

## **McDonald's Real Estate Company No.2 Limited**

### **Annual Report and Financial Statements**

31 December 2019



**Directors**

P Pomroy  
H Trickey

**Secretary**

C Dekker

**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

Registered No. 04459588

## Strategic Report

The directors present their strategic report for the year ended 31 December 2019.

### Principal activity and review of the business

The principal purpose of the company is to acquire, manage, hold and dispose of assets including property. This year's turnover increased slightly due to the growth in sales.

### Results

The profit for the year after taxation amounted to £1.8m (2018 profit – £1.9m).

### Future developments

The level of business and the period end financial position remain satisfactory for both the company and subsidiaries and the parent undertaking is confident in 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 directors 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 company's main business activity is to lease investment property to McDonald's Restaurants Limited and therefore all risks and uncertainties facing the company are intrinsically linked to McDonald's Restaurants Limited. The directors deem the key risks to the company to be the ability of McDonald's Restaurants Limited to meet its debts to the company as they fall due, and the effect on the company of its subsidiary ceasing to trade within its premises.

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

The directors 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 Director's report below for consideration of this risk.

### Financial risk management objectives and policies

The company uses various financial instruments including amounts due to and from group undertakings that arise directly from its operations.

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

## Strategic Report (continued)

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

### Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The company'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 company finances its operations through retained profits, which comprise of rental income received from other group companies and profit share from McDonald's Real Estate LLP. 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 Company No. 2 Limited 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 Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the Directors' 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 our shareholder (McDonald's Europe Limited), subsidiary (McDonald's Real Estate LLP), trading entity of the group (McDonald's Restaurants Limited) and suppliers. As this is a real estate entity our principle 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 our shareholder. Decisions are taken regarding the acquisition, management, holding and disposal of properties.

### Employees


The entity does not have any employees. Employees of McDonald's Restaurants Limited are engaged with by the Directors of that company.

**Section 172 statement (continued)**

**Directors**

The entity's Board of Directors comprises of the CEO, a local Senior Vice President ("SVP") and the General Counsel ("GC") of the McDonald's Restaurants Limited. Directors are not compensated for their services as Directors.

On behalf of the Board

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

Paul Pomroy  
Director

31 March 2021

## Directors' report

The directors present their report and the audited financial statements of the group and company for the year ended 31 December 2019.

### Dividends

Dividends were declared and paid to Parent undertakings in the year of £1.1m (2018 – £1.5m).

### Political donations and political expenditure

During the year, no charitable or political donations were made.

### Directors

The directors who served the company during the year, and up to the date of this report, were as follows:

P Pomroy

H Trickey

### 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.

### 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, 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.

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.

### 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.

## Directors' report (continued)

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.

### Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.


### Independent auditors

The auditor, Ernst & Young LLP is 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 Board

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

Paul Pomroy  
Director  
31 March 2021

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors 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 directors 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 directors 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 directors 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 DIRECTORS OF MCDONALD'S REAL ESTATE COMPANY NO. 2 LIMITED

### Opinion

We have audited the financial statements of McDonald's Real Estate Company No. 2 Limited for the year ended 31 December 2019 which comprise the Income statement, the Statement of financial position, the Statement of changes in equity 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 including FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company'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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 company 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 19 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 directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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 directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

# **Independent auditor's report (continued)**

## **Other information (continued)**

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 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.

## **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors 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 directors 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company 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

## Independent auditor's report (continued)

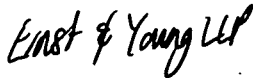
### Auditor's responsibilities for the audit of the financial statements (continued)

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.

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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



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

		2019	2018
	Notes	£000	£000
<b>Turnover</b>	2	1,899	1,795
Cost of sales		(726)	(1,063)
<b>Operating profit</b>	3	1,173	732
Share of profit of McDonald's Real Estate LLP		1,124	1,606
(Loss) on revaluation of investment property		(145)	(95)
<b>Profit on ordinary activities before taxation</b>		2,152	2,243
Tax (charge)	7	(340)	(303)
<b>Profit for the year</b>		1,812	1,940
Other comprehensive income		-	-
<b>Total comprehensive income</b>		1,812	1,940

All amounts relate to continuing activities.

