

# McDonald's Danmark ApS

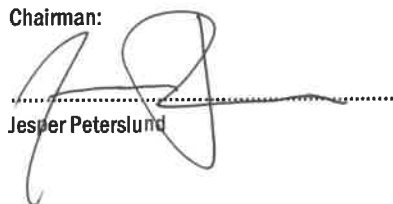
Falkoner Alle 20, 2000 Frederiksberg

CVR no. 24 21 40 87

## Annual report 2016

Approved at the Company's annual general meeting on 6 March 2017

Chairman:



.....  
Jesper Peterslund

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## Management's review

### Company details

|                         |   |
|-------------------------|---|
| Name                    | McDonald's Danmark ApS  |
| Address, zip code, city | Falkoner Alle 20, 2000 Frederiksberg  |
| CVR no.                 | 24 21 40 87   |
| Website                 | <a href="http://www.mcdonalds.dk">www.mcdonalds.dk</a>                                      |
| Telephone               | +45 33 26 60 00   |
| Telefax                 | +45 33 26 60 60   |
| Board of Directors      | Jo Geert E. Sempels<br>Malcolm Wayne Hicks<br>Joachim Bernhard Knudsen                      |
| Executive Board         | Joachim Bernhard Knudsen  |
| Auditors                | Ernst & Young Godkendt Revisionspartnerselskab<br>Osvold Helmuths Vej 4, 2000 Frederiksberg |
| Bankers                 | Nordea Danmark, filial af Nordea Bank AB (publ), Sverige<br>Bank Mendes Gans N.V.           |

## Management's review

### Financial highlights

| DKK'000                                      | 2016    | 2015    | 2014    | 2013    | 2012    |
|--|---------|---------|---------|---------|---------|
| <b>Key figures</b>                           |         |         |         |         |         |
| Revenue                                      | 314,024 | 421,702 | 507,997 | 511,726 | 465,140 |
| Operating profit                             | 166,542 | 113,945 | 112,892 | 105,332 | 108,052 |
| Net financials                               | -29     | -204    | -226    | -57     | -19     |
| Profit for the year                          | 131,942 | 87,545  | 85,608  | 85,405  | 81,244  |
| <b>Balance sheet</b>                         |         |         |         |         |         |
| Balance sheet total                          | 855,018 | 909,049 | 915,870 | 845,277 | 812,217 |
| Investments in property, plant and equipment | 34,344  | 47,394  | 58,077  | 128,938 | 117,051 |
| Equity                                       | 744,769 | 792,827 | 788,282 | 702,674 | 674,771 |
| <b>Financial ratios</b>                      |         |         |         |         |         |
| Return on assets                             | 20,8    | 14,0    | 13,5    | 12,7    | 14,0    |
| Equity ratio                                 | 87,1    | 87,2    | 86,1    | 83,1    | 83,1    |
| Return on equity                             | 17,2    | 11      | 10,9    | 12,4    | 12,8    |
| <b>Other</b>                                 |         |         |         |         |         |
| Average number of full-time employees        | 134     | 303     | 481     | 436     | 411     |

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

## Management's review

### The Company's business review

The main activity of the company is to acquire real estate by renting or buying it, renovating and fitting it for the purpose of operating a McDonald's restaurant under a master franchise agreement made with McDonald's Corporation, the holder of the McDonald's global trademark.

By the end of 2016, McDonald's had 88 restaurants in Denmark, whereof 4 had been operated by the company during 2016, but handed off to a franchisee on 15 December (2015: 4). The remaining 84 restaurants (2015: 85) were operated by 23 (2015: 22) independent franchisees on contract for the operation of the individual restaurants for a period of up to 20 years. The total number of McDonald's restaurants has decreased by 1 during 2016.

### Financial review

The company realized a revenue decrease of -25,5% compared to the previous year (2015: -17%), a decrease that can mainly be attributed to the strategic decision by management to re franchise 12 company-operated restaurants during 2015 and the remaining 4 by end 2016. On this background, revenue from company-operated restaurants decreased by -67% while it was partly offset by increased franchised revenues by 19% driven by a combination of increased System Wide Sales and franchised income from re franchised restaurants.

Operating income for the year increased by TDKK 52,597 to TDKK 166,542 (2015: TDKK 113,945) which corresponds to an increase of 46%. The increase in operating income is primarily driven by onetime gains from sale of assets and increased revenues from franchised restaurants. As in previous years, the company has gained income from sale of buildings and other fixed and intangible assets that are included in the financial statements under Other Operating Income with TDKK 42,004 (2015: TDKK 7,958), an increase of TDKK 34,046 or 428 % compared to 2015 .

The result of the year increased by TDKK 44,397 to a total of TDKK 131,942 (2015: TDKK 87,545), which corresponds to an increase of 50.7%.

The management of the company finds the result of the year satisfying.

