Partnership Registered No: OC303157

McDonald's Real Estate LLP

Annual Report and Financial Statements

31 December 2020

Partnership OC303157

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

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

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

Partnership Registered No: OC303157

Strategic report

Principal activities and review of the business

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

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

Therefore, results are in part dependent on the performance of stores operating within McDonald's Restaurants Limited. Turnover decreased by £20m to £85m, which reflects the reduction in sales due to the COVID-19 pandemic.

Results

The Limited Liability Partnership ('the LLP') made a profit for the year, after taxation, of £43.6m (2019 – £450.8m).

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.

COVID-19 Pandemic risk

The COVID 19 pandemic has adversely affected and is expected to continue to adversely affect our financial results, condition and outlook. 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.

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 2020, 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.

Members

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

Streamlined Energy and Carbon Reporting (SECR)

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

On behalf of the members

Paul James Pomroy (Sep 30, 2021 15:38 GMT+1)

Paul Pomroy
30 September 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 2020.

Distributions

No distributions were declared or paid to members in the year (2019 – £400m).

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

The COVID 19 pandemic has adversely affected and is expected to continue to adversely affect our financial results, condition and outlook. 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.

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 the period to 31st December 2022, which is the going concern period considered by the Members. The financial statements have therefore been prepared on the going concern basis.

Members Report (continued)

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 James Pomroy (Sep 30, 2021 15:38 GMT+1)

Paul Pomroy
30 September 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 (the 'limited liability partnership') for the year ended 31 December 2020 which comprise the income statement and statement of financial position and the related notes 1 to 16, 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 2020 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 limited liability partnership's ability to continue as a going concern for a period up to 31 December 2022.

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.

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.

Independent auditor's report (continued)

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 there is 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 8, 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.

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 reviewed 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 transactions.
- Based on this understanding we designed our audit procedures to identify noncompliance 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 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
30 September 2021

Income Statement

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Turnover	2	85,481	105,941
Cost of sales		(40,713)	(53,919)
Operating profit	3	44,768	52,022
Investment income		-	400,000
Interest receivable /(payable) and similar charges		54	128
(Loss) on revaluation of investment property		(1,213)	(1,310)
Profit on ordinary activities before taxation		43,609	450,840
Tax on profit on ordinary activities	5	-	-
Profit for the financial year		43,609	450,840

All activities of the partnership are regarded as continuing.

Statement of Financial Position

at 31 December 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Tangible fixed assets	6	349,778	381,600
Investments	8	37,724	37,724
		387,502	419,324
Current assets			
Debtors	9	208,948	128,454
Cash at bank and in hand		15,263	15,199
		224,211	143,653
Creditors: amounts falling due within one year	10	(6,677)	(5,667)
Net current assets		217,534	137,986
Total assets less current liabilities		605,036	557,310
Provisions for liabilities	11	(8,265)	(4,148)
Amounts owing to members		(480,693)	(435,871)
Net assets		116,078	117,291
Members' interests			
Members' capital	13	109,269	109,269
Revaluation reserve		6,809	8,022
Members' funds		116,078	117,291

The financial statements were approved by the members and authorised for issue on 30 September 2021 and signed on behalf of the members by:

Paul James Pomroy (Sep 30, 2021 15:38 GMT+1)

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Paul Pomroy

For and on Behalf of the members

Notes to the financial statements

at 31 December 2020

1. Accounting policies

Basis of preparation

The financial statements of McDonald's Real Estate LLP were authorised for issue by the members on 30 September 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 2020.

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 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 the period to 31st December 2022, which is the going concern period considered by the Members. The financial statements have therefore ben prepared on the going concern basis.

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 2020 on the basis

Notes to the financial statements (continued)

at 31 December 2020

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.

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.

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.

Notes to the financial statements (continued)

at 31 December 2020

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.

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.

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.

Notes to the financial statements (continued)

at 31 December 2020

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'):

	2020	*2019*
	£000	*£000*
Auditors' remuneration – audit services	9	10
Depreciation	25,450	24,293
Operating lease rentals – land and buildings	19,746	23,157
Loss on the routine disposal of fixed assets	-	22

4. Staff costs

McDonald's Real Estate LLP did not have any employees in 2020 or 2019.