## Statement of changes in equity

for the year ended 31 December 2019


	<i>Share capital account</i>	<i>Capital contribution reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>At 1 January 2018</b>	27,595	586	2,532	30,713
Profit for the year	-	-	1,940	1,940
Tax adjustments	-	-	(85)	(85)
Dividends paid (see note 15)	-	-	(1,498)	(1,498)
<b>At 31 December 2018</b>	27,595	586	2,889	31,070
Profit for the year	-	-	1,812	1,812
Dividends paid (see note 15)	-	-	(1,080)	(1,080)
<b>At 31 December 2019</b>	27,595	586	3,621	31,802

**Statement of Financial Position**

at 31 December 2019

	Notes	2019 £000	2018 £000
<b>Non-current Assets</b>			
Tangible assets	8	9,318	10,372
Investments	10	5,000	5,000
		<u>14,318</u>	<u>15,372</u>
<b>Current assets</b>			
Debtors	11	18,122	15,940
Creditors: amounts falling due within one year	12	(489)	(46)
<b>Net current assets</b>		17,633	15,894
<b>Total assets less current liabilities</b>		<u>31,951</u>	<u>31,266</u>
Provisions for liabilities	13	(149)	(196)
<b>Net assets</b>		<u>31,802</u>	<u>31,070</u>
<b>Capital and reserves</b>			
Called up share capital	14	27,595	27,595
Capital contribution reserve		586	586
Profit and loss account		3,621	2,889
<b>Shareholders' funds</b>		<u>31,802</u>	<u>31,070</u>

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

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

Paul Pomroy  
Director

## Notes to the financial statements

at 31 December 2019

### 1. Accounting policies

#### ***Basis of preparation***

The financial statements of McDonald's Real Estate Company No.2 Limited were authorised for issue by The Board of Directors on 31 March 2021. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. 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 accounting policies adopted by the company are set out below.

#### ***Statement of compliance***

McDonald's Real Estate Company No.2 Ltd is a private limited liability company incorporated in England. The Registered office is 11-59 High Road, East Finchley, London N2 8AW.

The Company's financial statements have been prepared in compliance with FRS 102 for the year ended 31 December 2019.

#### ***Group financial statements***

The company is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. Group financial statements which include the company and its subsidiaries are prepared by the ultimate parent undertaking and the financial statements are publicly available. The report and financial statements therefore present information about the company as an individual undertaking and not about its group.

#### ***Going concern***

The balance sheet shows a net asset and net current asset position. The directors have a reasonable expectation that the company 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.

#### ***Statement of cash flow***

McDonald's Real Estate Company No.2 Limited has adopted the provisions of FRS 102. The company 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 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 9.

## Notes to the financial statements (continued)

at 31 December 2019

### 1. Accounting policies (continued)

#### *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. No impairment indicators arose in the current year.

#### *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.

#### *Property, plant and equipment and depreciation*

Property, plant and equipment stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises of purchase price after discounts but including non-refundable taxes, costs 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 annually or 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 2019. However, in 2018, with the amendment to section 16 per the Triennial review 2017, we have elected to value all investment property rented to another group entity at cost less accumulated depreciation and have 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.

#### *Investments*

Investments are accounted for at the lower of cost and 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.



## Notes to the financial statements (continued)

at 31 December 2019

### 1. Accounting policies (continued)

#### *Dividends*

Dividends payable are 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. Dividend income is recognised when the company's right to receive payment is established.

#### *Revenue recognition*

Revenue is measured excluding discounts, rebates, VAT and other sales taxes and duty.

Rental income – revenue generated by renting properties.

#### *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 tax on gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- 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;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted; and
- 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.

#### *Capitalised interest*

Interest incurred in the period during which assets are being prepared for their intended use by the company 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*

Assets held under finance leases, which are leases where substantially all of the risks and rewards of ownership of the asset have passed to the company, are capitalised on the balance sheet and are depreciated over the shorter of the lease term and the assets useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

#### *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.

## Notes to the financial statements (continued)

at 31 December 2019

### 1. Accounting policies (continued)

#### *Asset Retirement Obligations (continued)*

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.

