McDonald's Real Estate LLP

Report and Financial Statements

31 December 2013

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 SE1 2AF

Registered Office

11-59 High Road
East Finchley
London N2 8AW

Partnership Registered No: OC303157

Strategic report

Results

The Limited Liability Partnership ('the LLP') made a profit for the year, after taxation, of £37,871k (2012 – profit of £37,377k).

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 inter-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 increased by £2m to £87.3m, which reflects the increase in turnover in McDonald's Restaurants Limited.

The improved performance carried down to operating profit, which increased by £1.1m to £41.4m.

Future developments

The level of business and the period end financial position remain satisfactory for both the LLP and its subsidiaries and the members are confident to be able to develop the business further in the 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

Given the nature of the LLP's operations, all risks and uncertainties facing the company are intrinsically linked to McDonald's Restaurants Limited. The directors 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 its subsidiary ceasing to trade within its properties.

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

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 and its inter-group borrowings. 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

3/6/14

PAUL POMROY

Members' report

The members present their report and financial statements for the year ended 31 December 2013

Going concern

The LLP's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities and its exposure liquidity and interest rate risk are described in the Principal Risks and Uncertainties on pages 2 and 3.

After making enquiries and obtaining a letter of support from the parent undertaking the members have a reasonable expectation that the company have 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.

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.

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

PAUL POMROY

3/6/14

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 auditors' 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 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 15. 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).

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 Partnerships (Accounts and Audit) (Application of Companies Act 2006) 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). Those 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. 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 auditors' report (continued)

to the members of McDonald's Real Estate LLP

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to 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; or

Ernst & Young LLP

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

3 June 2014

Profit and loss account

for the year ended 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Turnover	2	87,333	85,329
Cost of sales		(45,884)	(45,011)
Operating profit	3	41,449	40,318
Income from investments		-	-
Interest payable and similar charges	5	(3,578)	(2,941)
Profit on ordinary activities before taxation		37,871	37,377
Tax	6	-	-
Profit for the financial year	12	37,871	37,377

All activities of the partnership are regarded as continuing.

Statement of total recognised gains and losses

for the year ended 31 December 2013

There are no recognised gains or losses other than the profit attributable to members of £37,871k in the year ended 31 December 2013 (2012 – profit of £37,377k).

Balance sheet

at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Tangible assets	7	307,749	306,965
Investments	8	37,724	37,724
		345,473	344,689
Current assets			
Cash at bank and in hand		-	-
Debtors	9	273,021	233,241
		273,021	233,241
Creditors: amounts falling due within one year	10	(361,959)	(358,705)
Net current Liabilities		(88,938)	(125,464)
Total assets less current liabilities		256,535	219,225
Provisions for liabilities	11	(3,406)	(3,967)
Net Assets		253,129	215,258
Members' interests			
Members' capital	12	109,269	109,269
Members' funds	12	143,860	105,989
	12	253,129	215,258

These financial statements were approved by the members on and are signed on their behalf by:

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For and on Behalf of Board

PAUL POMROY

3/6/14

Notes to the financial statements

at 31 December 2013

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The accounting policies adopted by the LLP are set out below and are consistent with those of the previous year.

The financial statements are prepared under the historical cost convention.

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 members have concluded that it is appropriate to prepare the financial statements on a going concern basis. 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.

Statement of cash flows

McDonald's Real Estate LLP has adopted the provisions of Financial Reporting Standard 1 (Revised 1996). The LLP has therefore taken advantage of the exemption in the Standard and has not prepared a statement of cash flows on the grounds that it is a subsidiary undertaking where 90 per cent or more of the voting rights are controlled within the Group, and group financial statements in which the LLP is included are publicly available.

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.

Tangible fixed assets and depreciation

All tangible fixed assets are 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.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

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.

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.

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.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction where possible, and at an average rate in all other cases. All differences are taken to the profit and loss account.

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

at 31 December 2013

3. Operating profit

This is stated after charging:

		2013 £000	2012 £000
Auditors' remuneration	– audit services	13	12
Depreciation	– owned assets	10,573	8,782
	– leased assets	6,210	6,941
Operating lease rentals	– land and buildings	26,556	26,603
Loss on the routine disposal of fixed assets		90	-

4. Staff costs

McDonald's Real Estate LLP did not have any employees in 2013 or 2012.

5. Interest payable and similar charges

	2013 £000	2012 £000
Due to parent and affiliated undertakings	3,578	2,941
Early loan repayment charge	-	-
	3,578	2,941

6. Tax

(a) Tax on the profit on ordinary activities

The tax charge, which is the liability of the partners, is made up as follows:

	2013 £000	2012 £000
Current tax:		
UK corporation tax	7,863	6,334
Taxation under provided in previous years	537	224
Total current tax (note 6(b))	8,400	6,558
Deferred tax:		
Origination and reversal of timing difference	293	173
Deferred tax charge/(credit) related to tax rate changes	(2,739)	(1,650)
Taxation over provided in previous years	1,737	73
Total deferred tax (note 6(c))	(709)	(1,404)
Tax on the profit on ordinary activities	7,691	5,154

This tax liability is met by the partners and therefore it is not reflected in the financial statements of McDonald's Real Estate LLP.

