Partnership Registered No: OC303157

McDonald's Real Estate LLP

Annual Report and Financial Statements

31 December 2019

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 increased by £15m to £106m, which reflects the growth in sales.

Results

The Limited Liability Partnership ('the LLP') made a profit for the year, after taxation, of £450.8m (2018 – £599.1m).

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 exit from the European Union, and will respond to any arising risk as necessary.

COVID-19 Pandemic risk

In March 2020, the World Health Organisation declared COVID-19 a pandemic. Refer to the post balance sheet events and going concern sections in the Member's report below for consideration of this risk.

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.

Section 172 statement

During 2019, the Board acted in a way it considers, in good faith, would most likely promote the success of McDonald's Real Estate LLP for the benefit of its members based on information available to them at the time. The Corporate Governance disclosure set out below describes how the Members have had regard to the matters set out in section 172(1) (a) to (f) and forms the Members' statement required under section 414CZA of the Companies Act 2006, including their interaction with our people.

McDonald's is committed to high standards of corporate governance. We have a comprehensive range of policies and systems in place to ensure that our restaurants and business are well-managed, with effective oversight and control.

Stakeholders

The stakeholders of the entity are its Members (McDonald's Real Estate Company No. 1 Limited and McDonald's Real Estate Company No. 2 Limited), subsidiary (McDonald's Restaurants Limited) and suppliers. As this is a real estate entity our suppliers are landlords with whom we have long standing relationships. We rely on our landlords to provide the real estate on which we charge rent to other group companies, and through which McDonald's Restaurants Limited conducts its trade. Our landlords rely on us to generate revenue. As part of our group's estate strategy each property is refurbished on a regular basis and all are well-maintained. This strategy reinforces the long standing relationships with our landlords.

Principal Decisions

All dividends received from the subsidiary are distributed to the LLP's members. Decisions are taken regarding the acquisition, management, holding and disposal of properties.

Employees

The LLP does not have any employees. Employees of its subsidiary entity are engaged with by the Directors of that Company.

Members

The LLP's Members are McDonald's Real Estate Company No. 1 Limited and McDonald's Real Estate Company No. 2 Limited.

On behalf of the members

Paul Pomroy (Mar 31, 2021 07:58 GMT+1)

Paul Pomroy
31 March 2021

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 2019.

Distributions

Distributions were declared and paid to members in the year of £400m (2018 – £554.6m).

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.

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.

Principal Risks and Uncertainties

COVID-19 Pandemic risk
In March 2020, the World Health Organisation declared COVID-19 a pandemic. Refer to the post balance sheet events and going concern sections below for consideration of this risk.

Going concern

The Company has obtained a letter of support from the Company's ultimate parent undertaking and controlling party, McDonald's Corporation, confirming their intention to take such actions as may be reasonably necessary to enable the company to continue its operations and settle its obligations for a period of at least 12 months from the date of approval of the financial statements. The financial statements have therefore been prepared on the going concern basis.

The Company, as part of the McDonald's UK group of companies, has provided liquidity and financial support to the wider McDonald's system during the COVID-19 Pandemic, to ensure that the system is able to return to growth after lockdown restrictions are eased. This has required short-term liquidity support from McDonald's group cash pool. The UK group's base case financial projection forecasts a return to profitability and positive cash flow during 2021. However, return to a restrictive lockdown and weaker subsequent recovery, would have an adverse impact on the business and the system, and in these circumstances, the Company may require continued parental financial support.

Post balance sheet events

COVID-19 Pandemic
Since outbreak of COVID-19 in the UK, McDonald's priority has been to the safety and well-being of its staff and customers. The pandemic has impacted all aspects of business operations from health and safety; supply chain and distribution; restaurant operations and staffing; and customer demand. The Crisis Management Steering Group and Crisis Management Working Group were set up to lead our response to,

Members Report (continued)

and steer the business through, the impact of the pandemic. We closed all stores on 23rd March 2020, but started our re-opening and recovery plan as lockdown restrictions eased, with all drive-through stores re-opening for limited hours and on a restricted menu from the 4th of June 2020. We have implemented new safety measures for staff at both owned and franchisee sites, including but not limited to restricting number of staff at sites, redesigning kitchens and workflow to ensure the appropriate social distancing is in place, mandating all customer payments are made electronically rather than cash and screens within our kitchens to ensure the safety of our staff. Given the uncertainty that COVID-19 presents, on-going assessment by management, and engagement and communications with key stakeholders will continue.