During 2016, the McDonald's restaurants in Denmark increased system wide sale\* by 6.3 % (2015: 5.0%).

\*= system wide sales reflect the accumulated turnover in all McDonald's restaurants in Denmark. The figure partly encompasses turnover in the restaurants run by the company, which is included in this annual report, and partly the turnover in the franchise restaurants, from which the company receives rent which is included as part of the result in the annual report.

### Social responsibility

It is important to McDonald's to be a socially responsible company. We believe in being involved in the community in which we operate. We strive to engage in frank and honest dialogue with our guests and our employees, as well as our local community about who we are and how our business is run. In addition, we always act in accordance with our seven values:

1. We place the customer experience at the core of all we do
2. We are committed to our people
3. We believe in the McDonald's system
4. We operate our business ethically
5. We give back to our communities
6. We grow our business profitably
7. We strive to continually improve

McDonald's Denmark is involved in numerous projects and initiatives regarding environmental issues, civic engagement, and employee initiatives including education.

## Management's review

A number of key initiatives and activities, in which McDonald's is involved, are outlined below.

### Ronald McDonald Børnefond

Ronald McDonald Børnefond was founded by McDonald's Denmark in 1991. The purpose of the foundation is to aide children by supporting charitable, educational, and scientific initiatives aimed at helping children.

The fund has established Denmark's first Ronald McDonald House in 2002. At the Ronald McDonald House, families with critically ill children are able to stay close by, whilst their child is hospitalized in Rigshospitalet. The primary purpose of the foundation is to assist with the establishment and the daily operation of one or more Ronald McDonald Houses. The secondary purpose is to support other projects or programs aimed at helping children with physical, psychological, or social problems stemming from serious illness. Finally, Ronald McDonald Børnefond supports research that enhances the existing knowledge of illnesses that affect children.

McDonald's Denmark supports Ronald McDonald Børnefond with administrative tasks and the collection of donations in the McDonald's restaurants - through collection boxes in the restaurants, through special fundraiser campaigns in collaboration with partners hereunder supporting with DKK 1 pr. sold Kildevæld (bottled water) in the month of August and by direct support.

### Nøglehul (healthier options) on the menu

In 2014 McDonald's Denmark was certified as a Nøglehuls-restaurant. In this respect, certified healthy options were introduced on our menu.

Products labeled with 'Nøglehul' offer a healthier alternative and contain more whole grain and less sugar, salt, and fat.

### Local Sourcing

Local sourcing is important to many of our customers. Therefore in 2016 McDonald's Denmark has started sourcing 100% Danish chicken. I.e. all chicken meat is coming from chickens born, raised and processed in Denmark.

Furthermore we have continued sourcing organic, Danish eggs for our Egg McMuffin and Danish, organic milk in our Happy Meals.

### Keep Denmark Clean

McDonald's Denmark would like to draw attention to the problem of litter in our cities and our nature, by changing the behavior of our guests. Therefore, McDonald's supports and holds a seat on the board of 'Hold Danmark Rent' (Keep Denmark Clean), an organization that works towards changing the attitude of the Danish population in this respect. 'Hold Danmark Rent' regularly carries out campaigns, which McDonald's supports financially as well as in many other ways. In 2016 we have helped plan a conference to be held in early 2017.

## Management's review

### Other initiatives against littering

McDonald's uses paper and other materials in which we wrap our food. We constantly work on optimizing our use of materials for wrapping to the best benefit of the environment. Unfortunately, sometimes our wrappings are left in the streets outside our restaurants when our guests have finished their meal. Consequently, McDonald's has placed numerous bins inside and outside our restaurants across the country. We have initiated a "One Block Policy", entailing that our employees collect and discard wrappings found in the immediate area surrounding our restaurants. Another way in which Management's review.

McDonald's work against littering is by demanding that the majority of our food packaging is made from a recycled material. By 2016 we have succeeded in having 80% of our food packaging made from recycled resources.

### Energy and CO2 savings

Throughout the years McDonald's Danmark has taken an active part in lowering our carbon foot print. The changing of light resources to LED-bulbs and further instruction of motion sensors have, also in 2016, saved a lot of electricity in the restaurants.

In addition we contribute to CO2 savings with an effort to reuse our cooking oil. When the oil has been used for cooking it is collected and a lot of it is used for making bio-fuel. This helps to decrease Denmark's usage of fossil fuels. On average, we have delivered 29.000 liters of used cooking oil per month from restaurants all over the country in 2016.

### Employee initiatives

At McDonald's everyone is welcome - also as a part of our McDonald's team.

McDonald's closely collaborates with KLAP (Creative long term work planning), High:Five, and other organizations.

KLAP is part of the aid organization LEV, which has great success in helping people with intellectual disabilities and other cognitive difficulties acquiring sheltered jobs on the ordinary job market. Since 2014 McDonald's has hired 36 citizens through KLAP.

