McDonald's Real Estate LLP

Report and Financial Statements

31 December 2016

Partnership OC303157

Designated Members
McDonald's Real Estate Company No. 1 Limited
McDonald's Real Estate Company No. 2 Limited

Auditors
Ernst & Young LLP
1 More London Place
London
United Kingdom
SE1 2AF

Registered Office
11-59 High Road
East Finchley
London
United Kingdom
N2 8AW

Partnership Registered No: OC303157

Strategic report

Principal activities and review of the business

The principal purpose of McDonald's Real Estate LLP is to undertake activities including acquiring, holding, managing and disposing of assets including properties and investments.

Turnover comprises intra-group recharges made to McDonald's Restaurants Limited for its use of company properties over the normal course of business. There are two elements to the recharges; for leasehold properties the amount equates to the third party rental cost with no further mark-up, and for freehold properties it is based on a fixed percentage of turnover.

Therefore results are in part dependent on the performance of stores operating within McDonald's Restaurants Limited. Turnover decreased by £2m to £88m, which reflects reductions in the size of the property portfolio within the company, partially offset by growth in sales at stores operated by McDonald's Restaurants Limited.

Results

The Limited Liability Partnership ('the LLP') made a profit for the year, after taxation, of £151,040,000 (2015 – profit of £304,122,000). Included in this amount is a dividend received from McDonald's Restaurants Limited of £60,000,000 (2015 - £243,000,000).

Future developments

The level of business and the period end financial position remains satisfactory for both the LLP and its subsidiary and the members are confident of the strength of the business for the foreseeable future.

Key performance indicators

McDonald's Corporation Inc, the ultimate parent undertaking, manages its KPIs at a segment and geographical level. These KPIs are discussed within the financial statements of McDonald's Corporation Inc, which are publicly available. As a result the members have taken the decision not to disclose KPIs in these financial statements as they are not necessary to understand the performance or position of the company.

Principal risks and uncertainties

The partnership's main business activity is to lease investment property to McDonald's Restaurants Limited, and therefore all risks and uncertainties facing the LLP are intrinsically linked to McDonald's Restaurants Limited. The members deem the key risks to the LLP to be the ability of McDonald's Restaurants Limited to meet its debts to the LLP as they fall due, and the effect on the LLP of McDonald's Restaurants Limited ceasing to lease and operate within its premises.

The principal risks and uncertainties of McDonald's Restaurants Limited are discussed by its directors within its own financial statements.

The members continue to assess the risk arising from the United Kingdom's planned exit from the European Union, and will respond to any arising risk as necessary.

Strategic report (continued)

Financial risk management objectives and policies

The LLP uses various financial instruments including cash, trade debtors, trade creditors and amounts due to and from group undertakings that arise directly from its operations.

The existence of these financial instruments exposes the LLP to a number of financial risks, which are described in more detail below.

The main risks arising from the LLP's financial instruments are interest rate risk and liquidity risk.

The members review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Liquidity risk

The LLP seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The LLP's policy throughout the year has been to achieve this through management's day to day involvement in business decisions rather than setting maximum or minimum liquidity ratios.

Interest rate risk

The LLP finances its operations through a mixture of retained profits, inter-group borrowings and an overdraft facility. The interest rate risk on these borrowings is managed by the LLP's ultimate parent undertaking, McDonald's Corporation Inc.

On behalf of the members 22 September 2017

Paul Pomroy

Director of McDonald's Real Estate Company No.1 Limited and McDonald's Real Estate Company No. 2 Limited

Members' report

The members present their report and financial statements for the year ended 31 December 2016.

Going concern

The balance sheet shows a net asset and net current asset position and after making enquiries, the members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The parent undertaking has given a written undertaking that it will continue to support the LLP to allow it to meet its liabilities as they fall due.

Members and their interests

The two members of the LLP are McDonald's Real Estate Company No. 1 Limited (MREC1) and McDonald's Real Estate Company No. 2 Limited (MREC2).

Each member's share of and interest in the income and capital of the LLP shall equal that percentage of the aggregate Capital accounts of all the members constituted by such member's Capital Account.

Political and charitable contributions

During the year no charitable or political donations were made.

Financial instruments

Details of financial instruments are provided in the strategic report on page 3.

