

Registered No. 01002769

# McDonald's Restaurants Limited

## Annual Report and Financial Statements

31 December 2018



**Directors**

J Clark  
J Erlinger (Appointed 1 January 2019)  
M Hicks  
J Park  
P Pomroy  
H Trickey (Appointed on 1 June 2018)

**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. 01002769

## Strategic Report

The directors present their strategic report for the year ended 31 December 2018:

### Principal activity and review of the business

We aim to present a review of the development and performance of our business during the year and its position at the year-end. Our review is consistent with the size and nature of our business and is written in the context of risks and uncertainties we face.

The company's principal activity is the franchising and operation of a chain of limited menu quick service restaurants.

Turnover comprises sales from company owned restaurants and percentage payment and fees received from franchisees. As we continue with our strategy of franchising restaurants, our turnover reduces as we move from recognising sales to recognising income from franchisees. As such, despite strong sales growth from all store types, during the year total company turnover has decreased by £79m to £1,514m. The ongoing franchising strategy is also driving improved profitability, which is in line with the directors' expectations and objectives.

The company operates in a highly competitive market. High street consumer behaviour impacts the company's turnover and variability of commodity prices and other costs impacts profitability. The company's gross profit has increased to £590m (2017 – £544m). The improvements are due to higher sales within company owned restaurants and positive sales growth from franchised restaurants. The company's operating profit of £347m (2017 – £323m) is in line with expectations.

### Results and dividends

The profit for the year after taxation amounted to £331m (2017 - £276m). The company paid dividends during the year of £555m (2017 - £nil).

### Future developments

The level of business and the period end financial position remain satisfactory, both for the company and its subsidiaries, and the directors are confident of being able to develop the business further in the future.

### Key performance indicators

McDonald's Corporation Inc., the ultimate parent undertaking, manages its KPIs at a segment and geographical level. These KPIs are discussed within the financial statements of McDonald's Corporation Inc., which are publicly available. As a result, the 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 management of the business and the nature of the company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business.

## Strategic Report (continued)

The directors are of the opinion that a thorough risk management process is adopted, which involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

### **Economic outlook**

The success of the business is reliant on consumer spending. The company's high street estate continues to be impacted by declining retail footfall, and we have tried to mitigate this risk through investment in the customer experience across our estate, including our high street stores. The company also continues to develop its home delivery platform, to capitalise on the growth of this market segment.

Senior management continues to keep abreast of economic conditions to ensure that marketing and pricing strategies can be modified to respond to changing market conditions.

The directors continue to assess the risk arising from the United Kingdom's planned exit from the European Union, and will respond to any arising risk as necessary.

### **Food cost inflation**

The company continues to have a strong supply chain system, which allows us to negotiate better purchasing terms, and work with our suppliers to improve supply chain efficiency and mitigate the risk of food cost inflation.

### **Wages cost inflation**

The company is continually affected by wage cost inflation and pressures within the labour market. The company monitors the market to ensure complete compliance with labour market regulations, and maintains employment policies, remuneration and benefits packages that are designed to be competitive with other companies and recognise the value and contribution provided by employees, as well as providing colleagues with fulfilling career opportunities which offer progression. The company regularly reviews pay and benefits and also offers restaurant employees the choice between guaranteed hours and flexible contracts – these are complemented by initiatives such as wellbeing programmes and comprehensive training programmes.

### **Utilities**

Increasing volatility, uncertainty, cost pressures and general environmental awareness in the UK market has resulted in increased pressure on the company and franchisees in recent times. To manage and mitigate the risk associated with these pressures, the company has previously entered into a number of Power Purchase Agreements (PPAs) for the provision of cost-effective clean energy from environmentally friendly energy sources. Three of the agreements relate to generating energy through wind farms. Additionally, we have agreements with our existing provider to buy the electricity produced under the PPAs for onward supply to restaurants.

### **Competition**

The market in which the company operates is highly competitive. As a result, the company is subject to a high level of price sensitivity. Policies of constant price monitoring and ongoing market research are in place to mitigate such risks.

With these risks and uncertainties in mind, we are aware that any plans for the future development of the business may be subject to unforeseen future events outside of our control; hence, we are constantly assessing our plans in line with the current environment.

### **Brexit**

The areas where Brexit may impact our business include sales, as well as the access and cost of both labour and food. We are working with our suppliers and franchisees to mitigate any potential implications.

### **Financial risk management objectives and policies**

The company uses various financial instruments including cash, trade debtors, bank overdraft and trade creditors 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. These policies have remained unchanged from previous years.

### 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.

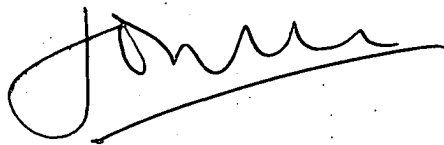
The company's policy throughout the year has been to achieve this through management's day-to-day involvement in business decisions rather than setting maximum or minimum liquidity ratios.

### Interest rate risk

The company finances its operations through a mixture of retained profits and its bank overdraft facility. The interest rate risk on these borrowings is managed by the company's ultimate parent undertaking, McDonald's Corporation Inc.

On behalf of the Board

24 September 2019



John Park  
Director

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2018.

