets	1,018	1,017
Investments and other non-current receivables	70	62
Working capital	(169)	(178)
Net debt	(1,160)	(1,025)
Corporate and deferred tax	(175)	(180)
Employee benefits	(6)	(11)
Other liabilities	(103)	(98)
Net assets	1,567	1,428

Property, plant and equipment increased by £251 million, primarily reflecting the capital additions referred to previously and finance leases entered into at LEGOLAND Japan (see note 4.1), offset by depreciation charges, together with the retranslation of those assets at different foreign exchange rates.

The increase in investments reflects the LEGOLAND Dubai investment related to the hotel noted above.

The increase in reported net debt is due to the impact of foreign exchange movements on non Sterling borrowings and £111 million in respect of finance lease liabilities recognised for LEGOLAND Japan, developed under our 'operated and leased' model, partially offset by cash generated in the year.

Loan facilities

Merlin's current loan facilities are detailed in note 4.1 to the financial statements.

In addition to the Group's term debt of £1,271 million, a multi-currency revolving facility of £300 million (2016: £300 million) is available until March 2020 when the facilities mature. At 30 December 2017 none was drawn down (2016: £nil).

This facility, in conjunction with the Group's cash balance of £309 million (2016: £215 million), is available to finance working capital requirements and capital investment. All covenant requirements were satisfied throughout the year with significant headroom, even when taking account of the Group's seasonal trading and cash generation cycles.

We will continue to seek opportunities to further diversify our sources of funding away from the bank markets. We anticipate a refinancing within the next 18 months.

Return on capital employed (ROCE)

Reflecting Merlin's disciplined approach to the use of capital, the Board considers ROCE to be an important metric for appraising financial performance and uses it, along with EPS, in the remuneration of senior executives. The return measure used in calculating ROCE is based on underlying operating profit after tax. The capital employed element of the calculation is based on average net operating assets which include all net assets other than deferred tax, derivative financial assets and liabilities, and net debt.

ROCE in 2017 was 9.1% (2016 53 weeks: 10.2%, 52 weeks: 9.6%). On a 52 week basis this reflects a combination of our increased capital investment as well as the inclusion of finance leased assets related to LEGOLAND Japan.

Productivity Agenda

Under the Productivity Agenda already announced, the way we work will continue to evolve to deliver more permanent structural savings, as we build on the successes enjoyed to date through benchmarking and automation. 2018 will be a year of transition as we increase our investment in back office systems and infrastructure, supporting our drive for efficiencies that will enable better support of the growth of the Group. One project I am particularly excited about is 'Finance 21', which looks to optimise the Group's finance organisation, underpinned by the roll out of a cloud based software.

The benefits of these initiatives will begin to come through in 2019, augmenting our constant focus on financial discipline and capital allocation.

CONSOLIDATED INCOME STATEMENT

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

	Note	2017 £m	2016 £m
Revenue	2.1	1,594	1,457
Cost of sales		(255)	(227)
Gross profit		1,339	1,230
Staff expenses	2.1	(420)	(382)
Marketing		(85)	(75)
Rent		(104)	(93)
Other operating expenses		(256)	(229)
EBITDA ⁽¹⁾	2.1	474	451
Depreciation and amortisation	3.1, 3.2	(151)	(131)
Operating profit		323	320
Finance income	2.2	3	3
Finance costs	2.2	(55)	(46)
Profit before tax		271	277
Taxation	2.3	(62)	(66)
Profit for the year ⁽²⁾		209	211
Earnings per share			
Basic earnings per share (p)	2.4	20.5	20.8
Diluted earnings per share (p)	2.4	20.5	20.7
Dividend per share ⁽³⁾ (p)			
	4.2	7.4	7.1