High:Five helps young people who are on the brink of the law with entering or returning to the Danish job market. The collaboration with High:Five dates back to 2006. Since then McDonald's has had many interns and full time employees through High:Five.

### Integration

McDonald's has a diverse workforce which is reflected by many different nationalities, different religious beliefs, and our wide age span. Diversity is an integral part of our success. It is common sense and good business for McDonald's to work with diversity.

McDonald's has also in 2016 been an active player within the area of integration. As a result of McDonald's dedicated part of their work with integration, McDonald's was in 2016 invited to participate in an Advisory Board for the minister of employment and the minister of integration. McDonald's Denmark has been represented through our CEO Joachim Knudsen and the Head of Human Resources Mette Hybschmann. McDonald's Denmark has provided input for the general area of integration, as well as for the newly established "IGU" (Integration Basis Education).

## Management's review

### Anti-corruption

All employees of McDonald's Danmark ApS – the head quarter – conducts a yearly e-learning course on how to avoid corruption and bribery.

### Diversity

At McDonald's we are diverse. Not because we strive to be politically correct, but because we believe that people with different backgrounds and opinions contribute with different competencies making the whole greater than the sum of its parts. Diversity management means that all restaurants make an active effort to ensure a diverse composition of employees that reflects the demographic composition of our society.

Furthermore, a diverse intake of employees helps show our guests that everyone is welcome at McDonald's. Our continued focus on diversity is a benefit to our other employees as they are proud to have an inclusive workplace, which in turn fosters great job satisfaction, commitment, and unity.

For further information on the CSR and social responsibility please visit our website

[http://www.mcdonalds.dk/dk/Om\\_McDonalds/Ansvarlighed.html](http://www.mcdonalds.dk/dk/Om_McDonalds/Ansvarlighed.html)

### Account of the gender composition of management

Currently, the board of directors consists of three men and one woman. According to the Danish Business Authority's guidance on an equal split in gender, this is considered to be equal.

At the remaining management levels in the company, the ratio of female managers is 51.7% and male 48.3%. For the future an equal split of gender is expected to be continued.

### Post balance sheet events

It is the management's opinion that the annual report includes all significant information for evaluating the company's performance. Management has been made aware that the Parent Company, McDonald's Corporation Inc., has entered into an agreement to sell 100% of the shares in McDonald's Danmark ApS.

On an Extraordinary General Meeting held on February 9, 2017 it was decided to initialize a reduction in the company's registered share capital by means of transfer to the Company's retained earnings.

No other significant events has occurred subsequent to the financial year.

### Outlook

In 2017, the company expects an increase in the system wide sales and operating income.



### Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of McDonald's Danmark ApS for the financial year 1 January - 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

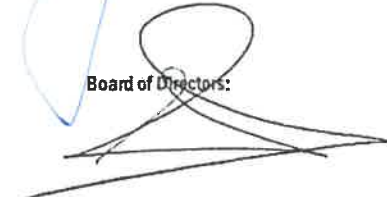
We recommend that the annual report be approved at the annual general meeting.

Frederiksberg, 6 March 2017  
Executive Board:




Joachim Bernhard Knudsen

Board of Directors:



Jo Geert E. Sempels

Malcolm Wayne Hicks



Joachim Bernhard Knudsen

### Statement by the Board of Directors and the Executive Board

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It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Frederiksberg, 6 March 2017  
Executive Board:

Joachim Bernhard Knudsen

Board of Directors:

Jo Geert E. Sempels



Malcolm Wayne Hicks

Joachim Bernhard Knudsen



## Independent auditor's report

To the shareholders of McDonald's Danmark ApS

### Opinion

We have audited the financial statements of McDonald's Danmark ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, as well as statement of cash flows. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has 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 and additional requirements applicable in Denmark 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.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

## Independent auditor's report

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 6 March 2017  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Lars Hansen  
State Authorised Public Accountant

## Financial statements for the period 1 January – 31 December

### Income statement

| Note | DKK'000  | 2016           | 2015           |
|------|--|----------------|----------------|
| 2    | Revenue  | 314,024        | 421,702        |
|      | Raw materials and consumables  | 28,949         | 88,526         |
| 3    | Other operating income   | 37,993         | 8,415          |
|      | Other external expenses  | 61,880         | 73,581         |
|      | <b>Gross margin</b>  | <b>261,188</b> | <b>268,010</b> |
| 4    | Staff costs  | 59,454         | 113,375        |
|      | Amortization/depreciation and impairment of intangible assets and property,<br>plant and equipment | 35,192         | 40,690         |
|      | <b>Operating profit/loss</b>   | <b>166,542</b> | <b>113,945</b> |
|      | Loss from investments in associates  | 107            | 40             |
|      | Financial income   | 81             | 104            |
|      | Financial expenses   | 110            | 308            |
|      | <b>Pre-tax profit</b>  | <b>166,406</b> | <b>113,701</b> |
| 5    | Tax for the year   | 34,464         | 26,156         |
|      | <b>Profit for the year</b>   | <b>131,942</b> | <b>87,545</b>  |