### Going concern

The balance sheet shows a net asset position and the company continues to be profitable. Given the company's continued strong performance, the directors consider it reasonable that the company will continue in operational existence for the 12 months from the date of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### Directors

The directors who served the company during the year and up to the date of the financial statements were as follows:

J Clark  
J Erlinger (Appointed on 1 January 2019)  
D Goare (Resigned on 31 December 2018)  
M Hicks  
A Macrow (Resigned on 1 June 2018)  
J Park  
P Pomroy  
H Trickey (Appointed on 1 June 2018)

### Dividends

Dividends of £554,620,563 were approved by the directors and paid during the year (2017 – £nil).

### Political and charitable contributions

During the year the company made charitable contributions totalling £1,459,349 (2017 – £898,851).

These were made to:

	2018	2017
	£000	£000
Ronald McDonald House Charities (UK)	1,459	899
	<u>1,459</u>	<u>899</u>

### Financial instruments

Details of financial instruments are provided in the strategic report on page 3.

### Disabled employees

It is the policy of the company to give full and fair consideration to applications for employment made by disabled persons, to continue where possible the employment of those who become disabled and to provide equal opportunities for the training and career development of disabled employees.

## Directors' report (continued)

### Employee involvement

The company communicates regularly with all employees on matters relating to its performance. Employees are encouraged to contribute to the decision making process through regular employee and team meetings. In addition, there is a bulletin board in each restaurant where memoranda relating to company policy are displayed. There is also an online portal known as Our Lounge, which contains news and information for McDonald's people. The company operates an open-door policy to encourage feedback and a two-way dialogue, as well as a People Services helpdesk whereby employees have a central contact to raise concerns or seek guidance.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

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

On behalf of the Board

24 September 2019

John Park  
Director



## 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). Under company law, the directors 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 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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.

## **Independent auditor's report**

**to the members of McDonald's Restaurants Limited**

### **Opinion**

We have audited the financial statements of McDonald's Restaurants Limited for the year ended 31 December 2018, which comprise the Income Statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position, and the related notes 1 to 24 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 2018 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.

### **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, 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.

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

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

### **to the members of McDonald's Restaurants Limited**

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 conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

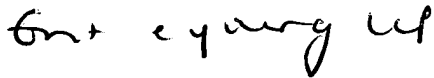
## Independent auditor's report (continued)

to the members of McDonald's Restaurants Limited

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.



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

26 September 2019

## Income Statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	2	1,514,374	1,593,489
Cost of sales		(924,354)	(1,049,244)
<b>Gross profit</b>		590,020	544,245
Administrative expenses		(92,049)	(81,533)
Operating profit before franchise rights fees		497,971	462,712
Franchise rights fees		(148,605)	(139,967)
Impairment	10	(2,142)	-
<b>Operating profit</b>	3	347,224	322,745
Other income		37,786	20,240
Income/(loss) from investments		12,575	(3,953)
Interest receivable and similar income		8,693	2,560
Interest payable and similar charges	7	-	(583)
<b>Profit on ordinary activities before tax</b>		406,278	341,009
Tax	8	(75,047)	(64,865)
<b>Profit for the year</b>		331,231	276,144

All amounts relate to continuing activities.

## Statement of comprehensive Income

for the year ended 31 December 2018

	2018 £000	2017 £000
Profit for the year	331,231	276,144
Remeasurement (loss)/gain recognised on defined benefit pension schemes (note 19)	(18,200)	12,700
Movement on deferred tax relating to pension asset	3,094	(2,159)
<b>Total comprehensive income for the year</b>	316,125	286,685

## Statement of changes in equity

for the year ended 31 December 2018

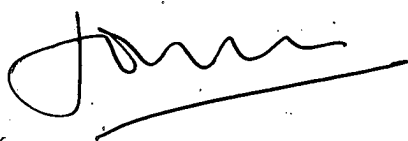
		<i>Called up Share Capital</i>	<i>Profit and Loss Account</i>	Total
	<i>Notes</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2017		234	1,068,586	1,068,820
Profit for the year		-	276,144	276,144
Other comprehensive income		-	10,541	10,541
Share based payment transactions	20	-	(3,628)	(3,628)
<b><i>At 31 December 2017</i></b>		<b>234</b>	<b>1,351,643</b>	<b>1,351,877</b>
At 1 January 2018		234	1,351,643	1,351,877
Profit for the year		-	331,231	331,231
Other comprehensive income		-	(15,106)	(15,106)
Equity dividends paid	18	-	(554,621)	(554,621)
Share based payment transactions	20	-	(4,770)	(4,770)
Reserves brought forward adjustments			3,578	3,578
<b><i>At 31 December 2018</i></b>		<b>234</b>	<b>1,111,955</b>	<b>1,112,189</b>