⁽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 2017 and 2016 is wholly attributable to the owners of the Company.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2017 £m	2016 £m
Profit for the year		209	211
Other comprehensive income			
<i>Items that cannot be reclassified to the consolidated income statement</i>			
Defined benefit plan remeasurement gains and losses		2	(6)
Income tax on items relating to components of other comprehensive income		-	1
		2	(5)
<i>Items that may be reclassified to the consolidated income statement</i>			
Exchange differences on the retranslation of net assets of foreign operations		3	176
Exchange differences relating to the net investment in foreign operations		(15)	(45)
Cash flow hedges - effective portion of changes in fair value		4	(3)
Income tax on items relating to components of other comprehensive income		(1)	(1)
		(9)	127
Other comprehensive income for the year net of income tax		(7)	122
Total comprehensive income for the year ⁽¹⁾		202	333

⁽¹⁾ Total comprehensive income for 2017 and 2016 is wholly attributable to the owners of the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 December 2017 (2016: 31 December 2016)

	Note	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	3.1	2,092	1,841
Goodwill and intangible assets	3.2	1,018	1,017
Investments	5.1	59	49
Other receivables		11	13
Deferred tax assets		33	38
		3,213	2,958
Current assets			
Inventories		37	36
Trade and other receivables		100	86
Derivative financial assets		5	3
Cash and cash equivalents	4.1	309	215
		451	340
Total assets		3,664	3,298
Current liabilities			
Interest-bearing loans and borrowings	4.1	7	5
Finance leases		1	-
Derivative financial liabilities		3	5
Trade and other payables		306	300
Tax payable		37	39
Provisions		5	3
		359	352
Non-current liabilities			
Interest-bearing loans and borrowings	4.1	1,271	1,147
Finance leases	4.1	190	88
Other payables		28	28
Provisions		72	65
Employee benefits		6	11
Deferred tax liabilities		171	179
		1,738	1,518
Total liabilities		2,097	1,870
Net assets		1,567	1,428
Issued capital and reserves attributable to owners of the Company			
		1,563	1,424
Non-controlling interest			
		4	4
Total equity		1,567	1,428

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interest £m	Total equity £m
At 27 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		-	2	-	-	-	2	-	2
Equity dividends	4.2	-	-	-	-	(67)	(67)	-	(67)
Equity-settled share-based payments		-	-	-	-	11	11	-	11
At 31 December 2016		10	2	(5)	(3)	1,420	1,424	4	1,428
Profit for the year		-	-	-	-	209	209	-	209
Other comprehensive income for the year net of income tax		-	-	(13)	4	2	(7)	-	(7)
Total comprehensive income for the year		-	-	(13)	4	211	202	-	202
Shares issued		-	8	-	-	-	8	-	8
Equity dividends	4.2	-	-	-	-	(74)	(74)	-	(74)
Equity-settled share-based payments		-	-	-	-	3	3	-	3
At 30 December 2017		10	10	(18)	1	1,560	1,563	4	1,567

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		209	211
<i>Adjustments for:</i>			
Depreciation and amortisation	3.1, 3.2	151	131
Finance income	2.2	(3)	(3)
Finance costs	2.2	55	46
Taxation	2.3	62	66
		474	451
Profit on sale of property, plant and equipment		(3)	(1)
Working capital changes		1	23
Changes in provisions and other non-current liabilities		5	10
		477	483
Tax paid		(64)	(50)
Net cash inflow from operating activities		413	433
Cash flows from investing activities			
Interest received		1	1
Acquisition of remaining share of joint venture		-	(1)
Acquisition of investments	5.1	(12)	(32)
Purchase of property, plant and equipment		(336)	(259)
Disposal of property, plant and equipment		4	4
Net cash outflow from investing activities		(343)	(287)
Cash flows from financing activities			
Proceeds from issue of share capital		8	2
Equity dividends paid	4.2	(74)	(67)
Proceeds from borrowings		178	-
Repayment of borrowings		(43)	-
Capital repayment of finance leases		(1)	-
Interest paid		(46)	(41)
Financing costs		(2)	-
Net cash inflow/(outflow) from financing activities		20	(106)
Net increase in cash and cash equivalents		90	40
Cash and cash equivalents at beginning of year	4.1	215	152
Effect of movements in foreign exchange		4	23
Cash and cash equivalents at end of year	4.1	309	215

SECTION I BASIS OF PREPARATION

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

1.1 Basis of preparation

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

The consolidated financial statements for the 52 weeks ended 30 December 2017 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They were approved by the Directors on 28 February 2018 along with this preliminary announcement.