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.

6. Tangible fixed assets

	Land and buildings	*Plant and equipment*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 January 2020	669,063	931	669,994
Additions	2,093	-	2,093
Disposals	(3,992)	(2)	(3,994)
Revaluation of Investment Property (see note 7)	(1,213)	-	(1,213)
Reclassification	2,989	-	2,989
Transfers to group companies	(29,914)	-	(29,914)
Transfers from group companies	1,329	-	1,329
At 31 December 2020	640,355	929	641,284

Notes to the financial statements (continued)

at 31 December 2020

6. Tangible fixed assets (continued)

	Land and buildings £000	*Plant and equipment £000*	*Total £000*
Depreciation:			
At 1 January 2020	288,292	102	288,394
Provided during the year	25,357	93	25,450
Disposals	(2,188)	(1)	(2,189)
Transfers to group companies	(20,272)	-	(20,272)
Transfers from group companies	123	-	123
At 31 December 2020	291,312	194	291,506
Carrying Amount:			
At 31 December 2020	349,043	735	349,778
At 1 January 2020	380,771	829	381,600

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 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:

	2020 £000	*2019 £000*
Investment Properties at Fair value (see note 7):	13,544	14,191
Other properties at Cost	335,499	366,580

Notes to the financial statements (continued)

at 31 December 2020

6. Tangible fixed assets (continued)

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

	£000
At 1 January 2020	3,100
At 31 December 2020	2,900

The weighted average interest rate used for capitalising finance costs during the year was 3.21% (2019 – 3.31%).

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 2020 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:

	2020	2019
Investment Portfolio Yields	%	%
Drive Thru	6.00-10.50	5.50-10.00
High Street	4.50-10.00	4.00-9.00

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

	£000
Fair Value:	
At 1 January 2020	14,191
Additions	566
Disposals	-
Deficit on valuation	(1,213)
At 31 December 2020	13,544

Notes to the financial statements (continued)

at 31 December 2020

7. Investment Property (continued)

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

	£000
At 1 January 2020	8,571
At 31 December 2020	9,291

8. Investment in subsidiary undertakings

	£000
Cost and Carrying Amount:	
At 1 January 2020 and at 31 December 2020	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.

9. Debtors

	2020	*2019*
	£000	*£000*
Amounts due from subsidiary undertakings	192,584	112,345
Amounts due from parent undertakings	12,384	12,373
Trade Debtors	895	-
Prepayments	3,085	3,736
	208,948	128,454

All of the above amounts are receivable within one year.

Notes to the financial statements (continued)

at 31 December 2020

10. Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Amounts due to parent undertakings	-	-
Amounts due to affiliate	1,766	1,765
Accounts payable	4,389	2,779
Accruals	522	1,123
	6,677	5,667

11. Provisions for liabilities

	£000
At 1 January 2020	4,148
Arising during the year	1.649
Utilised during the year	(521)
Reclassification	2,989
At 31 December 2020	8.265

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

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.

Notes to the financial statements (continued)

at 31 December 2020

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 2019	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
Profit for the year	43,609
Distributed to members	-
Revaluation of investment property	1,213
At 31 December 2020	480,693

The profit for the year comprises of the following:

	2020	*2019*
	£000	*£000*
Realisable income	44,822	452,150
Revaluation of investment property	(1,213)	(1,310)
	43,609	450,840

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

13. Members' interests

	Members' capital	*Revaluation reserve*	*Members' interests*
	£000	*£000*	*£000*
At 31 December 2019	109,269	8,022	117,291
Revaluation loss	-	(1,213)	(1,213)
At 31 December 2020	109,269	6,809	116,078

Notes to the financial statements (continued)

at 31 December 2020

14. Lease commitments

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

	2020	2019
	£000	£000
Leases expiring within one year	16,300	14,987
Leases expiring in one to five years	51,749	44,289
Leases expiring in more than five years	71,142	51,953
	139,191	111,229

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.