## Statement of Financial Position

at 31 December 2018

	<i>Notes</i>	<i>2018</i>	<i>2017</i>
		<i>£000</i>	<i>£000</i>
<b><i>Non-current assets</i></b>			
Goodwill and other intangible assets	9	13,203	19,439
Tangible assets	10	893,927	887,252
Investment in Subsidiaries	12	16,087	20,701
Investment in Joint Ventures	12	3,305	3,305
		<u>926,522</u>	<u>930,697</u>
<b><i>Current assets</i></b>			
Stocks	13	3,421	4,235
Debtors: amounts falling due within one year	14	287,020	217,994
Cash at bank and in hand		242,125	400,977
		<u>532,566</u>	<u>623,206</u>
Creditors: amounts falling due within one year	15	(358,717)	(220,113)
<b><i>Net current assets</i></b>		<u>173,849</u>	<u>403,093</u>
<b><i>Total assets excluding pension asset less current liabilities</i></b>		<u>1,100,371</u>	<u>1,333,790</u>
Provisions for liabilities	16	(28,182)	(33,813)
Net assets excluding pension asset		<u>1,072,189</u>	<u>1,299,977</u>
<b><i>Defined benefit pension asset</i></b>	19	40,000	51,900
Net assets		<u>1,112,189</u>	<u>1,351,877</u>
<b><i>Capital and reserves</i></b>			
Called up share capital	17	234	234
Profit and loss account		<u>1,111,955</u>	<u>1,351,643</u>
Shareholders' funds		<u>1,112,189</u>	<u>1,351,877</u>

The financial statements were approved by the board of directors and authorised for issue on 24 September 2019 and signed on behalf of the board of directors by:



John Park  
Director

## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies

#### *Basis of preparation*

The financial statements of McDonald's Restaurants Limited were authorised for issue by The Board of Directors on 24 September 2019. 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 £000.

The accounting policies adopted by the company are set out below.

#### *Statement of compliance*

McDonald's Restaurants Limited is a 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 2018.

#### *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 position and the company continues to be profitable. Given the company's continued strong performance and review of the cash flow forecasts, the directors consider it reasonable that the company will continue in operational existence for the 12 months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

#### *Statement of cash flow*

McDonald's Restaurants 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 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 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, Montagu Evans LLP. Valuations were performed at 31 December 2018. 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.

The key assumptions applied by the valuer are detailed in note 11.

## Notes to the financial statements (continued)

at 31 December 2018

### 1. Accounting policies (continued)

#### *Pension benefits*

The company operates a defined benefit scheme. Calculations are based on an approximate update of the actuarial valuation of the scheme as at 31 December 2018 by qualified independent actuary Willis Towers Watson using the projected unit method. As the scheme has now been closed to new joiners, it should be expected that using this method the service cost will increase in future years as the existing members of the scheme approach retirement.

A full actuarial valuation was carried out at 31 December 2018, and has been updated by Willis Towers Watson to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 December 2018 and 31 December 2017. The GMP Equalisation allowance has been included and fully taken this year.

Assumptions applied by the valuer are detailed in note 19.

#### *Asset retirement obligation*

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.

#### *Goodwill and other intangibles*

Positive goodwill is capitalised as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life of a presumed maximum of 10 years. It is reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

Re-acquired franchise rights are recognised at the acquisition date and amortised on a straight-line basis across the remainder of the franchise term.

#### *Impairment of investments*

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

#### *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.

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

Property, plant and equipment is 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 and long leasehold land where the unexpired portion of the lease is longer than one hundred years. The rates used are calculated to write off the cost of each asset by equal annual instalments over its expected useful life, as follows:

## Notes to the financial statements (continued)

at 31 December 2018

### 1. Accounting policies (continued)

#### *Property, plant and equipment and depreciation (continued)*

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 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*

Investment properties are 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 2018. 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 and joint ventures*

Investments in subsidiaries and joint ventures are stated at cost less any provision for permanent diminution in value. They are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

#### *Revenue recognition*

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

Sale of Goods – revenue from the sale of goods is recognised at the point of sale to the customer.

Rental income – revenue is recognised as a proportion of the sale of goods in franchised restaurants at the point of sale to the customer.

Rental income – revenue generated by renting excess properties.

#### *Franchise rights fees*

To enhance transparency of the company financial statements, the franchise rights fees paid by the company to its ultimate parent undertaking have been shown separately on the face of the profit and loss account.

#### *Other income*

Interest Income – revenue is recognised as interest accrues using the effective interest method.

Dividends – revenue is recognised when the company's right to receive payment is established.

Gain on restaurant sales – income is recognised as the difference between the holding value of a restaurant and the sale price.

#### *Cash and cash equivalents*

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

#### *Stocks*

Stocks are stated at the lower of average cost and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred prior to completion and disposal.

#### *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*

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.

## Notes to the financial statements (continued)

at 31 December 2018

### 1. Accounting policies (continued)

#### *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.

#### *Foreign currencies*

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

#### *Borrowing costs*

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.

#### *Pensions*

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The UK Scheme was closed to new members in 2001 from which time membership of a defined contribution plan is available.

The assets of the defined benefit scheme are measured at their market value at the balance sheet date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on AA bonds of appropriate term and currency to the liabilities. The extent to which the scheme's assets exceed/fall short of their liabilities is shown as a surplus/deficit in the balance sheet to the extent that a surplus is recoverable by the group or that a deficit represents an obligation of the group.