Auditors

The auditors, Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the members 22 September 2017

Paul Pomroy

Director of McDonald's Real Estate Company No.1 Limited and McDonald's Real Estate Company No. 2 Limited

Statement of members' responsibilities

The members are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Legislation applicable to limited liability partnerships requires the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with United Kingdom generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the relevant legislation the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the LLP and of the profit or loss of the LLP for that period. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the LLP will continue in business.

The members are responsible for keeping adequate accounting records that are sufficient to show and explain the LLP's transactions and disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that the financial statements comply with the Companies Act 2006 as modified by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. They are also responsible for safeguarding the assets of the LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of McDonald's Real Estate LLP

We have audited the financial statements of McDonald's Real Estate LLP for the year ended 31 December 2016, which comprise the Income Statement, the Statement of Financial Position and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting standard applicable in the UK and Republic of Ireland'.

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied by The Limited Liability Partnership (Accounts and Audit) (Application of Companies Act 2016) Regulations 2008. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 5, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the limited liability partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the designated members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Members reports to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Independent auditor's report (continued)

to the members of McDonald's Real Estate LLP

Opinion on other matter prescribed by the Companies Act 2006 as applied to the limited liability partnerships

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Members' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Limited Liability Partnership and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Members' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit;

Ernst & Young LLP

Julie Carlyle (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London

25 September 2017

Income Statement

for the year ended 31 December 2016

	Notes	*2016* *£000*	*2015* *£000*
Turnover	2	87,964	89,566
Cost of sales		(27,663)	(30,172)
Operating profit	3	60,301	59,394
Dividend received		60,000	243,000
Investment property revaluations		32,246	4,909
Interest payable and similar charges	5	(1,507)	(3,181)
Profit on ordinary activities before taxation		151,040	304,122
Tax	6	-	-
Profit for the financial year before members' remuneration and profit shares		151,040	304,122
Other comprehensive income		-	-
Total comprehensive income		151,040	304,122

All activities of the partnership are regarded as continuing.

Statement of Financial Position

at 31 December 2016

	Notes	2016 £000	2015 £000
Fixed assets			
Tangible assets	7	637,309	480,247
Investments	9	37,724	37,724
		675,033	517,971
Current assets			
Cash at bank and in hand		14,922	-
Debtors	10	13,864	402,216
		28,786	402,216
Creditors: amounts falling due within one year	11	(65,787)	(371,460)
Net current (liabilities)/assets		(37,001)	30,756
Total assets less current liabilities		638,032	548,727
Provisions for liabilities	12	(2,348)	(4,083)
Amounts owing to members	13	(526,415)	(435,375)
Net assets		109,269	109,269
Members' interests			
Members' capital	14	109,269	109,269

The financial statements were approved by the members and authorised for issue on 22 September 2017 and signed on behalf of the members by:

....

Paul Pomroy

For and on Behalf of the members

Notes to the financial statements

at 31 December 2016

1. Accounting policies

Basis of preparation

The financial statements of McDonald's Real Estate LLP were authorised for issue by The Members on 22 September 2017. The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (SORP 2015). The financial accounts have been prepared in sterling which is the functional currency of the company. Amounts have been shown to the nearest thousand pounds unless otherwise stated.

The financial statements are prepared under the historical cost convention.

The accounting policies adopted by the company are set out below.

Statement of compliance

McDonald's Real Estate LLP is a limited liability partnership registered in England. The Registered office is 11-59 High Road, East Finchley, London N2 8AW.

The LLP's financial statements have been prepared in compliance with FRS 102 for the year ended 31 December 2016.

Group financial statements

The LLP is exempt from the requirements to prepare group report and financial statements by virtue of the Limited Liability Partnerships Regulations 2001 made under the Limited Liability Partnerships Act 2000. The financial statements therefore present information about the LLP as an individual undertaking and not about its group.

Going concern

The balance sheet shows a net asset and net current asset position and after making enquiries, the members have a reasonable expectation that the LLP has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

McDonald's Real Estate LLP's parent undertaking, McDonald's Corporation Inc, has indicated its willingness to support the LLP for the foreseeable future, by way of acting as a guarantor of the LLP's overdraft facility and has given a written undertaking that it will continue to support the LLP to allow it to meet its liabilities as they fall due.