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

The Group prepares its annual consolidated financial statements on a 52 or 53 week basis. These consolidated financial statements have been prepared for the 52 weeks ended 30 December 2017 (2016: 53 weeks ended 31 December 2016). The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments and certain investments which are measured at their fair value.

The consolidated financial statements are presented in Sterling.

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

The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006 (the 'Act'). The financial information for the 52 weeks ended 30 December 2017 has been extracted from the statutory accounts on which an unqualified audit opinion has been issued. Statutory accounts for the 52 weeks ended 30 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

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

Going concern

The Group reported a profit for the year of £209 million (2016: £211 million) and generated operating cash inflows of £413 million (2016: £433 million). The Group is funded by senior unsecured bank facilities due for repayment in 2020 and senior unsecured notes due for repayment in 2022. During the year an additional €200 million of the Group's notes were issued at 103.5% of their nominal value (£178 million) with the proceeds partly used to repay €50 million (£43 million) of the term debt. It is likely in the next 18 months that the Group will look to refinance the bank facilities due for repayment in 2020. The Group's forecasts show that it is expected to be able to operate within the terms of these facilities. Further details of these facilities are provided in note 4.1.

After reviewing the Group's and Company's statement of financial position, available facilities, cash flow forecasts and trading budgets, including various downside sensitivities, 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.

Significant accounting policies

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

Judgements

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

- Useful life of brands (note 3.2) - where a brand has been recognised as part of an acquisition they have been assessed as having indefinite useful lives.
- Goodwill impairment reviews (note 3.3) - the level at which goodwill is initially allocated and thereafter monitored.

Estimates

Management consider the following area to involve a significant degree of estimation uncertainty:

- Valuation of Resort Theme Parks Operating Group (RTP) assets and impairment (note 3.3) - estimation of discounted cash flows when calculating the value in use of assets.

SECTION 2 RESULTS FOR THE YEAR

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

2.1 Profit before tax

Segmental information

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

	Midway Attractions £m	LEGOLAND Parks £m	Resort Theme Parks £m	Segment results £m	Other items ⁽¹⁾ £m	Total £m
2017						
Segment revenue	656	609	329	1,594	-	1,594
Segment profit, being segment EBITDA	220	230	72	522	(48)	474
Segment depreciation and amortisation	(68)	(39)	(36)	(143)	(8)	(151)
Segment operating profit	152	191	36	379	(56)	323
2016						
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

⁽¹⁾ Other items include Merlin Magic Making, head office costs and various other costs, which cannot be directly attributable 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 2017 £m	Non- current assets 2017 £m	Revenues 2016 £m	Non- current assets 2016 £m
United Kingdom	486	921	486	881
Continental Europe	389	986	367	919
North America	438	620	404	628
Asia Pacific	281	594	200	443
	1,594	3,121	1,457	2,871
Deferred tax		33		38
Investments		59		49
		3,213		2,958

SECTION 2 RESULTS FOR THE YEAR *(continued)*
 52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

2.1 Profit before tax *(continued)*

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:

	2017	2016
Operations	17,834	17,422
Attractions management and central administration	2,037	2,067
	19,871	19,489

The aggregate payroll costs of these persons were as follows:

	2017 £m	2016 £m
Wages and salaries	360	321
Share-based payments	3	11
Social security costs	44	39
Other pension costs	13	11
	420	382

2.2 Finance income and costs

Finance income

	2017 £m	2016 £m
<i>In respect of assets not held at fair value</i>		
Interest income	3	2
<i>Other</i>		
Net foreign exchange gain	-	1
	3	3

Finance costs

	2017 £m	2016 £m
<i>In respect of liabilities not held at fair value</i>		
Interest expense on financial liabilities measured at amortised cost	47	43
Re-measurement financial liabilities measured at amortised cost	4	-
Other interest expense	2	3
<i>Other</i>		
Net foreign exchange loss	2	-
	55	46