## Financial statements for the period 1 January – 31 December

### Balance sheet

| Note | DKK'000  | 2016           | 2015           |
|------|--|----------------|----------------|
|      | <b>ASSETS</b>                                    |                |                |
|      | Non-current assets                               |                |                |
| 6    | Intangible assets                                |                |                |
|      | Acquired intangible assets                       | 1,778          | 3,539          |
|      | Goodwill   | 27,940         | 30,929         |
|      |  | <b>29,718</b>  | <b>34,468</b>  |
| 7    | Property, plant and equipment                    |                |                |
|      | Land and buildings                               | 629,963        | 624,658        |
|      | Leasehold improvements                           | 51,800         | 53,488         |
|      | Other fixtures and fittings, tools and equipment | 9,227          | 26,607         |
|      | Property, plant and equipment under construction | 1,749          | 1,534          |
|      |  | <b>692,739</b> | <b>706,287</b> |
|      | Financial assets                                 |                |                |
|      | Other securities and investments                 | 10             | 39             |
| 8    | Investments in associates, net asset value       | 297            | 404            |
|      | Deposits   | 7,228          | 7,072          |
|      |  | <b>7,535</b>   | <b>7,515</b>   |
|      | <b>Total non-current assets</b>                  | <b>729,992</b> | <b>748,270</b> |
|      | Current assets                                   |                |                |
|      | Inventories                                      |                |                |
|      | Raw materials and consumables                    | 0              | 810            |
|      |  | <b>0</b>       | <b>810</b>     |
|      | Receivables                                      |                |                |
|      | Trade receivables                                | 42,443         | 39,223         |
|      | Trade receivables from group entities            | 589            | 685            |
|      | Prepayments and deferred charges                 | 8,665          | 4,015          |
|      | Other receivables                                | 27,967         | 1,583          |
|      |  | <b>79,664</b>  | <b>45,506</b>  |
|      | <b>Cash at bank and in hand</b>                  | <b>45,362</b>  | <b>114,463</b> |
|      | <b>Total current assets</b>                      | <b>125,026</b> | <b>160,779</b> |
|      | <b>TOTAL ASSETS</b>                              | <b>855,018</b> | <b>909,049</b> |

Financial statements for the period 1 January – 31 December

Balance sheet

| Note | DKK'000                              | 2016           | 2015           |
|------|--------------------------------------|----------------|----------------|
|      | <b>EQUITY AND LIABILITIES</b>        |                |                |
|      | <b>Equity</b>                        |                |                |
| 9    | Share capital                        | 507,817        | 507,817        |
|      | Proposed dividends                   | 70,000         | 180,000        |
|      | Retained earnings/accumulated loss   | 166,952        | 105,010        |
|      | <b>Total equity</b>                  | <b>744,769</b> | <b>792,827</b> |
|      | <b>Non-current liabilities</b>       |                |                |
| 10   | Deferred tax                         | 46,529         | 46,288         |
|      | Deposits                             | 9,443          | 9,093          |
|      | <b>Total non-current liabilities</b> | <b>55,972</b>  | <b>55,381</b>  |
|      | <b>Current liabilities</b>           |                |                |
|      | Trade payables                       | 6,541          | 11,516         |
|      | Payables to group entities           | 10,793         | 9,721          |
|      | Deferred income                      | 11,536         | 10,960         |
|      | Payable income tax                   | 381            | 2,904          |
|      | Other payables                       | 25,026         | 25,740         |
|      | <b>Total current liabilities</b>     | <b>54,277</b>  | <b>60,841</b>  |
|      | <b>Total liabilities</b>             | <b>110,249</b> | <b>116,222</b> |
|      | <b>TOTAL EQUITY AND LIABILITIES</b>  | <b>855,018</b> | <b>909,049</b> |

Financial statements for the period 1 January – 31 December

Statement of changes in equity

| DKK'000                           | Share capital | Retained earnings | Proposed dividends | Total    |
|-----------------------------------|---------------|-------------------|--------------------|----------|
| Equity at 1 January 2016          | 507,817       | 105,010           | 180,000            | 792,827  |
| Transfer from result for the year |               | 61,942            |                    | 61,942   |
| Dividends paid during the year    |               |                   | -180,000           | -180,000 |
| Proposed dividends                |               |                   | 70,000             | 70,000   |
| Equity at 31 December 2016        | 507,817       | 166,952           | 70,000             | 744,769  |