No dividends were declared during 2020.

The estimates and assumptions used within our financial statements around provisions and impairment assessments include assumptions as 31st December 2019, but do not include an assessment of the impact of COVID-19 on the business as this was not an observable indicator as at the balance sheet date.

Independent auditors

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

Engagement with Employees

The s172 statement set out in the Strategic Report describes how Directors have engaged with employees.

On behalf of the members

Paul Pomroy (Mar 31, 2021 07:58 GMT+1)

Paul Pomroy
31 March 2021

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

Member's responsibilities

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

Company law 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCDONALD'S REAL ESTATE LIMITED LIABILITY PARTNERSHIP ('LLP')

Opinion

We have audited the financial statements of McDonald's Real Estate LLP for the year ended 31 December 2019 which comprise the Income statement, the Statement of financial position and the related notes 1 to 17, including a summary of significant accounting policies. 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 to the UK (United Kingdom Generally Accepted Accounting Practice).

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 2019 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 to the UK'; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of Covid-19

We draw attention to Note 1 and 17 of the financial statements, which describes the consequences the company is facing as a result of Covid-19 which is impacting the operations of subsidiaries. Our opinion is not modified in respect of this.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 7, other than the financial statements and our auditor's report thereon. The members are responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

Other information (continued)

statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of members

As explained more fully in the Statement of members' responsibilities set out on page 7 the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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 to Limited Liability Partnerships. 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 limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Rachel Savage (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 31 March 2021

Income Statement

for the year ended 31 December 2019

	Notes	*2019* *£000*	*2018* *£000*
Turnover	2	105,941	90,706
Cost of sales		(53,919)	(45,310)
Operating profit	3	52,022	45,396
Investment income		400,000	554,621
Interest receivable /(payable) and similar charges		128	102
(Loss) on revaluation of investment property		(1,310)	(1,060)
Profit on ordinary activities before taxation		450,840	599,059
Tax on profit on ordinary activities	5	-	-
Profit for the financial year		450,840	599,059

All activities of the partnership are regarded as continuing.

Statement of Financial Position

at 31 December 2019

	Notes	2019 £000	Restated 2018 £000
Non-current assets			
Tangible fixed assets	6	381,600	400,914
Investments	8	37,724	37,724
		419,324	438,638
Current assets			
Debtors	9	128,454	56,565
Cash at bank and in hand		15,199	15,072
		143,653	71,637
Creditors: amounts falling due within one year	10	(5,667)	(6,516)
Net current assets		137,986	65,121
Total assets less current liabilities		557,310	503,759
Provisions for liabilities	11	(4,148)	(1,437)
Amounts owing to members		(435,871)	(380,447)
Net assets		117,291	121,875
Members' interests			
Members' capital	13	109,269	109,269
Revaluation reserve		8,022	12,606
Members' funds		117,291	121,875

Details of the restated 2018 amounts can be found in Note 1.

The financial statements were approved by the members and authorised for issue on 31 March 2021 and signed on behalf of the members by:

Paul Pomroy (Mar 31, 2021 07:58 GMT+1)

Paul Pomroy

For and on Behalf of the members

Notes to the financial statements

at 31 December 2019

1. Accounting policies

Basis of preparation

The financial statements of McDonald's Real Estate LLP were authorised for issue by the members on 31 March 2021. The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (SORP 2017). 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 2019.

Group financial statements

The LLP is exempt from the requirements to prepare a 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 is profitable. 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 that the 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 2019 on the basis

Notes to the financial statements (continued)

at 31 December 2019

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 7.

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. The fair value less costs to sell calculation is based on observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model and the growth rates used for extrapolation purposes.

Impairment of investments

Investments are held at cost less any provision for impairment. Where there are indicators of impairment, the company performs impairment tests using a value in use calculation based on a discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model and the growth rates used for extrapolation purposes after the five-year period.

Onerous leases

Onerous leases are provided for when the company believes that the unavoidable costs of meeting or exiting the lease obligation exceed the economic benefits expected to be received under the lease.

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.

Rental income – revenue generated by renting properties.

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. 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	–	over the life of the leasehold
Short leasehold land and buildings	–	40 years or the unexpired portion of the lease

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

In accordance with FRS 102, we valued all properties at fair value as at 31 December 2017. However, in 2018, with the amendment to section 16 per the Triennial review 2017, we elected to value all investment property rented to another group entity at cost less accumulated depreciation and re-classed these as property, plant and equipment.