Notes to the financial statements

at 31 December 2013

6. Tax (continued)

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25 % (2012 – 24.5%). The differences are explained below:

	2013	*2012*
	£000	*£000*
Profit on ordinary activities before tax	37,871	37,377
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25 % (2012 – 24.5%)	8,805	9,157
Effects of:		
Accelerated capital allowances	(10)	(215)
Expenses not deductible for tax purposes	2,582	2,534
Other timing differences	(244)	46
Group relief claimed	(3,270)	(5,188)
Under provision in prior years	537	224
Tax charge met by partners	(8,400)	(6,558)
	-	-

(c) Deferred tax

The deferred tax included in the balance sheet of the partners is as follows:

	2013	*2012*
	£000	*£000*
Accelerated capital allowances	17,374	18,233
Other timing differences	889	739
Provision for deferred tax	18,263	18,972

	£000
At 1 January 2013	18,972
Deferred tax charge in profit and loss account	2,030
Deferred tax credit related to tax rate changes	(2,739)
At 31 December 2013	18,263

The deferred tax balance is attributable to the members of the LLP as follows:

	2013	*2012*
	£000	*£000*
McDonald's Real Estate Company No. 1 Ltd (99.73%)	18,214	18,921
McDonald's Real Estate Company No. 2 Ltd (0.27%)	49	51

Notes to the financial statements

at 31 December 2013

Tax (continued)

Finance Act 2012 reduced the main rate of corporation tax to 23%, with effect from 1 April 2013.

It was subsequently proposed in the Budget on 20 March 2013 that the main rate of corporation tax would be reduced to 21% with effect from 1 April 2014, with further 1% annual reductions taking the rate to 20% from 1 April 2015. The effect of this change on the deferred tax liability is reflected in these accounts, with deferred tax now recognised at 20%. These changes were enacted on 17 July 2013.

7. Tangible fixed assets

	Land and buildings £000
Cost:	
At 1 January 2013	392,505
Additions	592
Transfer from group companies	16,878
Disposals	(6,135)
At 31 December 2013	403,840
Depreciation:	
At 1 January 2013	85,540
Provided during the year	16,783
Impairment charge	(1,072)
Disposals	(6,119)
Transfer from group companies	959
At 31 December 2013	96,091
Net book value:	
At 31 December 2013	307,749
At 1 January 2013	306,965

All assets are made available to other group companies, normally through operating leases.

(a) Net book value of land and buildings consists of:

	2013 £000	*2012 £000*
Freehold	243,701	228,455
Long leasehold	36,299	44,900
Short leasehold	27,749	33,610
	307,749	306,965

Notes to the financial statements

at 31 December 2013

7. Tangible fixed assets (continued)

(a) Included in the net book value of tangible fixed assets is capitalised interest as follows:

	£000
At 1 January 2013	6,133
At 31 December 2013	5,675

The weighted average interest rate used for capitalising finance costs during the year was 2.18 % (2012 – 3.23%).

8. Investment in subsidiary undertakings

	£000
At 1 January 2013 and 31 December 2013	37,724

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

Principal activity

The principal activity of McDonald's Restaurants Limited is the 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.

9. Debtors

	2013	*2012*
	£000	*£000*
Amounts due from fellow subsidiary undertakings	235,217	197,162
Amounts due from parent undertakings	12,342	12,346
Trade debtors	25,461	23,733
	273,020	233,241

Notes to the financial statements

at 31 December 2013

10. Creditors: amounts falling due within one year

	2013	*2012*
	£000	*£000*
Bank overdraft	358,797	355,317
Amounts due to parent undertakings	2,593	2,593
Amounts due from subsidiaries	-	-
Trade Creditors	-	-
Accruals	569	795
	361,959	358,705

The bank overdraft is reviewed annually with no fixed expiry date. The average interest rate for the year was 0.9961% and was paid on a monthly basis.

11. Provisions for liabilities

	Closure costs
	£000
At 1 January 2013	3,967
Arising during the year	1,499
Utilised during the year	(2,060)
At 31 December 2013	3,406

Restaurant closure costs

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

12. Members' interests

	Members' capital	*Members' Funds*	*Total members' interests*
	£000	*£000*	*£000*
At 1 January 2012	109,269	68,612	177,881
Profit for the year	-	37,377	37,377
Payments to members	-	-	-
At 1 January 2013	109,269	105,989	215,258
Profit for the year		37,871	37,871
At 31 December 2013	109,269	143,860	253,129

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).

Notes to the financial statements

at 31 December 2013

13. Lease commitments

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

	2013	*2012*
	£000	*£000*
Leases expiring within one year	602	428
Leases expiring in two to five years	8,989	6,973
Leases expiring in more than five years	18,739	21,085
	28,330	28,486

14. Related party transactions

McDonald's Real Estate LLP has taken advantage of the exemption in FRS 8 not to disclose related party transactions as 100 per cent of the voting rights are controlled within the Group.

15. 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.