## Financial statements for the period 1 January – 31 December

### Cash flow statement

| Note | DKK'000  | 2016            | 2015           |
|------|--|-----------------|----------------|
|      | Operating profit   | 131,942         | 87,072         |
| 14   | Adjustments  | -6,571          | 30,183         |
| 15   | Change in working capital  | -39,563         | -9,032         |
|      | <b>Cash flows from operating activities</b>                              | <b>85,808</b>   | <b>108,223</b> |
|      | Additions of property, plant and equipment                               | -34,343         | -47,394        |
|      | Disposals of property, plant and equipment                               | 59,455          | 53,530         |
|      | Other cash flows from investing activities                               | -21             | 480            |
|      | <b>Cash flows from investing activities</b>                              | <b>25,091</b>   | <b>6,616</b>   |
|      | Dividends paid   | -180,000        | -83,000        |
|      | <b>Cash flows from financing activities</b>                              | <b>-180,000</b> | <b>-83,000</b> |
|      | <b>Net cash flows from operating, investing and financing activities</b> | <b>-69,101</b>  | <b>31,839</b>  |
| 16   | Cash and cash equivalents at 1 January                                   | 114,463         | 82,624         |
|      | Net cash flow  | -69,101         | 31,839         |
|      | <b>Cash and cash equivalents at 31 December</b>                          | <b>45,362</b>   | <b>114,463</b> |

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of McDonald's Danmark ApS for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 July 2015. This implies changes in the recognition and measurement in the following areas:

##### 1. Yearly reassessment of residual values of property, plant and equipment

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions<sup>1</sup> with future effect only as a change in accounting estimates with no impact on equity.

None of the above changes affects the income statement or the balance sheet for 2016 or the comparative figures.

In addition, the Company has decided to present its balance sheet in horizontal format where non-current and current assets and liabilities are broken down and comparative figures for 2015 are restated.

Apart from the above new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

#### Reporting currency

The financial statements are presented in Danish kroner.

#### Currency translation

Transactions denominated in foreign currencies are translated into Danish kroner at the exchange rate at the date of the transaction.

Receivables, payables and other monetary items denominated in foreign currencies are translated into Danish kroner at the exchange rate at the balance sheet date. Realized and unrealized exchange gains and losses are recognized in the income statement as financial income/expenses.

#### Income statement

##### Revenue

Rent and lease income from franchise restaurants represent invoiced income. In addition, net turnover from the company's own restaurants has been recognized as income.

Sales by company owned restaurants are recognized on a cash basis while sales from franchised restaurants, based on a percent of sales with a minimum of rent payments, are recognized in the period they are earned.

Revenue is measured net of all types of discounts/-rebates granted. Also, revenue is measured net of VAT and other indirect taxes charged on behalf of third parties.

<sup>1</sup> The executive order on transitional provisions based in connection with the application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 15 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Other operating income

Other operating income comprises items secondary to the Company's activities, including gains on disposal of intangible assets and items of property, plant and equipment.

##### Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

##### Other external expenses

Other external expenses include the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

##### Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

##### Income from investments in associates

The item includes the entity's proportionate share of the profit/loss for the year in associates after elimination of intra group income or losses and net of amortization and impairment of goodwill and other excess values at the time of acquisition.

##### Financial income and expenses

Financial income and expenses are recognized in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance payment of tax scheme, etc.

##### Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognized in the income statement, whereas the portion that relates to transactions taken to equity is recognized in equity.

##### Balance sheet

##### Intangible assets

Goodwill is measured at cost less accumulated amortization and impairment losses.

Other intangible assets include other acquired intangible rights, including software licenses, and development projects.

Other intangible assets are measured at cost less accumulated amortization and impairment losses.

Goodwill is amortized over the expected economic life, measured by reference to an assessment of, among other factors, the nature, earnings and market position of the acquired entity as well as the stability of the industry and the dependence on key staff.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

The cost for acquired IP rights is amortized over the expected useful life. Acquired IP rights include patents, rights and licenses. Since the period of depreciation is based on the assets expected useful life, no salvage value has been taken into account.

The estimated useful lives for intangible assets are as follows:

|                    |             |
|--------------------|-------------|
| Acquired IP rights | 10-20 years |
| Goodwill           | 5-20 years  |

The Company depreciates goodwill associated with its own restaurants over a period of 5-20 years. The period of depreciation exceeds 5 years on the basis of management regarding assets as being strategic investments and management's concrete expectations for future cash flow.

Gains and losses on the disposal of Goodwill and other intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

#### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life.

The expected useful lives of the assets are as follows:

|  |             |
|--|-------------|
| Buildings  | 10-40 years |
| Leasehold improvements                           | 5-40 years  |
| Other fixtures and fittings, tools and equipment | 3-20 years  |

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the amortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Investments in associates

Investments in associates are measured, using the equity method, at the parent's proportionate share of such entities' equity plus goodwill on consolidation and intra-group losses and less intra group gains and negative goodwill, if any. Investments in entities whose net asset value is negative are measured at DKK 0. The entity's proportionate share of a deficit on equity, if any, is set off against receivables from the investment in so far as the deficit is irrecoverable. Amounts in excess thereof are recognized under 'Provisions' in so far as the parent has a legal or constructive obligation to cover the deficit.