## Notes to the financial statements (continued)

at 31 December 2018

### 1. Accounting policies (continued)

#### *Pensions (continued)*

The regular service cost of providing retirement benefits to employees during the year is charged to operating profit in the year. A credit in respect of the expected return on the scheme's assets and a charge in respect of the increase during the period in the present value of the scheme's liabilities because the benefits are one period closer to settlement are included in net interest. Actuarial gains and losses are recognised in the statement of other comprehensive income.

The company provides no other post-retirement benefit to its employees.

The company also operates a defined contribution scheme, the McDonald's Restaurants stakeholder scheme.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

#### *Share-based payments*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The expense of the share-based payments is recognised in employee costs with a corresponding credit in reserves.

The cost of exercise of the options is recharged on an annual basis from the ultimate parent undertaking, McDonald's Corporation Inc., who administer the scheme.

#### *Financial Instruments*

The company holds only basic financial instruments such as cash, other debtors and other creditors, for which carrying amount is equivalent to fair value.

## Notes to the financial statements (continued)

at 31 December 2018

### 2. Turnover

	2018	2017
	£000	£000
Turnover by classes:		
Owned restaurants	931,203	1,113,014
Licensee	583,171	480,475
	<u>1,514,374</u>	<u>1,593,489</u>

Owned restaurants turnover represents sales of products to customers. Licensee turnover is generated from services provided to franchised restaurants including percentage payment income, service fees and licence fees. All turnover arises from continuing activities from within the United Kingdom and is stated net of value added tax and discounts.

### 3. Operating profit

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

	2018	2017
	£000	£000
Auditor's remuneration (see note 4)	432	420
Depreciation	63,979	65,146
Amortisation of intangible assets	2,681	2,451
Operating lease rentals – land and buildings	159,929	157,122
– plant and machinery	1,458	1,777
Gain/(loss) on the routine disposal of fixed assets	1,874	(18,110)
Stock	289,653	333,553

These costs are included in either cost of sales or administrative expenses according to their nature.

### 4. Auditor's remuneration

	2018	2017
	£000	£000
Audit of the financial statements	377	410
<b>Total audit services</b>	<u>377</u>	<u>410</u>
Audit related assurance services	10	10
Gender pay reporting services	45	-
<b>Total non-audit services</b>	<u>55</u>	<u>10</u>
	<u>432</u>	<u>420</u>

## Notes to the financial statements (continued)

at 31 December 2018

### 5. Directors' remuneration

	2018	2017
	£000	£000
Aggregate remuneration (excluding pension contributions)	1,616	1,518
Employer's pension contributions	27	45
	<u>1,643</u>	<u>1,563</u>

	2018	2017
	No.	No.
Number of directors who received shares in respect of qualifying services	4	4
Number of directors who exercised share options	4	3
Number of directors accruing benefits under defined benefit schemes	2	1

In respect of the highest paid director:

	2018	2017
	£000	£000
Aggregate remuneration	639	783
Aggregate pension at the end of the year	53	51
Accrued lump sum at the end of the year	1,154	1,133
	<u>1,846</u>	<u>1,967</u>

The highest paid director exercised share options during the year and also received shares under the company's long term incentive scheme.

Compensation paid to key management personnel who are not directors was £1,813,000 (2017 – £2,615,000).

In addition to the amounts disclosed above, there are three directors who were remunerated by other group undertakings. The directors consider that it is not practicable to apportion the amount of remuneration relating to services as directors to the company.

## Notes to the financial statements (continued)

at 31 December 2018

### 6. Staff costs

	2018	2017
	£000	£000
Wages and salaries	284,221	338,047
Social security costs	17,010	19,493
Other pension costs	12,598	5,622
	<u>313,829</u>	<u>363,162</u>

These costs are included in either cost of sales or administrative expenses according to their nature.

Included in wages and salaries is a total expense for share-based payments of £2,939,000 (2017 - £2,570,000) all of which arises from transactions accounted for as equity settled share-based payment transactions.

Included in pension costs is a total expense of £2,098,000 (2017 - £1,522,000) relating to the defined contribution scheme and £10,500,000 (2017 - £4,100,000) relating to the defined benefit scheme.

The average monthly number of employees during the year was as follows:

	2018	2017
	No.	No.
Office and management	474	494
Operations	28,716	35,384
	<u>29,190</u>	<u>35,878</u>

### 7. Interest payable and similar charges

	2018	2017
	£000	£000
Other interest payable	-	583
	<u>-</u>	<u>583</u>

## Notes to the financial statements (continued)

at 31 December 2018

### 8. Tax

(a) Tax on profit on ordinary activities

	2018	2017
	£000	£000
<b>Current tax:</b>		
UK corporation tax on profits for the period	75,509	67,268
Adjustments in respect of previous periods	(2,200)	(936)
Total current tax	<u>73,309</u>	<u>66,332</u>
<b>Deferred tax:</b>		
Origination and reversal of timing difference	5,144	3,286
Adjustments in respect of previous periods	(2,865)	(4,363)
Effect of change in tax rates	(541)	(390)
Total deferred tax	<u>1,738</u>	<u>(1,467)</u>
Total tax on profit on ordinary activities	<u><u>75,047</u></u>	<u><u>64,865</u></u>

(b) Tax included in statement of total other comprehensive income

The tax charge/(credit) is made up as follows:

