

MCDONALDS REAL ESTATE LLP

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

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MCDONALDS REAL ESTATE LLP

INFORMATION

Designated Members

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

LLP registered number

OC303157

Registered office

11-59 High Road, East Finchley, London, N2 8AW

Independent auditor

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

MCDONALDS REAL ESTATE LLP

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MCDONALDS REAL ESTATE LLP

**MEMBERS' REPORT INCORPORATING THE ENERGY AND CARBON REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

The members present their annual report together with the audited financial statements of McDonalds Real Estate LLP (the "LLP") for the year ended 31 December 2021.

Principal activities

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 the LLP's 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 £32m to £117m, which reflects a recovery back to a level equivalent to prior to the COVID-19 pandemic.

Results and dividends

The Limited Liability Partnership ('the LLP') made a profit for the year, after taxation, of £386.2m (2020 - £43.6m). Dividends amounting to £325.0m were received from subsidiary undertakings during the year (2020 - £Nil).

Distributions

During the year, the LLP paid distributions of £325.0m (2020 - £Nil) to its members.

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.

Designated Members

McDonald's Real Estate Company No.1 Limited and McDonald's Real Estate Company No.2 Limited were designated members of the LLP throughout the period.

Members' capital and interests

Each member's subscription to the capital of the LLP is determined by their share of the profit and is repayable following retirement from the LLP.

Details of changes in members' capital in the year ended 31 December 2021 are set out in the Reconciliation of Members' Interests.

Members are remunerated from the profits of the LLP and are required to make their own provision for pensions and other benefits. Profits are allocated and divided between members after finalisation of the financial statements. Members draw a proportion of their profit shares monthly during the year in which it is made, with the balance of profits being distributed after the year, subject to the cash requirements of the business.

MCDONALDS REAL ESTATE LLP

**MEMBERS' REPORT INCORPORATING THE ENERGY AND CARBON REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Streamlined Energy and Carbon Reporting (SECR)

Due to the nature of the LLP's business, it has consumed less than 40 kWh and is therefore classed as a low energy user. As such, the LLP is not required to report its energy and carbon information. The LLP's subsidiary, McDonald's Restaurants Limited, discloses energy use from operating restaurants in its own financial statements.

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 LLP.

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.

COVID-19 Pandemic risk

Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our financial results, condition and outlook. The COVID-19 pandemic adversely affected our financial results in the prior year, however the operational changes made by the business and the success of the vaccine rollout across the UK has meant that the directors do not expect further closures of any sales channels.

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.

MCDONALDS REAL ESTATE LLP

**MEMBERS' REPORT INCORPORATING THE ENERGY AND CARBON REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

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 2021, 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 disclosures set out below describe 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.

Political and charitable contributions

During the year, no charitable or political donations were made (2020 - £Nil).

Going concern

The LLP has obtained a letter of support from the LLP's ultimate parent undertaking and controlling party, McDonald's Corporation Inc., confirming its intention to take such actions as may be reasonably necessary to enable the LLP to continue its operations and settle its obligations for the period to 31 December 2023, which is the going concern period considered by the members. The financial statements have therefore been prepared on the going concern basis.

MCDONALDS REAL ESTATE LLP

**MEMBERS' REPORT INCORPORATING THE ENERGY AND CARBON REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Disclosure of information to auditor

Each of the persons who are members at the time when this Members' Report, incorporating the Energy and Carbon Report is approved has confirmed that:

- so far as that member is aware, there is no relevant audit information of which the LLP's auditor is unaware, and
- that member has taken all the steps that ought to have been taken as a member in order to be aware of any relevant audit information and to establish that the LLP's auditor is aware of that information.

Post reporting date events

There have been no significant event affecting the LLP since the year end.

Auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office. The Designated members will propose a motion re-appointing the auditor at a meeting of the members.