Statement of cash flows

McDonald's Real Estate LLP has adopted the provisions of FRS 102. The LLP has therefore taken advantage of the exemption in the Standard and has not prepared a statement of cash flow on the grounds that it is a subsidiary undertaking and consolidated financial statements in which the company is included are publicly available.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimations means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Revaluation of investment properties

Freehold investment properties were valued by Montagu Evans LLP, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued. Valuations were performed as at 31 December 2016 on the basis

Notes to the financial statements (continued)

at 31 December 2016

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

of fair value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

The key assumptions applied by the valuer are detailed in note 8.

Impairment of assets

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. No impairment indicators arose in the current year.

Revenue recognition

Revenue is recognised to the extent that the Partnership obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Dividends

Revenue is recognised when the Partnership's right to receive payment is established.

Property, plant and equipment and depreciation

All property, plant and equipment is held at cost. Depreciation is provided on all fixed assets other than freehold land and long leasehold land where the unexpired portion of the lease is longer than one hundred years. The rates used are calculated to write off the cost of each asset by equal annual instalments over its expected useful life, as follows:

Freehold and long leasehold buildings	–	40 years
Long leasehold land	–	the last 100 years of the lease
Short leasehold land and buildings	–	40 years or the unexpired portion of the lease plus 14 years if shorter

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Investment properties

Investment properties are initially recognised at cost which includes purchase cost plus any attributable expenditure. Investment properties are subsequently carried at fair value, with changes in fair value being recognised in profit or loss. The company engaged independent valuation specialists to determine fair value as at 31 December 2016. The valuation was performed on the basis of fair value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

Investments

Investments are accounted for at the lower of cost or net realisable value.

The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Capitalised interest

Interest incurred in the period during which assets are being prepared for their intended use by McDonald's Real Estate LLP is capitalised as part of the costs of the assets and amortised in accordance with the useful life of the related asset. Interest to be capitalised is based on the average monthly rate for all borrowings.

Notes to the financial statements (continued)

at 31 December 2016

1. Accounting policies (continued)

Leased equipment

Where assets are financed by lease agreements that give rights approximating to ownership, they are included in fixed assets at amounts equivalent to cost as if they had been purchased outright. Leased assets are depreciated over their expected useful life.

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation.

Asset Retirement obligations

Obligations associated with dilapidations are stated at the present value of any future liability.

Taxation

Any charge to corporation tax arising on the profits of the LLP is a liability of the LLP's corporate members and is reflected in their financial statements.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the members consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred taxation is recognised in the financial statements of the corporate members of the partnership.

2. Turnover

Turnover represents income received from other group companies for rental of properties owned or leased by McDonald's Real Estate LLP.

Notes to the financial statements (continued)

at 31 December 2016

3. Operating profit

This is stated after charging:

		2016	*2015*
		£000	*£000*
Auditors' remuneration	– audit services	14	14
Depreciation		2,192	4,751
Operating lease rentals	– land and buildings	22,875	24,762
Loss on the routine disposal of fixed assets		-	7

4. Staff costs

McDonald's Real Estate LLP did not have any employees in 2016 or 2015.

5. Interest payable and similar charges

	2016	*2015*
	£000	*£000*
Interest on overdraft	1,507	3,181
	1,507	3,181

6. Tax

Income tax payable on the profits allocated to partners is the personal liability of the partners and hence is not shown in these financial statements.

Notes to the financial statements (continued)

at 31 December 2016

7. Tangible fixed assets

	Land and buildings £000
Cost:	
At 1 January 2016	575,919
Additions	-
Transfer from group companies	238,171
Disposals	(4,120)
Revaluation of Investment Property	32,246
At 31 December 2016	842,216
Depreciation:	
At 1 January 2016	95,672
Provided during the year	2,192
Transfer from group companies	109,235
Disposals	(2,192)
At 31 December 2016	204,907
Net book value:	
At 31 December 2016	637,309
At 1 January 2016	480,247

All assets are made available to other group companies, normally through operating leases.
Asset transfers from group companies relate to land and building improvements funded by McDonald's Restaurants Limited for stores owned by McDonald's Real Estate LLP. The Directors made the decision during the year to transfer these assets to the group company which owns the property.

(a) The carrying amount of land and buildings consists of:

	2016 £000	*2015 £000*
Investment Properties at Fair value:		
Freehold	491,954	461,035
Other Properties at Cost (see note 8)		
Leasehold	145,355	19,212
	637,309	480,247

(b) Included in the carrying value of tangible fixed assets is capitalised interest as follows:

	£000
At 1 January 2016	4,937
At 31 December 2016	4,475

The weighted average interest rate used for capitalising finance costs during the year was 3.14% (2015 – 2.18%).