	2018	2017
	£000	£000
<b>Deferred tax:</b>		
Arising on actuarial movement on pension scheme	(3,458)	2,444
Effect of decreased tax rate on opening liability	364	(285)
Total tax (credit)/charge	<u><u>(3,094)</u></u>	<u><u>2,159</u></u>

## Notes to the financial statements (continued)

at 31 December 2018

### 8. Tax (continued)

(c) Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%). The differences are reconciled below:

	2018	2017
	£000	£000
Profit for the period before tax	406,278	341,009
Tax on profit at standard UK tax rate of 19.00% (2017 – 19.25%)	77,193	65,644
Effects of:		
Expenses not deductible	3,408	4,717
Investment properties	52	306
Adjustment from previous periods	(5,065)	(5,412)
Tax rate changes	(541)	(390)
Tax charge for the period	<u>75,047</u>	<u>64,865</u>

(d) Factors that may affect future tax charges

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% will apply with effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016).

Deferred taxes recognised on the balance sheet have been recognised at 17% (2017 - 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 2018

### 8. Tax (continued)

(e) Deferred tax

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

	2018	2017
	£000	£000
Included in provisions for liabilities (note 16)	25,001	26,357
Fixed asset timing differences	20,096	19,312
Investment properties	-	287
Timing differences in relation to share based payments	(1,087)	(843)
Net pension	6,800	8,823
Losses	(639)	(778)
Other	(169)	(444)
Provision for deferred tax	<u>25,001</u>	<u>26,357</u>

	£000
Provision at start of period	26,357
Adjustment in respect of prior years	(2,865)
Deferred tax charge to the income statement for the period	4,603
Deferred tax charge in OCI for the period	<u>(3,094)</u>
Provision at end of period	<u>25,001</u>

During the year beginning 1 January 2019, the net origination and reversal of deferred tax assets and liabilities is expected to increase the tax charge of the year by £4,602,489. This is primarily due to capital allowance claims in excess of qualifying depreciation.

## Notes to the financial statements (continued)

at 31 December 2018

### 9. Goodwill and other intangible assets

	<i>Goodwill</i>	<i>Other</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 January 2018	35,207	17,156	52,363
Provided during the year	-	-	-
Disposals	<u>(7,746)</u>	<u>(3,778)</u>	<u>(11,524)</u>
At 31 December 2018	<u>27,461</u>	<u>13,378</u>	<u>40,839</u>
Amortisation:			
At 1 January 2018	28,773	4,151	32,924
Provided during the year	1,085	1,677	2,762
Disposals	<u>(7,177)</u>	<u>(873)</u>	<u>(8,050)</u>
At 31 December 2018	<u>22,681</u>	<u>4,955</u>	<u>27,636</u>
Net book value:			
At 31 December 2018	<u>4,780</u>	<u>8,423</u>	<u>13,203</u>
At 1 January 2018	<u>6,434</u>	<u>13,005</u>	<u>19,439</u>

Goodwill is being amortised evenly over the directors' estimate of its useful life of 10 years.

Other intangible assets relate to reacquired franchised rights, which are being amortised over the remaining lease term.

## Notes to the financial statements (continued)

at 31 December 2018

### 10. Tangible assets

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Total</i>
	£000	£000	£000
Cost:			
At 1 January 2018	1,180,630	210,314	1,390,944
Additions	185,058	32,855	217,913
Revaluation of Investment Property (see note 11)	(275)	-	(275)
Disposals	(305,973)	142,438	(163,535)
Impairment loss	(2,142)	-	(2,142)
Transfers to group companies	(16,519)	21	(16,498)
At 31 December 2018	<u>1,040,779</u>	<u>385,628</u>	<u>1,426,407</u>
Depreciation (charged to 'Cost of sales'):			
At 1 January 2018	370,782	132,910	503,692
Provided during the year	40,393	23,586	63,979
Disposals	(2,011)	(35,836)	(37,847)
Transfers from group companies	2,732	(76)	2,656
At 31 December 2018	<u>411,896</u>	<u>120,584</u>	<u>532,480</u>
Carrying Amount:			
At 31 December 2018	<u>628,883</u>	<u>265,044</u>	<u>893,927</u>
At 1 January 2018	<u>809,848</u>	<u>77,404</u>	<u>887,252</u>

Asset transfers to group companies relate to land and building improvements funded by McDonald's Restaurants Limited for stores owned by other group companies. The directors made the decision during the year to transfer these assets to the group company which owns the property.

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.

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

	2018	2017
	£000	£000
Investment Properties at Fair value (see note 11):		
Freehold	<u>2,395</u>	<u>2,670</u>
Other Properties at Cost:		
Freehold	346,108	434,966
Long leasehold	99,053	116,125
Short leasehold	181,327	256,087
	<u>626,488</u>	<u>807,178</u>

## Notes to the financial statements (continued)

at 31 December 2018

### 11. Tangible assets (continued)

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

	2018	2017
	£'000	£'000
At 1 January	4,499	4,441
At 31 December	4,721	4,499

The weighted average effective interest rate used for capitalising finance costs during the year was 3.25% (2017 – 3.30%).