SECTION 2 RESULTS FOR THE YEAR *(continued)*
52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

2.3 Taxation

Recognised in the income statement

	2017 £m	2016 £m
<i>Current tax expense</i>		
Current year	65	63
Adjustment for prior periods	(3)	2
Total current income tax	62	65
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	24	7
Changes in tax rate	(25)	(5)
Adjustment for prior periods	1	(1)
Total deferred tax	-	1
Total tax expense in income statement	62	66

Reconciliation of effective tax rate

	2017 %	2017 £m	2016 %	2016 £m
Profit before tax		271		277
Income tax using the UK domestic corporation tax rate	19.3%	52	20.0%	56
Non-deductible expenses		8		9
Income not subject to tax		(14)		(12)
Effect of tax rates in foreign jurisdictions		22		19
Effect of changes in tax rate		-		(5)
Unrecognised temporary differences		4		(1)
Effect of recognising deferred tax assets previously unrecognised		(1)		(1)
Effect of USA tax reform		(7)		-
Adjustment for prior periods		(2)		1
Total tax expense in income statement	22.9%	62	23.8%	66

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 22.9% and the UK standard tax rate of 19.3% is largely attributable to the Group's geographic mix of profits and reflects higher rates in certain jurisdictions, particularly the USA, in relation to the current and prior year. In addition, the reported rate is increased by non-deductible expenses which primarily arise as a result of depreciation on capital expenditure from continued investment in our attractions. These factors are offset by the Group's internal financing arrangements, which have been put in place to support development and ongoing funding needs in overseas territories, and the impact of the package of measures enacted in the Tax Cuts and Jobs Act (USA tax reform) in the USA on 22 December 2017.

The Group's ETR has fallen from 23.8% to 22.9%. This is driven by the USA tax reform. The net £7 million (2.4%) reduction in current year ETR comprises:

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

SECTION 2 RESULTS FOR THE YEAR *(continued)*
 52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

2.3 Taxation *(continued)*

Significant factors impacting on the Group's future ETR include the USA tax reform, the ability to continue current financing arrangements and changes to local or international tax laws. With regard to the latter, the European Commission's preliminary findings relating to the UK's Controlled Foreign Company rules are further detailed in note 5.3.

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

2.4 Earnings per share

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

	2017 £m	2016 £m
Profit attributable to ordinary shareholders	209	211

	2017	2016
Basic weighted average number of shares	1,018,610,976	1,014,358,232
Dilutive potential ordinary shares	2,083,168	3,785,770
Diluted weighted average number of shares	1,020,694,144	1,018,144,002

Share incentive plans 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 2017 and 2016, the Group's Performance Share Plan has a marginal dilutive effect as the performance measures have been partially achieved. The Deferred Bonus Plan, Company Share Option Plan and All Employee Sharesave Plan are marginally dilutive as certain option tranches are 'in the money', after accounting for the value of services rendered in addition to the option price.

Earnings per share

	2017 Pence	2016 Pence
Basic earnings per share on profit for the year ⁽¹⁾	20.5	20.8
Diluted earnings per share on profit for the year ⁽¹⁾	20.5	20.7

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

SECTION 3 OPERATING ASSETS AND LIABILITIES

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

3.1 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Under construction £m	Total £m
Balance at 1 January 2017	905	746	190	1,841
Additions – owned assets	10	41	278	329
Additions – leased assets	98	13	-	111
Movements in asset retirement provisions	2	1	-	3
Disposals	(1)	-	-	(1)
Transfers	70	188	(258)	-
Depreciation for the year - owned assets	(36)	(105)	-	(141)
Depreciation for the year - leased assets	(4)	(4)	-	(8)
Effect of movements in foreign exchange	(20)	(17)	(5)	(42)
Balance at 30 December 2017	1,024	863	205	2,092

Additions

Additions of leased assets in the year of £111 million are in respect of the LEGOLAND Japan finance lease entered into on the opening of the park in April 2017 (note 4.1).

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 £104 million (2016: £82 million) for which no provision has been made.