##### Other securities and investments

Securities intended to be held to maturity are measured at amortized cost, using the effective interest rate method at the date of acquisition. Value adjustments are recognized in the income statement under 'Net financials'.

Other securities and investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at a value made up using generally recognized valuation principles if the securities are unlisted.

##### Impairment of fixed assets

Every year, intangible assets and property, plant and equipment as well as investments in associates are reviewed for impairment. Where there is indication of impairment, an impairment test is made for each individual asset or group of assets, respectively, generating independent cash flows. The assets are written down to the higher of the value in use and the net selling price of the asset or group of assets (recoverable amount) if it is lower than the carrying amount. Where an impairment loss is recognized on a group of assets, a loss must first be allocated to goodwill and then to the other assets on a pro rata basis.

##### Inventories

Inventories are measured at the lower of cost, measured by reference to the FIFO method, and net realizable value.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

##### Receivables

Receivables are measured at amortized cost, which usually corresponds to the nominal value. Provisions are made for bad debts on the basis of objective evidence that a receivable or a group of receivables are impaired. Provisions are made to the lower of the net realizable value and the carrying amount.

##### Prepayments

Prepayments recognized under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

##### Cash and cash equivalents

Cash comprises cash balances and bank balances.

Balances in the group's cash pool scheme are not, due to the nature of the scheme, considered cash, but are recognized under 'Receivables from group entities'.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Income tax and deferred tax

Current tax payables and receivables are recognized in the balance sheet as the estimated tax charge in respect of the taxable income for the year, adjusted for tax on prior years' taxable income and tax paid on account.

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income, as well as temporary differences on non-amortizable goodwill.

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. Deferred tax assets are recognized at the value at which they are expected to be utilized, either through elimination against tax on future earnings or through a set off against deferred tax liabilities within the same jurisdiction.

##### Liabilities

Financial liabilities are recognized on the raising of the loan at the proceeds received net of transaction costs incurred. Interest bearing debt is subsequently measured at amortized cost, using the effective interest rate method. Borrowing costs, including capital losses, are recognized as financing costs in the income statement over the term of the loan.

Other liabilities are measured at net realizable value.

##### Lease liabilities

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

##### Deferred income

Deferred income recognized as a liability comprises payments received concerning income in subsequent financial reporting years.

##### Cash flow statement

The cash flow statement shows the entity's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the entity's cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are presented using the indirect method and are made up as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest bearing debt.

Cash and cash equivalents comprise cash and short term securities in respect of which the risk of changes in value is insignificant.

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Segment information

Segment information is given for revenue broken down by business segment and geographical segment. The segmentation is in accordance with the entity's internal financial management.

##### Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios 'Recommendations and Financial Ratios 2010', cf. below:

##### *Definition of financial ratios*

|   |  |         |         |
|---|--|---------|---------|
| Return on assets  | $\frac{\text{Profit/loss from ordinary operating activities} \times 100}{\text{Average assets}}$ |         |         |
| Equity ratio  | $\frac{\text{Closing equity} \times 100}{\text{Equity \& liabilities at year-end}}$              |         |         |
| Return on equity  | $\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$                       |         |         |
| DKK'000   |  | 2016    | 2015    |
| 2 Revenue   |  |         |         |
| <i>Business segmentation of revenue:</i>  |  |         |         |
| Sales by company-operated restaurants   |  | 73,423  | 220,346 |
| Revenues from franchised restaurants  |  | 240,601 | 201,356 |
|   |  | 314,024 | 421,702 |
| 3 Other operating expenses  |  |         |         |
| The item includes net gain/loss on sale of restaurants, buildings, fixtures and fittings. |  |         |         |
| Gain on sale of restaurants, buildings, fixtures and fittings                             |  | 42,004  | 7,958   |
| Other income/expenses   |  | -4,012  | 457     |
|   |  | 37,993  | 8,415   |

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

|                                       |               |                |
|---------------------------------------|---------------|----------------|
| <b>4 Staff costs</b>                  |               |                |
| DKK'000                               | 2016          | 2015           |
| Wages and salaries                    | 53,896        | 103,490        |
| Pensions                              | 4,722         | 7,927          |
| Other social security costs           | 836           | 1,958          |
|                                       | <u>59,454</u> | <u>113,375</u> |
| Average number of full-time employees | <u>134</u>    | <u>303</u>     |

Remuneration paid to Management in 2016 has been excluded from the financial statements with reference to section 98b, 3 of the Danish Financial Statements Act.