This report was approved by the members and signed on their behalf by:

Mark Kiernan

McDonald's Real Estate Company No.1 Limited
Designated member

Date: 22 September 2022

MCDONALDS REAL ESTATE LLP

**MEMBERS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

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

Company law, (as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008), 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), including Financial Reporting Standard FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under company law, as applied to LLPs, 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 these financial statements, the members are required to:

- select suitable accounting policies in accordance with Section 10 of FRS 102 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the LLP financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/ or the group 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 LLP financial statements comply with the Companies Act 2006. 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.

Under applicable law and regulations, the members are also responsible for preparing a Members' Report that complies with that law and those regulations. The members are responsible for the maintenance and integrity of the corporate and financial information included on the LLP's website.

MCDONALDS REAL ESTATE LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCDONALDS REAL ESTATE LLP

Opinion

We have audited the financial statements of McDonald's Real Estate LLP (the 'limited liability partnership') for the year ended 31 December 2021 which comprise the Income Statement and Statement of Financial Position and the related notes 1 to 19, 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 and Republic of Ireland.

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 2021 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 Republic of Ireland; 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LLP's ability to continue as a going concern for a period up to 31 December 2023.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the limited liability partnership's ability to continue as a going concern.

MCDONALDS REAL ESTATE LLP

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCDONALDS REAL ESTATE LLP
(CONTINUED)**

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The members are responsible for the other information contained within the Annual Report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 Members' Responsibilities Statement on page 6, 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.

MCDONALDS REAL ESTATE LLP

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCDONALDS REAL ESTATE LLP
(CONTINUED)**

Auditors' 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the limited liability partnership and determined that the most significant are those that relate to the reporting framework (FRS102 and the Companies Act 2006 as applied to limited liability partnerships). In addition, the limited liability partnership has to comply with laws and regulations relating to its operations, including health and safety, employees, data protection and anti-bribery and corruption.
- We understood how McDonald's Real Estate LLP is complying with those frameworks by making enquiries of management to understand how the Limited Liability Partnership maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also review correspondence with relevant authorities.
- We assessed the susceptibility of the limited liability partnership's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk. We performed testing of manual journals including in our test of revenue recognition. We tested specific transactions back to source documentation or independent confirmation, ensuring appropriate authorisation of the transaction.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing in relation to the identified fraud risk with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.

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

MCDONALDS REAL ESTATE LLP

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCDONALDS REAL ESTATE LLP
(CONTINUED)**

Use of our report

This report is made solely to the LLP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied by Part 12 of The Limited Liability Partnerships (Accounts and Audit) (Applications of Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the LLP's 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 LLP and the LLP'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

1 More London Place
London
United Kingdom
SE1 2AF

22 September 2022

MCDONALDS REAL ESTATE LLP

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 £000	2020 £000
Turnover	4	117,343	85,481
Cost of sales		(57,520)	(40,713)
Operating profit	5	59,823	44,768
Investment income		325,000	-
Gain on disposal of assets		2,097	-
Interest receivable and similar income		35	54
Loss on revaluation of investment property	11	(765)	(1,213)
Profit for the year		386,190	43,609
Profit for the year		386,190	43,609
Profit allocation to members		(386,190)	(43,609)
		-	-

All activities of the partnership are regarded as continuing.

The notes on pages 14 to 25 form part of these financial statements.

MCDONALDS REAL ESTATE LLP
REGISTERED NUMBER: OC303157

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Tangible fixed assets	10	283,333	349,778
Investments	12	37,724	37,724
		<u>321,057</u>	<u>387,502</u>
Current assets/(liabilities)			
Debtors: amounts falling due within one year	13	336,114	208,948
Cash at bank and in hand	14	15,296	15,263
		<u>351,410</u>	<u>224,211</u>
Creditors: amounts falling due within one year	15	(6,309)	(6,677)
Net current assets		<u>345,101</u>	<u>217,534</u>
Total assets less current liabilities		<u>666,158</u>	<u>605,036</u>
Provisions for liabilities			
Other provisions	16	(8,197)	(8,265)
Net assets attributable to members		<u>657,961</u>	<u>596,771</u>
Represented by:			
Loans and other debts due to members			
Amounts due to members		542,648	480,693
		<u>542,648</u>	<u>480,693</u>
Members' other interests			
Members' capital		109,269	109,269
Revaluation reserve		6,044	6,809
		<u>115,313</u>	<u>116,078</u>
		<u>657,961</u>	<u>596,771</u>
Total members' interests			
Loans and other debts due to members		542,648	480,693
Members' other interests		115,313	116,078
		<u>657,961</u>	<u>596,771</u>