At year end foreign exchange rates, the Group is expecting to invest a further £39 million (2016: £62 million) in the LEGOLAND Japan Resort in relation to the hotel and SEA LIFE Centre due to open in 2018. In addition, at year end foreign exchange rates, the Group is intending to invest £73 million (2016: £72 million) in LEGOLAND Korea and £250 million in LEGOLAND New York.

3.2 Goodwill and intangible assets

	Intangible assets			Total £m
	Goodwill £m	Brands £m	Other £m	
Balance at 1 January 2017	816	183	18	1,017
Additions	-	-	3	3
Amortisation for the year	-	-	(2)	(2)
Effect of movements in foreign exchange	(2)	2	-	-
Balance at 30 December 2017	814	185	19	1,018

SECTION 3 OPERATING ASSETS AND LIABILITIES *(continued)*

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

3.3 Impairment testing

The carrying amounts of the Group's goodwill, intangible assets and property, plant and equipment were tested for impairment in accordance with the Group's accounting policy. As a result of these tests, no impairment losses were recorded in 2017 or 2016.

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.

When reviewing the outputs of the impairment testing and performing 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 £32 million (2016: £26 million). The Midway Attractions and LEGOLAND Parks Operating Groups, as well as individual brands, show considerable headroom and are not sensitive to even significant changes in any of the key assumptions.

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

Where recoverable amount was based upon value in use, testing was performed by reference to the forward looking consolidated guidance communicated externally in October 2017, as well as subsequent scenario planning. This guidance was based on the Group's internally approved five year business plan, being the current year and four future years, adjusted to reflect the potential for a continuation in the near term of the unforeseeable and uncontrollable events experienced in 2017, such as global terrorism continuing to impact our largest locations and extreme weather during peak trading periods.

Whilst it is possible that similar events may occur in the future, these events are such that their nature, timing and extent cannot be precisely forecast, nor can management reliably estimate which site or Operating Group they may affect.

In preparing the impairment calculations for RTP, where headroom is most limited, management have therefore reviewed the growth expectations for each of the parks, forming their best estimate based on a balanced assessment of what risks might crystallise for each site in the short to medium term; key to this was the pace of recovery of RTP in the UK, the potential for disruptive terrorist activities and the historical weather patterns in Southern Europe. Reference was also made to current trading information, such as sales of annual passes and pre-booked accommodation.

On the basis of these forecasts no impairment has been indicated.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

4.1 Net debt

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

	I January 2017 £m	Net cash flows ⁽¹⁾ £m	Interest charge and amortisation of finance costs ⁽²⁾ £m	Assets acquired under finance lease £m	Effect of movements in foreign exchange £m	30 December 2017 £m
Cash and cash equivalents	215	90	-	-	4	309
Interest-bearing loans and borrowings	(1,152)	(98)	(42)	-	14	(1,278)
	(937)	(8)	(42)	-	18	(969)
Finance leases	(88)	9	(8)	(111)	7	(191)
Net debt	(1,025)	1	(50)	(111)	25	(1,160)

- (1) Net cash flows include the net drawdown of loans and borrowings and cash interest paid relating to loans and borrowings; and exclude cash interest paid relating to interest rate swaps of £3 million.
- (2) Interest charge and amortisation of finance costs include the finance costs relating to loans and borrowings from the income statement; and exclude the finance costs relating to interest rate swaps of £3 million.

The Group's facilities at the year end were:

- Bank facilities comprising £250 million and \$540 million floating rate term debt to mature in March 2020. The relevant floating interest rates are LIBOR and the USD benchmark rate, which were 0.51% (2016: 0.37%), and 1.61% (2016: 0.99%) respectively at 30 December 2017. The margin on the bank facilities is dependent on the Group's adjusted leverage ratio and at 30 December 2017 was 2.0% (2016: 2.0%).
- A £300 million multi-currency revolving credit facility of which £nil had been drawn down at 30 December 2017 (2016: £nil). The margin on this facility is also dependent on the Group's adjusted leverage ratio and at 30 December 2017 was at a margin of 1.75% (2016: 1.75%) over the same floating interest rates when drawn.
- €700 million (2016: €500 million) notes with a coupon rate of 2.75% to mature in March 2022.