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| <b>5 Tax for the year</b>            |               |               |
| DKK'000                              | 2016          | 2015          |
| Estimated tax charge for the year    | 35,247        | 29,178        |
| Deferred tax adjustments in the year | 241           | -2,549        |
| Tax adjustments, prior years         | -1,024        | -473          |
|                                      | <u>34,464</u> | <u>26,156</u> |

Deferred tax has been calculated on the basis of a corporate tax rate of 22%.

|  |                               |               |               |
|--|-------------------------------|---------------|---------------|
| <b>6 Intangible assets</b>                             |                               |               |               |
| DKK'000  | Acquired<br>Intangible assets | Goodwill      | Total         |
| Cost at 1 January 2016                                 | 5,862                         | 59,651        | 65,512        |
| Additions  | 0                             | 0             | 0             |
| Disposals  | -2,775                        | -9,320        | -12,095       |
| Cost at 31 December 2016                               | <u>3,087</u>                  | <u>50,331</u> | <u>53,417</u> |
| Impairment losses and amortization at 1 January 2016   | 2,323                         | 28,721        | 31,044        |
| Amortization   | 337                           | 2,274         | 2,610         |
| Impairment losses and amortization, disposals          | -1,351                        | -8,605        | -9,956        |
| Impairment losses and amortization at 31 December 2016 | <u>1,309</u>                  | <u>22,390</u> | <u>23,699</u> |
| Carrying amount at 31 December 2016                    | <u>1,778</u>                  | <u>27,940</u> | <u>29,718</u> |



## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 7 Property, plant and equipment

| DKK'000  | Land and buildings | Leasehold improvements | Fixtures and fittings, tools and equipment | Property, plant and equipment in progress | Total tangible |
|--|--------------------|------------------------|--|---|----------------|
| Cost at 1 January 2016                                 | 947,908            | 122,705                | 47,865                                     | 1,534                                     | 1,120,012      |
| Additions  | 28,360             | 3,781                  | 779  | 1,424                                     | 34,344         |
| Transferred  | 3,842              | 263                    | -2,896                                     | -1,209                                    | 0              |
| Disposals  | -16,415            | -11,790                | -26,515                                    | 0   | -54,719        |
| Cost at 31 December 2016                               | 963,695            | 114,960                | 19,234                                     | 1,749                                     | 1,099,637      |
| Impairment losses and depreciation at 1 January 2016   | 323,249            | 69,218                 | 21,259                                     | 0   | 413,725        |
| Depreciation   | 21,447             | 4,030                  | 5,637                                      | 0   | 31,114         |
| Impairment write downs in the year                     |                    | 1,467                  |  |   | 1,467          |
| Transfers between assets                               | 1,096              | 235                    | -1,330                                     |   | 0              |
| Impairment losses and depreciation, disposals          | -12,060            | -11,790                | -15,559                                    | 0   | -39,408        |
| Impairment losses and depreciation at 31 December 2016 | 333,732            | 63,160                 | 10,007                                     | 0   | 406,898        |
| Carrying amount at 31 December 2016                    | 629,963            | 51,800                 | 9,227                                      | 1,749                                     | 692,739        |

#### 8 Investments

| DKK'000                               | Investments in associates |
|---------------------------------------|---------------------------|
| Cost at 1 January 2016                | 1,247                     |
| Cost at 31 December 2016              | 1,247                     |
| Impairment losses at 1 January 2016   | -843                      |
| Share of the profit for the year      | -107                      |
| Impairment losses at 31 December 2016 | -950                      |
| Carrying amount at 31 December 2016   | 297                       |

| DKK'000                                  | Legal form | Domlcille  | Interest (%) |
|--|------------|------------|--------------|
| I/S Fællesskiltning (Københavns Kommune) | I/S        | Copenhagen | 41.5         |

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 9 Share capital

| DKK'000                          | 2016    | 2015    |
|----------------------------------|---------|---------|
| 1,015,634 shares of DKK 500 each | 507,817 | 507,817 |

The company's share capital has remained TDKK 507,817 over the past five years.

#### 10 Provisions

The provision for deferred tax primarily relates to timing differences in respect of intangible assets and property, plant and equipment.

| DKK'000      | 2016   | 2015   |
|--------------|--------|--------|
| Deferred tax | 46,529 | 46,288 |

#### 11 Contingent liabilities and other financial obligations

The company has joint and several liability with the co-owners of I/S Fællesskitning for the partnership's obligations. The total statement of financial position in I/S Fællesskitning amounts to TDKK 817 at 31 December 2016.