### 12. Investment Property

Freehold investment properties were valued by 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, Montagu Evans LLP as at 31 December 2018. 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. The critical assumptions made relating to the valuation are set out below:

	2018	2017
	%	%
<b>Investment Excess Portfolio Yields</b>		
Office	5.50-9.50	5.00-9.50
Retail	3.25-8.00	3.25-8.00
Residential	N/A	4.5

## Notes to the financial statements (continued)

at 31 December 2018

### 11. Investment Property (continued)

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

	£000
Fair value at 1 January 2018	2,670
Additions	-
Disposals	-
Loss on valuation (charged to 'Investment income')	(275)
At 31 December 2018	<u>2,395</u>
	£000
Fair value at 1 January 2017	5,698
Additions	2,400
Disposals	(3,629)
Loss on valuation	(1,799)
At 31 December 2017	<u>2,670</u>

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

	£000
At 31 December 2018	<u>426</u>
At 1 January 2018	<u>437</u>

### 12. Investments

	Subsidiary undertakings £000	Joint ventures £000	Total £000
Cost and Carrying Amount:			
At 1 January 2018	<u>20,701</u>	<u>3,305</u>	<u>24,006</u>
At 31 December 2018	<u>16,087</u>	<u>3,305</u>	<u>19,392</u>

The company's subsidiaries are:

<i>Subsidiary undertaking</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Share class</i>	<i>%</i>
West One Restaurants Ltd	United Kingdom	In liquidation	Ordinary	100
Jardin Valley Restaurants Ltd	United Kingdom	In liquidation	Ordinary	100
West One Foods Ltd	United Kingdom	Not currently trading	Ordinary	100

## Notes to the financial statements (continued)

at 31 December 2018

### 12. Investments (continued)

Joint ventures comprise the following:

	<i>Proportion of voting rights and shares held</i>	
	<i>2018</i>	<i>2017</i>
Kingston Restaurants Limited	50%	50%
APPT Corporation Limited	50%	50%
Premium Restaurants Limited	50%	50%
South Coast Foods Limited	50%	50%
Capital Arches Group Limited	51%	51%

All of the above companies are registered in the United Kingdom and each comprises a small number of McDonald's quick service restaurants. McDonald's Restaurants Limited receives, at an arm's length, rental income and service fees from each joint venture.

Each investment is held at cost less any provision for permanent diminution in value. All shares held are ordinary shares.

### 13. Stocks

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Raw products	2,698	3,447
Other consumables	723	788
	<u>3,421</u>	<u>4,235</u>

The replacement cost of stocks is not materially different from their carrying value.

### 14. Debtors

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Trade and other debtors	135,165	120,221
Amounts due from parent undertakings	113,531	62,784
Amounts due from affiliated undertakings	-	24
Prepayments and accrued income	38,324	34,965
	<u>287,020</u>	<u>217,994</u>

All of the debtors listed above are due within one year.

## Notes to the financial statements (continued)

at 31 December 2018

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

	2018	2017
	£000	£000
Trade creditors	47,599	28,328
Amounts due to parent undertakings	28,671	30,051
Amounts due to subsidiary undertakings	115,417	23,975
Amounts due to affiliated undertakings	10,496	248
Other taxes and social security costs	39,518	31,612
Accruals and deferred income	78,193	70,846
Corporation tax	38,823	35,053
	<u>358,717</u>	<u>220,113</u>

### 16. Provisions for liabilities

	<i>£000</i>
Deferred tax (refer to Note 8(e))	(25,001)
Other provisions for liabilities	(3,181)
	<u>(28,182)</u>

	<i>£000</i>
At 1 January 2018	7,456
Arising during the year	1,020
Utilised during the year	(5,295)
At 31 December 2018	<u>3,181</u>

	<i>£000</i>
At 1 January 2017	6,223
Arising during the year	4,961
Utilised during the year	(3,728)
At 31 December 2017	<u>7,456</u>

#### **Restaurant closure costs**

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.

## Notes to the financial statements (continued)

at 31 December 2018

### 17. Issued share capital and reserves

<i>Allotted, called up and fully paid</i>	2018		2017	
	No.	£000	No.	£000
Ordinary shares of £1 each	224,400	224	224,400	224
'B' Ordinary shares of £1 each	10,000	10	10,000	10
		<u>234</u>		<u>234</u>

The share capital of the company is £234,400 divided into 224,400 ordinary shares of £1 each and 10,000 "B" ordinary shares of £1 each. The "B" ordinary shares of £1 each carry no rights to receive dividends or distributions but do carry the right to receive, on a winding up, 26% of the assets available for distribution.

### 18. Dividends

	2018	2017
	£000	£000
Declared and paid during the year		
Paid to MCD Europe Limited	554,621	-
	<u>554,621</u>	<u>-</u>

### 19. Pensions

#### **Defined Contribution Scheme**

The company operates a defined contribution scheme in the UK, the McDonald's Restaurants Stakeholder Scheme. The pension cost for the year was £2,098,000 (2017 – £1,522,000). There were £157,000 of outstanding contributions at 31 December 2018 (2017 – £171,000).