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2021

The financial statements were approved and authorised for issue by the members and were signed on their behalf by:

Mark Kiernan

McDonald's Real Estate Company No.1 Limited
Designated member

Date: 22 September 2022

The notes on pages 14 to 25 form part of these financial statements.

McDonalds Real Estate LLP has no equity and, in accordance with the provisions contained within the Statement of Recommended Practice "Accounting by Limited Liability Partnerships", has not presented a Statement of Changes in Equity.

MCDONALDS REAL ESTATE LLP

**RECONCILIATION OF MEMBERS' INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	EQUITY Members' other interests			DEBT Loans and other debts due to members		Total members' interests
	Members' capital (classified as equity) £000	Revaluation reserve £000	Total £000	Other amounts £000	Total £000	Total £000
Balance at 1 January 2020	109,269	8,022	117,291	435,871	435,871	553,162
Profit for the year	-	-	-	43,609	43,609	43,609
Movement in reserves	-	(1,213)	(1,213)	-	-	(1,213)
Revaluation of investment property	-	-	-	1,213	1,213	1,213
				480,693	480,693	
Amounts due to members						
Balance at 31 December 2020	109,269	6,809	116,078	480,693	480,693	596,771
Profit for the year	-	-	-	386,190	386,190	386,190
Movement in reserves	-	(765)	(765)	-	-	(765)
Distributed to members	-	-	-	(325,000)	(325,000)	(325,000)
Revaluation of investment property	-	-	-	765	765	765
				542,648	542,648	
Amounts due to members						
Balance at 31 December 2021	109,269	6,044	115,313	542,648	542,648	657,961

There are no existing restrictions or limitations which impact the ability of the members of the LLP to reduce the amount of Members' other interests.

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1. General information

McDonald's Real Estate LLP is a limited liability partnership, domiciled and incorporated in England and Wales (registered number: OC303157). The registered office address is 11-59 High Road, East Finchley, London, N2 8AW.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006 and the requirements of the Statement of Recommended Practice "Accounting by Limited Liability Partnerships".

The LLP's functional and presentational currency is GBP. Amounts have been rounded to the nearest thousand pounds, unless otherwise stated.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the LLP's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial Reporting Standard 102 - reduced disclosure exemptions

The LLP has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d).

This information is included in the consolidated financial statements of McDonald's Corporation Inc. as at 31 December 2021 and these financial statements may be obtained from 110 North Carpenter Street, Chicago, Illinois 60607, USA.

2.3 Exemption from preparing consolidated 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.

2.4 Going concern

The LLP has obtained a letter of support from the LLP's ultimate parent undertaking and controlling party, McDonald's Corporation Inc., confirming their intention to take such actions as may be reasonably necessary to enable the LLP to continue its operations and settle its obligations for the period to 31 December 2023, which is the going concern period considered by the members. The financial statements have therefore been prepared on the going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.5 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the LLP and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

The LLP's turnover arises from rental income generated from renting properties.

2.6 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. Lease 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.

2.7 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.8 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Freehold land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long leasehold land	- over the life of the lease
Freehold and long leasehold buildings	- 40 years
Short leasehold land and buildings	- 40 years or the unexpired portion of the lease
Plant and machinery	- 3-10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

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
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.9 Investment properties

Individual freehold and leasehold properties are carried at current year value at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are undertaken with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Fair values are determined from market-based evidence normally undertaken by professionally qualified valuers.