Notes to the financial statements (continued)

at 31 December 2016

8. Investment Property

Freehold investment properties were valued by Montagu Evans LLP, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued. Valuations were performed as at 31 December 2016 on the basis of fair value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The critical assumptions made relating to the valuation are set out below:

	31 December 2016	31 December 2015
Investment Portfolio Yields	%	%
Drive Thru	4.50-7.50	5.00-7.75
High Street	3.50-9.50	4.25-9.75

Year on year growth in real rental rates was 4.35% (2015 – 8.95%).

Movements in the fair value of investment properties are as follows:

	£000
Fair Value:	
At 1 January 2016	461,035
Disposals	(1,327)
Surplus on valuation	32,246
At 31 December 2016	491,954

The historical cost of investment properties held at fair value is as follows:	*£000*
At 1 January 2016	439,915
At 31 December 2016	347,675

Notes to the financial statements (continued)

at 31 December 2016

9. Investment in subsidiary undertakings

	£000
Cost and Carrying Amount:	
At 1 January 2016 and at 31 December 2016	37,724

McDonald's Real Estate LLP has a wholly owned subsidiary, McDonald's Restaurants Limited.

Principal activity

The company's principal activity is the franchising and operation of a chain of limited menu quick service restaurants.

McDonald's Restaurants Limited is incorporated in England and Wales and operates in the United Kingdom.

No investments are listed.

10. Debtors

	2016	*2015*
	£000	*£000*
Trade debtors	1,176	29,519
Amounts due from subsidiary undertakings	-	359,812
Amounts due from parent undertakings	12,358	12,555
Prepayments	330	330
	13,864	402,216

All of the above amounts are receivable within one year.

11. Creditors: amounts falling due within one year

	2016	*2015*
	£000	*£000*
Bank overdraft	-	365,194
Amounts due to parent undertakings	2,593	2,790
Amounts due to subsidiary	58,689	-
Accruals	4,505	3,476
	65,787	371,460

Notes to the financial statements (continued)

at 31 December 2016

12. Provisions for liabilities

	Closure costs
	£000
At 1 January 2016	4,083
Arising during the year	116
Utilised during the year	(1,851)
At 31 December 2016	2,348

Restaurant closure costs

A provision is recognised for closed restaurants to cover strip out costs, ongoing lease costs and any additional closure costs.

13. Amounts due to members

The two members of the partnership are McDonald's Real Estate Company No. 1 Limited (99.73% of voting rights) and McDonald's Real Estate Company No. 2 Limited (0.27% of voting rights).

The movements in this liability are shown in the table below:

	Share of profit Liability
	£000
At 1 January 2015	374,253
Profit for the year	304,122
Distributed to members	(243,000)
At 31 December 2015	435,375
Profit for the year	151,040
Distributed to members	(60,000)
At 31 December 2016	526,415

The profit for the year comprises of the following:

	2016	*2015*
	£000	*£000*
Realisable income	118,794	299,213
Revaluation of investment property	32,246	4,909
	151,040	304,122

Where unsettled, realisable income is recognised as receivable in the financial statements of the members.

Notes to the financial statements (continued)

at 31 December 2016

14. Members' interests

	Members' capital £000
At 31 December 2015 and 31 December 2016	109,269

15. Lease commitments

McDonald's Real Estate LLP has annual commitments under non-cancellable operating leases for land and buildings as follows:

	2016 £000	*2015 £000*
Leases expiring within one year	457	671
Leases expiring in one to five years	9,185	10,689
Leases expiring in more than five years	13,054	19,716
	22,696	31,076

16. Related party transactions

McDonald's Real Estate LLP has taken advantage of the exemption in FRS 102 not to disclose related party transactions as 100 per cent of the voting rights are controlled within the Group.

17. Ultimate parent undertaking and controlling party

The immediate parent undertakings are McDonald's Real Estate Company No. 1 Limited and McDonald's Real Estate Company No. 2 Limited.

The smallest and largest group in which the results of the LLP are consolidated is headed by the LLP's ultimate parent undertaking and controlling party, McDonald's Corporation Inc, incorporated in the United States of America. Copies of McDonald's Corporation's financial statements can be obtained from McDonald's Plaza, Oak Brook, Illinois 60521, USA.