#### **Defined Benefit Scheme**

The company operates a defined benefit scheme. Calculations are based on an approximate update of the actuarial valuation of the scheme as at 31 December 2018 by qualified independent actuary Willis Towers Watson using the projected unit method. As the scheme has now been closed to new joiners, it should be expected that using this method the service cost will increase in future years as the existing members of the scheme approach retirement.

A full actuarial valuation was carried out at 31 December 2018, and has been updated by Willis Towers Watson to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 December 2018 and 31 December 2017.

## Notes to the financial statements (continued)

at 31 December 2018

### 19. Pensions (continued)

Major assumptions used by the actuary were:

	2018	2017
Rate of salary increases	3.7%	3.7%
Rate of increases in pension payment		
– pre 6 April 1997 benefit	0.0%	0.0%
– post 6 April 1997 benefit	5.0%	5.0%
– post 5 April 2005 benefits	2.5%	2.5%
Discount rate	2.7%	2.4%
Inflation assumption <sup>(1)</sup>	2.2%	2.2%

<sup>(1)</sup> We have adopted a 1% (2017 – 1%) downward adjustment to the RPI assumption to account for the differences between the RPI and CPI rates.

#### *The estimated assets in the scheme and expected long term return on assets:*

	2018	2017
	£000	£000
<b>Scheme Assets at Fair value</b>		
Property	-	620
Liability Driven Investments	232,596	178,474
Cash	596	3,718
Managed Funds	363,208	436,888
<b>Fair Value of Scheme Assets</b>	<b>596,400</b>	<b>619,700</b>
Present Value of Scheme Liabilities	(556,400)	(567,800)
<b>Net pension asset</b>	<b>40,000</b>	<b>51,900</b>

Under FRS 102, the rate of return is equivalent to the discount rate for all classes of assets.

#### *Analysis of the amount charged to the Income Statement:*

	2018	2017
	£000	£000
Current service cost	4,400	4,500
Recognised in arriving at operating profit	4,400	4,500
Net interest on net defined benefit liability	(1,500)	(900)
Administration costs incurred during the period	1,000	500
Scheme introductions, changes, curtailments and settlements (Guaranteed Minimum Pension)	6,600	-
<b>Total recognised in the profit and loss account</b>	<b>10,500</b>	<b>4,100</b>

## Notes to the financial statements (continued)

at 31 December 2018

### 19. Pensions (continued)

*Analysis of the amount recognised in the statement of other comprehensive income:*

	2018	2017
	£000	£000
Actuarial gain arising during the period	26,400	6,000
Return on scheme assets (less than)/greater than the discount rate	(44,600)	6,700
Remeasurement (losses)/gains recognised in other comprehensive income	<u>(18,200)</u>	<u>12,700</u>

*Changes in the present value of the defined benefit obligations are analysed as follows:*

	£000
As at 1 January 2018	567,800
Current service cost	4,400
Interest cost	13,500
Scheme introductions, changes, curtailments and settlements (Guaranteed Minimum Pension)	6,600
Contributions by scheme participants	700
Actuarial loss	(26,400)
Benefits paid	<u>(10,200)</u>
As at 31 December 2018	<u>556,400</u>

*Changes in the fair value of plan assets are analysed as follows:*

	£000
As at 1 January 2018	619,700
Return on scheme assets (less)/greater than discount rate	(44,600)
Interest Income on Scheme assets	15,000
Employer contributions	16,800
Scheme participants' contributions	700
Benefits paid	(10,200)
Administrative Costs Paid	<u>(1,000)</u>
As at 31 December 2018	<u>596,400</u>

## Notes to the financial statements (continued)

at 31 December 2018

### 20. Share-based payments

#### Stock Option Plan

The company operates a Stock Option Plan in conjunction with the parent undertaking whereby options to purchase common stock of McDonald's Corporation, incorporated in the US, are granted to directors and employees at prices not less than the fair market value of the stock at the date of the grant. The options become exercisable at various anniversaries after the original grant. The options expire ten years after their grant.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2018 is £1,248,000 (2017 – £1,110,000). The full amount of that expense arises from equity-settled share-based payment transactions.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2018	2018	2017	2017
	<i>No.</i>	<i>WAEP (£)</i>	<i>No.</i>	<i>WAEP (£)</i>
Outstanding at beginning of year	331,753	83.09	373,744	82.11
Granted	83,706	123.72	135,882	94.86
Exercised	(81,042)	82.01	(109,042)	69.64
Forfeited	(22,132)	89.46	(32,917)	83.61
Transfers	(16,140)	101.73	(35,914)	78.56
Outstanding at end of year	<u>296,145</u>	98.85	<u>331,753</u>	83.09
Exercisable at end of year	<u>95,270</u>	81.92	<u>105,884</u>	72.41

The weighted average share price at the date of exercise for the options exercised is £128.19 (2017 – £111.69).

For the share options outstanding as at 31 December 2018, the weighted average remaining contractual life is 8.52 years (2017 – 7.66 years).

The weighted average fair value of options granted during the year was £16.99 (2017 – £11.14). The range of exercise prices for options outstanding at the end of the year was £44.75 - £123.72 (2017 – £41.95 - £95.41).