Investment properties are accounted for as follows:

- Investment properties are initially recognised at cost which includes purchase cost and directly attributable expenditure.
- Investment properties are subsequently measured at fair value with changes in fair value recognised in profit or loss.
- The LLP transfers the changes in fair value recognised in profit or loss to the revaluation reserve at each reporting date through the Reconciliation of Members' Interests.

2.10 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.

2.11 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.

2.12 Provisions for liabilities

Provisions are made where an event has taken place that gives the LLP a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the LLP becomes aware of the obligation, and are measured at the best estimate at the reporting date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

2. Accounting policies (continued)

2.13 Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the LLP becomes a party to the contractual provisions of the instrument.

Trade and other debtors and creditors are classified as basic financial instruments and measured on initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the LLP will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the LLP's cash management.

Financial liabilities and equity instruments issued by the LLP are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the LLP after deducting all of its liabilities. Equity instruments issued by the LLP are recorded at the proceeds received, net of direct issue costs.

2.14 Dividends

Income from investments is recognised when the LLP's right to receive payment is established.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

3. Judgements in applying accounting policies 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 statement of financial position 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 2021 on the basis 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 11.

Impairment of investments

Investments are held at cost less any provision for impairment. Where there are indicators of impairment, the LLP performs impairment tests using a value in use discounted cash flow model. No impairment indicators arose in the current year.

Impairment of assets

Where there are indicators of impairment of individual assets, the LLP 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.

Onerous leases

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

4. Turnover

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

All turnover arose within the United Kingdom.

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

5. Operating profit

The operating profit is stated after charging (through 'cost of sales'):

	2021 £000	2020 £000
Auditor's remuneration - audit services	9	9
Depreciation	21,100	25,450
Operating lease rentals - land and buildings	33,420	19,746
	<u> </u>	<u> </u>

6. Auditor's remuneration

	2021 £000	2020 £000
Audit fee	9	9
	<u> </u>	<u> </u>

The LLP has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of the parent company.

7. Staff costs

McDonald's Real Estate LLP did not have any employees in 2021 or 2020.

8. Taxation

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.

9. Information in relation to members

	2021 Number	2020 Number
The average number of members during the year was	2	2
	<u> </u>	<u> </u>
	2021 £000	2020 £000
The amount of profit attributable to the member with the largest entitlement was	384,815	43,491
	<u> </u>	<u> </u>

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

10. Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1 January 2021	640,355	929	641,284
Additions	255	-	255
Transfers to group companies	(29,827)	(1)	(29,828)
Disposals	(39,674)	-	(39,674)
Transfers from group companies	827	-	827
Revaluation of investment properties (see note 11)	(765)	-	(765)
At 31 December 2021	<u>571,171</u>	<u>928</u>	<u>572,099</u>
Depreciation			
At 1 January 2021	291,312	194	291,506
Charge for the year	21,009	91	21,100
Transfers to group companies	(21,989)	(1)	(21,990)
Disposals	(1,849)	(1)	(1,850)
At 31 December 2021	<u>288,483</u>	<u>283</u>	<u>288,766</u>
Net book value			
At 31 December 2021	<u><u>282,688</u></u>	<u><u>645</u></u>	<u><u>283,333</u></u>
At 31 December 2020	<u><u>349,043</u></u>	<u><u>735</u></u>	<u><u>349,778</u></u>

MCDONALDS REAL ESTATE LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

10. Tangible fixed assets (continued)

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 LLP's weighted average cost of capital, taking into account of any expected reinvestments. When the value in use is less than the carrying amount, we recognise an impairment loss.

The carrying amount of land and buildings consists of:

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

	£000
At 1 January 2021	2,900
At 31 December 2021	2,525

The weighted average interest rate used for capitalising finance costs during the year was 5.62% (2020 - 3.21%).