Other guarantees regarding payment of rent amount to DKK 12.3 million.

| DKK'000                     | 2016    | 2015    |
|-----------------------------|---------|---------|
| Other financial obligations |         |         |
| Rent and lease liabilities  | 106,434 | 117,940 |

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 12 Related parties

##### *Related Parties Transactions*

|                                |   | 2016<br>DKK'000 | 2015<br>DKK'000 |
|--------------------------------|---|-----------------|-----------------|
| Dividends                      | McD Europe Limited                          | -180,000        | -83,000         |
| Royalty                        | McD Europe Franchising SARL Luxembourg      | -3,671          | -11,017         |
| Marketing transactions         | McDonald's Corporation                      | -341            | -251            |
| Employee related transactions  | McDonald's Australia Ltd.                   |                 | 266             |
|                                | McDonald's APMEA Franchising Pte. Ltd       | 1,252           | 1,225           |
|                                | McDonald's Corporation                      | 4,202           | 2,682           |
|                                | McDonald's Europe, Ltd.                     | 2,606           | 3,922           |
|                                | McDonald's Norge A/S                        | 238             | 129             |
| Shared Services and IT charges | McDonald's Shared Service Centre (UK) Limit | -1,127          | -1,042          |
|                                | McD Europe Limited                          |                 | -1,858          |
|                                | McDonald's Corporation                      | -2,093          | -352            |
|                                | Svenska McDonald's AB                       |                 | -8              |
| Meeting and conventions        | McDonald's Corporation                      | -107            | 340             |
|                                | McDonald's Nederland B.V.                   | -2              |                 |
|                                | McDonald's Polska Sp.zo.o                   |                 | -3              |
|                                | McDonald's Restaurants of Ireland Ltd       |                 | -7              |
|                                | McDonald's Oy                               |                 | 8               |
|                                | McDonald's Norge A/S                        |                 | 8               |
|                                | McDonald's Europe, Ltd.                     |                 | -143            |
|                                | Svenska McDonald's AB                       | -87             | -47             |
| Global design fee              | McDonald's Corporation                      | -209            |                 |
| Other                          | McDonald's Corporation                      | 1               |                 |
|                                | McDonald's Europe, Ltd.                     | 67              |                 |
|                                |   | <u>-179,271</u> | <u>-89,148</u>  |

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

#### 12 Related parties (continued)

##### *Intercompany Balances*

| DKK'000                     | 2016           | 2015          |
|-----------------------------|----------------|---------------|
| McDonald's Corporation Inc. | -10,204        | -9,036        |
|                             | <u>-10,204</u> | <u>-9,036</u> |

Dividends have been distributed to the parent company, McDonald's Europe Ltd.

The remaining transactions has been carried out with group entities which are all associated companies with the McDonald's Group

The year-end balance with McDonald's Corporation Inc, includes pass through of royalties from franchise restaurants.

##### *Related party transactions not carried through on normal market terms:*

There are no related party transactions that have not been carried through on normal market terms.

##### *Information about related parties with a controlling interest:*

| Related party                 | Domicile              | Basis for control      |
|-------------------------------|-----------------------|------------------------|
| Parent McDonald's Europe Ltd. | London, Great Britain | Participating interest |

##### *Information about consolidated financial statements:*

| Parent  | Domicile                              | Requisitioning of the parent's consolidated financial statements  |
|---|---------------------------------------|---|
| McDonald's Corporation Inc.<br>McDonald's Europe Ltd. | Chicago, USA<br>London, Great Britain | <a href="http://www.aboutmcdonalds.com/mcd/investors/annual_reports.html">http://www.aboutmcdonalds.com/mcd/investors/annual_reports.html</a> |

|  | 2016          | 2015          |
|--|---------------|---------------|
| DKK'000  |               |               |
| 13 Fee to the auditors appointed by the company in general meeting |               |               |
| Fee for the statutory audit of the financial statements            | 233           | 240           |
| Fee for other services   | 63            | 69            |
|  | <u>296</u>    | <u>309</u>    |
| 14 Adjustments – cash flow statement                               |               |               |
| Amortization/depreciation and impairment losses                    | 35,192        | 40,690        |
| Gain/loss on the sale of fixed assets                              | -42,004       | -7,958        |
| Tax for the year   | 241           | -2,549        |
|  | <u>-6,571</u> | <u>30,183</u> |

## Financial statements for the period 1 January – 31 December

### Notes to the financial statements

| DKK'000   | 2016   | 2015                         |
|-----------|--|------------------------------|
| <b>15</b> | <b>Changes in working capital, cash flow statement</b>   |                              |
|           | Changes in inventories                                   | 810 2,979                    |
|           | Changes in receivables                                   | -34,159 -3,721               |
|           | Changes in trade payables, etc.                          | -6,214 -8,290                |
|           |  | <u>-39,563</u> <u>-9,032</u> |
| <b>16</b> | <b>Cash and cash equivalents, cash flow statement</b>    |                              |
|           | Cash and cash equivalents according to the balance sheet | 45,362 114,463               |
|           |  | <u>45,362</u> <u>114,463</u> |
| <b>17</b> | <b>Appropriation of profit/loss</b>                      |                              |
|           | Recommended profit appropriation                         |                              |
|           | Proposed dividends                                       | 70,000 180,000               |
|           | Net revaluation reserve according to the equity method   | -107 -40                     |
|           | Retained earnings/accumulated loss                       | 62,049 -92,415               |
|           |  | <u>131,942</u> <u>87,545</u> |