### 2. Turnover

	2019	2018
	£000	£000
Income from group companies	1,899	1,745
Income from external parties	-	50
	<u>1,899</u>	<u>1,795</u>

Turnover represents income received from other group companies or external parties for rental of properties owned or leased by the company.

### 3. Operating profit

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

	2019	2018
	£000	£000
Auditors' remuneration (see note 4)	11	12
Depreciation	598	1,027
Operating lease rentals – land and buildings	<u>5</u>	<u>25</u>

### 4. Auditors' remuneration

	2019	2018
	£000	£000
Audit of the financial statements	11	12
Total audit services	<u>11</u>	<u>12</u>

### 5. Directors' remuneration

The directors did not receive any emoluments from the Company during the year (2018 - £nil). The directors are directors of other undertakings within the McDonald's group. The directors received their remuneration from other group undertakings, and do not consider it practicable to apportion the amount of remuneration which relates to their services as directors of the company.

### 6. Staff costs

McDonald's Real Estate Company No.2 Limited did not have any employees in 2019 or 2018.

## Notes to the financial statements (continued)

at 31 December 2019

### 7. Tax

#### (a) Tax charge/(credit) for the year

The tax charge is made up as follows:

	2019 £000	2018 £000
Current tax:		
UK corporation tax on the profit for the year	391	352
Adjustments in respect of prior years	(4)	(36)
Total current tax	<u>387</u>	<u>316</u>
Deferred tax:		
Origination and reversal of timing difference	(37)	(16)
Adjustments in respect of previous periods	(13)	1
Effect of changes in tax rates	3	2
Total deferred tax (note 7(c))	<u>(47)</u>	<u>(13)</u>
Tax charge/(credit) on profit on ordinary activities	<u>340</u>	<u>303</u>

Of this tax charge, £38,683 (2018 – (£33,000)) of the current tax and (£162) (2018 – (£1,666)) of the deferred tax is in respect of the company's 0.27% interest in McDonald's Real Estate LLP.

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	<u>2,152</u>	<u>2,243</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%)	<u>409</u>	<u>427</u>
Effects of:		
Expenses not deductible for tax purposes	132	176
Adjustments in respect of prior years	(20)	(35)
Tax rate changes	4	2
Investment property revaluations	20	17
Share of McDonald's Real Estate LLP taxable profits	<u>(205)</u>	<u>(284)</u>
Total tax for the year	<u>340</u>	<u>303</u>

## Notes to the financial statements (continued)

at 31 December 2019

### 7. Tax (continued)

(c) The deferred tax included in the balance sheet is as follows:

	2019	2018
	£000	£000
Accelerated capital allowances	259	306
Capital losses	(110)	(110)
Provision for deferred tax	<u>149</u>	<u>196</u>
		£000
At 1 January 2019		196
Adjustment in respect of prior years		(13)
Deferred tax charge to income statement for the period		<u>(34)</u>
At 31 December 2019		<u>149</u>

Of this deferred tax balance, £16,000 (2018 - £19,000) is in respect of the company's 0.27% interest in McDonald's Real Estate LLP.

During the year beginning 1 January 2020, the origination and reversal of deferred tax liabilities is expected to increase the tax charge for the year by £33,000. This is due to fixed asset timing differences.

(d) Factors that may affect future tax charge

Deferred taxes on the balance sheet have been recognised at 17% (2018 - 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

Finance (No.2) Act 2015 reduced the UK corporation tax rate from 20% to 19% from 1 April 2017. A further reduction in the corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%.

The post balance sheet date change in the deferred tax rate to 19% will not have a material impact to the deferred tax balances of the company.

## Notes to the financial statements (continued)

at 31 December 2019

### 8. Tangible fixed assets

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

Asset transfers to group companies are due to changes in the legal ownership of the properties. The Directors made the decision during the year to transfer these assets to the group company which owns the property.