11. Investment properties

Freehold investment properties were valued by Montagu Evans LLP, an independent valuer with a recognised and relevant professional qualification with recent experience in the location and category of the investment property being valued. Valuations were performed as at 31 December 2021 on the basis of fair value in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. The critical assumptions made relating to the valuation are set out below:

Investment portfolio yields	2021 %	2020 %
Drive Thru	6.50-10.50	6.00-10.50
High Street	5.00-10.00	4.50-10.00

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

11. Investment properties (continued)

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

	£000
Fair value:	
At 1 January 2021	13,544
Additions	5
Disposals	(2,465)
Deficit on valuation	(765)
At 31 December 2021	10,319

The historical cost of investment properties held at fair value is as follows:

	£000
At 1 January 2021	9,291
At 31 December 2021	9,291

12. Fixed asset investments

	Investments £000
Cost and carrying amount	
At 1 January 2021	37,724
At 31 December 2021	37,724

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

12. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the LLP:

Name	Country of incorporation	Principal activity	Class of shares	Holding
McDonald's Restaurants Limited*	United Kingdom	Food & beverage supply	Ordinary	100%
APPT Corporation Limited**	United Kingdom	Food & beverage supply	Ordinary	50%
West One Restaurants Limited**	United Kingdom	In liquidation	Ordinary	100%
Jardin Valley Restaurants Limited**	United Kingdom	In liquidation	Ordinary	100%
West One Foods Ltd**	United Kingdom	In liquidation	Ordinary	100%

* Held directly

** Held indirectly

The registered office address of all subsidiaries is 11-59 High Road, East Finchley, London, N2 8AW.

13. Debtors

	2021	2020
	£000	£000
Trade debtors	10,805	895
Amounts due from fellow subsidiary undertakings	301,590	192,584
Amounts due from parent undertaking	12,384	12,384
Prepayments	11,335	3,085
	336,114	208,948

14. Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank and in hand	15,296	15,263

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

15. Creditors: Amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	3,999	4,389
Amounts owed to affiliates	1,766	1,766
Accruals	544	522
	<u>6,309</u>	<u>6,677</u>

16. Provisions

	Asset retirement obligations £000	Restaurant closure costs £000	Onerous leases £000	Total £000
At 1 January 2021	6,723	818	724	8,265
Arising in year	240	1,471	2,051	3,762
Utilised in year	-	(1,061)	-	(1,061)
Reclassification	(2,769)	-	-	(2,769)
At 31 December 2021	<u>4,194</u>	<u>1,228</u>	<u>2,775</u>	<u>8,197</u>

	Asset retirement obligations £000	Restaurant closure costs £000	Onerous leases £000	Total £000
At 1 January 2020	2,258	1,321	569	4,148
Arising in year	1,476	18	155	1,649
Utilised in year	-	(521)	-	(521)
Reclassification	2,989	-	-	2,989
At 31 December 2020	<u>6,723</u>	<u>818</u>	<u>724</u>	<u>8,265</u>

MCDONALDS REAL ESTATE LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

16. Provisions (continued)**Restaurant closure costs**

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

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.

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.

17. Commitments under operating leases

At 31 December 2021 the LLP had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2021 £000	2020 £000
Not later than 1 year	6,959	16,300
Later than 1 year and not later than 5 years	41,027	51,749
Later than 5 years	45,138	71,142
	<u>93,124</u>	<u>139,191</u>

18. 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.

19. Controlling party

The immediate parent undertakings are McDonald's Real Estate Company No. 1 Limited and McDonald's Real Estate Company No. 2 Limited, both registered in England and Wales.

The ultimate parent undertaking and ultimate controlling party is McDonald's Corporation Inc., a company registered in the United States of America.

The smallest and largest group of undertakings in which the results of the LLP are consolidated for the year ended 31 December 2021 is that headed by McDonald's Corporation Inc.. The registered office address of McDonald's Corporation Inc. is 110 North Carpenter Street, Chicago, Illinois 60607, USA. Copies of the group accounts can be obtained from the registered office.