The remaining properties in investment properties are excess properties and they continue to be valued at their fair value.

Notes to the financial statements (continued)

at 31 December 2019

1. Accounting policies (continued)

Investment properties (continued)

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 2019 for all excess properties, as the other properties are now stated at cost less depreciation in property, plant and equipment. 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.

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. The present value is most sensitive to the discount rate applied.

A provision is recognised for asset retirement obligation (over the length of the lease) and closed restaurants to cover strip-out costs, ongoing lease costs and closure costs.

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:

- Provisions are 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.

Notes to the financial statements (continued)

at 31 December 2019

1. Accounting policies (continued)

Deferred taxation (continued)

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.

Restatement of 2018 financial statements

The entity holds long leasehold assets which have been held on the Balance sheet at historical cost and not depreciated. This was on the basis that long leasehold assets operate similarly to freehold assets for resale purposes and that these leaseholds are usually extended and therefore their economic value increases over time rather than decreases. However, it has been identified that this treatment is not in line with FRS 102 and that these assets should be depreciated over the life of the lease. The depreciation that should have been charged up to 1st January 2018 is material and therefore requires restating. The impact of depreciation on the 2018 income statement was not material and therefore the correction required is a reduction in Tangible fixed assets and Amounts due to Members of £8,597k at 1st January 2018 and 31st December 2018.

2. Turnover

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

3. Operating profit

This is stated after charging (through 'Cost of sales'):

	2019	*2018*
	£000	*£000*
Auditors' remuneration – audit services	10	10
Depreciation	24,293	20,826
Operating lease rentals – land and buildings	23,157	20,506
Loss on the routine disposal of fixed assets	22	129

4. Staff costs

McDonald's Real Estate LLP did not have any employees in 2019 or 2018.

5. 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 2019

6. Tangible fixed assets

	Land and buildings £000	*Plant and equipment £000*	*Total £000*
Cost:			
At 1 January 2019	673,746	1,102	674,848
Additions	427	-	427
Disposals	(4,123)	(169)	(4,292)
Revaluation of Investment Property (see note 7)	(1,310)	-	(1,310)
Transfers to group companies	(11,900)	(2)	(11,902)
Transfers from group companies	12,223	-	12,223
At 31 December 2019	669,063	931	669,994

	Land and buildings £000	*Plant and equipment £000*	*Total £000*
Depreciation:			
At 1 January 2019 - restated	273,756	178	273,934
Provided during the year	24,198	95	24,293
Disposals	(730)	(171)	(901)
Impairment loss	134	-	134
Transfers to group companies	(9,912)	-	(9,912)
Transfers from group companies	846	-	846
At 31 December 2019	288,292	102	288,394
Carrying Amount:			
At 31 December 2019	380,771	829	381,600
At 1 January 2019 - Restated	399,990	924	400,914

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.

Transfers in to McDonald's Real Estate LLP relate to land and building improvements funded by McDonald's Restaurants Limited which are then subsequently transferred to McDonald's Real Estate LLP which owns the site where the purchased assets will be in use.

Transfers out from McDonald's Real Estate LLP occur when assets are transferred to McDonald's Restaurants Ltd as a result of a property lease being transferred from McDonald's Real Estate LLP to McDonald's Restaurants Ltd.

Impairment is calculated when a loss-making store is identified. The value in use is calculated by a future cashflow discounted using the company's weighted average cost of capital, taking into account of any

Notes to the financial statements (continued)

at 31 December 2019

6. Tangible fixed assets (continued)

expected reinvestments. When the value in use is less than the carrying amount, we recognise an impairment loss.

The entity holds long leasehold assets which have been held on the Balance sheet at historical cost and not depreciated. This was on the basis that long leasehold assets operate similarly to freehold assets for resale purposes and that these leaseholds are usually extended and therefore their economic value increases over time rather than decreases. However, it has been identified that this treatment is not in line with FRS 102 and that these assets should be depreciated over the life of the lease. The depreciation that should have been charged up to 1st January 2018 is material and therefore requires restating. The impact of depreciation on the 2018 income statement was not material and therefore the correction required is a reduction in Tangible fixed assets and Amounts due to Members of £8,597k at 1st January 2018 and 31st December 2018.