	<i>Land and buildings</i> £000
Cost:	
At 1 January 2019	22,595
Additions	14
Disposals	(5,696)
Transfers to group companies	-
Transfers from group companies	102
Revaluation of investment property (see note 9)	(147)
At 31 December 2019	<u>16,868</u>
Depreciation:	
At 1 January 2019	12,223
Provided during the year	717
Disposals	(5,396)
Transfers to group companies	-
Transfers from group companies	6
At 31 December 2019	<u>7,550</u>
Carrying Amount:	
At 31 December 2019	<u>9,318</u>
At 1 January 2019	<u>10,372</u>

## Notes to the financial statements (continued)

at 31 December 2019

### 8. Tangible fixed assets (continued)

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

	2019 £000	2018 £000
Investment Properties at Fair value:		
Freehold	2,105	2,250
Other Properties at Cost:		
Leasehold	7,213	8,122

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

	£000
At 1 January 2019	79
At 31 December 2019	64

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

### 9. 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:

Investment Excess Portfolio Yields	31 December 2019	31 December 2018
	%	%
Office	5.50-10.00	5.50-9.50
Retail	4.00-9.00	3.25-8.00

## Notes to the financial statements (continued)

at 31 December 2019

### 9. Investment property (continued)

	£000
Fair Value:	
At 1 January 2019	2,250
Movement in valuation	(145)
At 31 December 2019	<u>2,105</u>

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

	£000
At 31 December 2018	<u>1,733</u>
At 31 December 2019	<u>1,733</u>

### 10. Investments

	Other investments £000
Cost and Carrying Amount:	
At 1 January 2019	<u>5,000</u>
At 31 December 2019	<u>5,000</u>

No investments are listed.

Details of the investment which the company holds are as follows:

<i>Name of Undertaking</i>	<i>Company of Registration (or incorporation and operating)</i>	<i>Holding</i>	<i>Proportion of voting rights</i>	<i>Nature of business</i>
McDonald's Real Estate LLP	United Kingdom	Ordinary	0.27%	Property Partnership

The registered office of the above is 11-59 High Road, East Finchley, London, N2 8AW.

The remainder of the voting rights of McDonald's Real Estate LLP are held by McDonald's Real Estate Company No.1 Limited. It and McDonald's Real Estate Company No.2 Limited are both subsidiaries of MCD Europe Limited.

## Notes to the financial statements (continued)

at 31 December 2019

### 11. Debtors

	2019	2018
	£000	£000
Amounts due from McDonald's Real Estate LLP	1,353	1,535
Prepayments and accrued income	124	5
Amounts due from other group companies	16,596	14,400
Corporation tax repayable	49	-
	<u>18,122</u>	<u>15,940</u>

All of the above amounts are due in less than one year.

### 12. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Corporation tax	-	43
Other Creditors	489	3
	<u>489</u>	<u>46</u>

### 13. Provisions for liabilities

#### Deferred tax

The movements in deferred taxation during the year are as follows:

	£000
At 1 January 2019	196
Origination and reversal of timing differences	(47)
At 31 December 2019	<u>149</u>

Full provision for deferred taxation is considered necessary since all timing differences are expected to reverse in the future. Deferred taxes recognised on the balance sheet have been recognised at 17% which represents the future corporation tax rate that was substantively enacted at the balance sheet date.



## Notes to the financial statements (continued)

at 31 December 2019

### 14. Issued share capital and reserves

<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>2019</i>	<i>No.</i>	<i>2018</i>
		<i>£000</i>		<i>£000</i>
Ordinary shares of £1 each	27,595,002	27,595	27,595,002	27,595
		<u>27,595</u>		<u>27,595</u>

### 15. Dividends

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Declared to MCD Europe Limited and paid during the year	1,080	1,498

### 16. Other financial commitments

The company has annual commitments under external non-cancellable operating leases for land and buildings as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>restated</i> <i>£000</i>
Leases expiring within one year	4	4
Leases expiring in one to five years	17	17
Leases expiring in more than five years	1,178	1,483
	<u>1,199</u>	<u>1,504</u>

### 17. Related party transactions

The company has taken advantage of FRS 102 which exempts subsidiary undertakings, 100% of whose voting rights are controlled within the group, from disclosing transactions with entities that are part of the group or investees of the group qualifying as related parties.

## Notes to the financial statements (continued)

at 31 December 2019

### 18. Ultimate parent undertaking and controlling party

The immediate parent undertaking is MCD Europe Limited.

The smallest and largest group in which the results of the company are consolidated is headed by the company'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.

### 19. Events after the balance sheet date

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, 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 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.