The fair value of options granted is estimated as at the date of grant at the share price on that date using a closed form pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2018 and 31 December 2017:

## Notes to the financial statements (continued)

at 31 December 2018

### 20. Share-based payments (continued)

	2018	2017
Dividend yield (%)	2.6	3.1
Expected share price volatility (%)	18.7	18.4
Risk-free interest rate (%)	2.7	2.2
Expected life of option (years)	5.8	5.9

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

#### **Restricted Stock Unit Plan**

The company operates a Restricted Stock Unit ("RSU") Plan in conjunction with the parent undertaking. RSUs generally vest on the third anniversary of the grant and are payable in either shares of McDonald's Corporation (incorporated in the US) or cash, at the Company's discretion.

The expense recognised for share-based payments in respect of RSUs during the year 31 December 2018 is £1,458,000 (2017 – £1,250,000). The full amount of that expense arises from equity-settled share-based payment transactions.

The following table illustrates the number of, and movements in, RSUs during the year.

	2018	2017
	<i>No.</i>	<i>No.</i>
Outstanding at beginning of year	36,291	47,516
Granted	17,343	15,763
Exercised	(11,343)	(16,425)
Forfeited	(1,794)	(4,773)
Transfers	(4,276)	(5,790)
Accrued dividends	438	-
Outstanding at end of year	<u>36,659</u>	<u>36,291</u>
Exercisable at end of year	<u>-</u>	<u>-</u>

The weighted average share price at the date of exercise for the RSUs exercised is £123.39 (2017 – £102.00).

For the RSUs outstanding as at 31 December 2018, the weighted average remaining contractual life is 2.4 years (2017 – 2.2 years).

The fair value of RSUs is based on the closing price of the McDonald's Corporation's common stock on the grant date, less the present value of expected dividends over the vesting period.

#### **Performance Based Restricted Stock Unit Plan**

The company operates a Performance Based Restricted Stock Unit ("PRSU") Plan in conjunction with the parent undertaking. PRSUs are payable in either shares of McDonald's Corporation (incorporated in the US) or cash, at the Company's discretion. The PRSUs become exercisable at the third anniversary after the

## Notes to the financial statements (continued)

at 31 December 2018

### 20. Share-based payments (continued)

original grant and the number of options which vest to the employee are based on metrics linked to company performance.

The expense recognised for share-based payments in respect of PRSUs during the year ended 31 December 2018 is £233,000 (2017 – £210,000). The full amount of that expense arises from equity-settled share-based payment transactions.

The following table illustrates the number of, and movements in, PRSUs during the year.

	2018	2017
	<i>No.</i>	<i>No.</i>
Outstanding at beginning of year	3,666	-
Granted	2,633	3,666
Exercised	-	-
Forfeited	-	-
Transfers	-	-
Expired	-	-
Accrued dividends	45	-
Outstanding at end of year	<u>6,344</u>	<u>3,666</u>
Exercisable at end of year	<u>-</u>	<u>-</u>

For the PRSUs outstanding as at 31 December 2018, the weighted average remaining contractual life is 2.0 years.

The fair value of PRSUs is based on the closing price of the McDonald's Corporation's common stock on the grant date, less the present value of expected dividends over the vesting period. For performance-based RSUs granted, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of PRSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

### 21. Other financial commitments

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

	2018	2017
	<i>£000</i>	<i>£000</i>
Leases expiring within one year	2,542	3,494
Leases expiring in one to five years	8,315	7,166
Leases expiring in more than five years	43,360	37,009
	<u>54,217</u>	<u>47,669</u>

## Notes to the financial statements (continued)

at 31 December 2018

### 22. Financial Instruments

	2018	2017
	£000	£000
Fair Value and Carrying Amount:		
<i>Financial assets</i>		
Cash	242,125	400,977
Other Debtors	287,020	217,994
<i>Financial liabilities</i>		
Other Creditors	311,118	191,785
	840,263	810,756

### 23. Related party transactions

The company pays McDonald's Marketing Co-operative Limited to promote and further the interests of McDonald's restaurants in the United Kingdom through marketing, advertising, media and public relations.

During the year McDonald's Restaurants Limited paid £39,395,271.53 (2017 – £47,509,030) for the provision of services. At the balance sheet date £7,989,450 was due from McDonald's Marketing Co-operative Limited (2017 – £3,876,094 due to McDonald's Marketing Co-operative).

Additionally, McDonald's Restaurants Limited incurs costs on behalf of the Ronald McDonald House Charities (UK), which are then recharged at cost to the charity. During the year, McDonald's Restaurants Limited received £4,715,685 (2017 - £3,797,218) in recharges for costs incurred. At the balance sheet date, the amount due from the Ronald McDonald House Charities (UK) was £376,625 (2017 – £8,439).

During the year, McDonald's Restaurants Limited made charitable donations of £366,692.05 (2017 – £437,678) to the Ronald McDonald House Charities (UK).

Additionally, McDonald's Restaurants Limited made donations of £1,092,657 (2017 – £461,173) in respect of the Welsh and Scottish carrier bag levies.

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities are unsecured, interest free and cash settlement is expected within 60 days of invoice. The company hold a provision of £nil for doubtful debts relating to amounts owed by related parties (2017 - £5,126,523).

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.

### 24. Ultimate parent undertaking and controlling party

The immediate parent undertaking is McDonald's Real Estate LLP.

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.