The carrying amount of land and buildings consists of:

	2019	*2018*
	£000	*£000*
Investment Properties at Fair value (see note 7):	14,191	15,751
Other properties at Cost	366,580	384,239

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

	£000
At 1 January 2019	3,707
At 31 December 2019	3,100

The weighted average interest rate used for capitalising finance costs during the year was 3.31% (2018 – 3.25%).

7. 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 2019 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:

	2019	2018
Investment Portfolio Yields	%	%
Drive Thru	5.50-10.00	5.50-9.50
High Street	4.00-9.00	3.25-8.00

Notes to the financial statements (continued)

at 31 December 2019

7. Investment Property (continued)

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

	£000
Fair Value:	
At 1 January 2019	15,751
Additions	480
Disposals	(730)
Deficit on valuation	(1,310)
At 31 December 2019	14,191

The historical cost of investment properties held at fair value is as follows:	£000
At 1 January 2019	9,208
At 31 December 2019	8,751

8. Investment in subsidiary undertakings

	£000
Cost and Carrying Amount:	
At 1 January 2019 and at 31 December 2019	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.

Notes to the financial statements (continued)

at 31 December 2019

9. Debtors

	2019	2018
	£000	£000
Amounts due from fellow subsidiary undertakings	112,345	37,207
Amounts due from parent undertakings	12,373	17,087
Prepayments	3,736	2,271
	128,454	56,565

All of the above amounts are receivable within one year.

10. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Amounts due to parent undertakings	-	2,603
Amounts due to affiliate	1,765	1,996
Accounts payable	2,779	-
Accruals	1,123	1,917
	5,667	6,516

11. Provisions for liabilities

	£000
At 1 January 2019	1,437
Arising during the year	2,965
Utilised during the year	(1,680)
Revaluations	
Transfer between companies	1,426
At 31 December 2019	4,148

	£000
At 1 January 2018	1,813
Arising during the year	889
Utilised during the year	(1,265)
At 31 December 2018	1,437

Restaurant closure costs

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

Notes to the financial statements (continued)

at 31 December 2019

Onerous leases

A provision is recognised for onerous leases where a lease expense (over the length of the lease) is expected to be more than the income received on that site.

12. 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 2018 - restated	565,240
Profit for the year	599,059
Distributed to members	(554,621)
Revaluation of investment property	1,060
Reserves brought forward adjustments	(230,291)
At 31 December 2018 - restated	380,447
Profit for the year	450,840
Distributed to members	(400,000)
Revaluation of investment property	1,310
Amounts reclassified to Members interests	3,274
At 31 December 2019	435,871

Details of the restated 2018 amounts can be found in Note 1.

The profit for the year comprises of the following:

	2019	*2018*
	£000	*£000*
Realisable income	452,150	600,119
Revaluation of investment property	(1,310)	(1,060)
	450,840	599,059

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

Notes to the financial statements (continued)

at 31 December 2019

13. Members' interests

	Members' capital £000	*Revaluation reserve £000*	*Members' interests £000*
At 31 December 2018	109,269	12,606	121,875
Revaluation loss	-	(1,310)	(1,310)
Amounts reclassified to Members interests	-	(3,274)	(3,274)
At 31 December 2019	109,269	8,022	117,291

14. Lease commitments

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

	2019 £000	*2018 £000*
Leases expiring within one year	14,987	17,413
Leases expiring in one to five years	44,289	60,071
Leases expiring in more than five years	51,953	95,557
	111,229	173,041

15. 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.

16. 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 110 North Carpenter Street, Chicago, Illinois 60607, USA.

17. Events after the balance sheet date

Since the outbreak of COVID-19 in the UK, McDonald's priority has been to the safety and well-being of its staff and customers. The pandemic has impacted all aspects of business operations from health and safety; supply chain and distribution; restaurant operations and staffing; and customer demand. The Crisis Management Steering Group and Crisis Management Working Group were set up to lead our response to, and steer the business through, the impact of the pandemic. We closed all stores on 23rd March 2020, but have since started our re-opening and recovery plan as lockdown restrictions have eased, with all drive-through stores re-opening for limited hours and on a restricted menu from the 4th of June 2020. We have

Notes to the financial statements (continued)

at 31 December 2019

implemented new safety measures for staff at both owned and franchisee sites, including but not limited to restricting number of staff at sites, redesigning kitchens and workflow to ensure the appropriate social distancing is in place, mandating all customer payments are made electronically rather than cash and screens within our kitchens to ensure the safety of our staff. Given the uncertainty that COVID-19 presents, on-going assessment by management, and engagement and communications with key stakeholders will continue.