The Group has estimated that a refinancing of the bank facilities and multi-currency revolving credit facility is likely within the next 18 months, which is earlier than that previously assumed for accounting purposes. As a result the Group has accelerated the amortisation of financing costs in respect of these facilities and the resulting adjustment has been recognised as a loss on re-measurement and presented in the income statement as a charge of £4 million (see note 2.2). The fees related to the fixed rate notes are being amortised to the maturity of the notes as the notes are currently expected to be held to their full term. The borrowings (including the revolving credit facility) and the €700 million notes 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 €700 million notes. All covenant requirements were satisfied throughout the year.

Finance leases

Finance lease movements substantially relate to LEGOLAND Japan, which opened in the year. This park was developed under the Group's 'operated and leased' model whereby the Group's local operating company leases the site and park infrastructure from a development partner. The development partners are related parties, being KIRKBI Invest A/S and LLJ Investco K.K, a subsidiary of KIRKBI A/S; with KIRKBI A/S being a shareholder of the Group and a related party (note 5.2).

The lease is for a period of 50 years and is accounted for partly as a finance lease and partly as an operating lease depending on the nature of the underlying assets concerned. Land and longer life assets, for example core elements of the park's infrastructure, are accounted for as operating leases. Finance lease assets are those elements that will be substantially or entirely consumed over the lease term. This accounting judgement is underpinned by a review of the cost of construction by asset type together with estimates of the lives of the assets concerned.

SECTION 4 CAPITAL STRUCTURE AND FINANCING

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

4.2 Dividends

	2017 £m	2016 £m
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
Final dividend for the 53 weeks ended 31 December 2016 of 4.9 pence per share	50	-
Interim dividend for the 52 weeks ended 30 December 2017 of 2.4 pence per share	24	-
Total dividends paid	74	67

The Directors of the Company propose a final dividend of 5.0 pence per share for the year ended 30 December 2017 (2016: 4.9 pence per share), amounting to £51 million (2016: £50 million). The total dividend for the current year, subject to approval of the final dividend, will be 7.4 pence per share (2016: 7.1 pence per share).

SECTION 5 OTHER NOTES

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

5.1 Investments

On 14 February 2017 the Group invested £12 million in LL Dubai Hotel LLC, which is the company developing the hotel at LEGOLAND Dubai. The Group holds a 40% equity interest.

5.2 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; the LEGO Group, a related party of KIRKBI Invest A/S; and LLJ Investco K.K, a subsidiary of KIRKBI A/S.

Transactions entered into, including the purchase and sale of goods, payment of fees, royalties and rent, and trading balances outstanding at 30 December 2017 and 31 December 2016, were as follows:

	Goods and services			
	Sales £m	Amounts owed by related party £m	Purchases and royalties £m	Amounts owed to related party £m
2017				
KIRKBI Invest A/S	-	-	12	3
LEGO Group	1	1	61	2
LLJ Investco K.K.	-	4	10	-
	1	5	83	5
2016				
KIRKBI Invest A/S	1	2	11	5
LEGO Group	1	1	51	3
LLJ Investco K.K.	-	-	-	-
	2	3	62	8

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

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

SECTION 5 OTHER NOTES

52 weeks ended 30 December 2017 (53 weeks ended 31 December 2016)

5.2 Related party transactions *(continued)*

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.

Transactions entered into, including the purchase and sale of goods, payment of fees and trading balances outstanding at 30 December 2017 and 31 December 2016, are as follows:

	2017 £m	2016 £m
Sales to related party	5	6
Amounts owed by related party	3	2

5.3 Contingent liabilities

The European Commission ('EC') published its preliminary decision in November 2017 finding that certain elements of the UK's Controlled Foreign Company rules amount to unlawful State Aid. The impact of a negative decision could result in a significant increase in the Group's future effective tax rate. A final decision from the EC is expected in late 2018 but is subject to possible appeal.