

Food Folk Danmark Holdings ApS

Falkoner Alle 20
2000 Frederiksberg

CVR no. 38 43 38 49

Annual report 2019

The financial statements were presented and adopted at
the Company's annual general meeting

on 1 April 2020

chairman of the annual general meeting

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Statement by the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Food Folk Danmark Holdings ApS for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's activities and financial matters, of the results for the year and of the Group's and the Parent Company's financial position.

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

Copenhagen, 1 April 2020

Executive board:

Mads Friis



Independent auditor's report

To the shareholders of Food Folk Danmark Holdings ApS

Opinion

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Group's and Parent Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Audited financial statements

Food Folk Danmark ApS' consolidated financial statements and parent company financial statements for the financial year 1 January – 31 December 2019 comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes, including summary of significant accounting policies, for the Group as well as for the Parent Company (the financial statements). The financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and for such internal control that 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 Group's and the Parent 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 Management either intends to liquidate the Group or the Parent 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 as to 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 the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may 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 the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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 Group's and the Parent Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.



Independent auditor's report (continued)

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

- conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 the work we have performed, 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, 1 April 2020

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Niels Vendelbo
State Authorised
Public Accountant
MNE no. 34532

Management's review

Company details

General

Food Folk Danmark Holdings ApS
Falkoner Alle 20
2000 Frederiksberg

Telephone: +45 33 26 60 00
Website: www.mcdonalds.dk
E-mail: reception@dk.mcd.com

CVR no. 38 43 38 49

Established: 22 February 2017
Registered office: Falkoner Alle 20, DK-2000 Frederiksberg
Financial year: From 1 January to 31 December

Board of Directors

Mads Friis

Managing Director

Mads Friis

Auditor

KPMG
Statsautoriseret revisionspartnerselskab
Dampfærgevej 28
2100 Copenhagen

Bank

Danske Bank, Corporate Banking

Annual general meeting

The annual general meeting will be held on 1 April 2020.

Management's review (continued)

Financial highlights for the Group

DKK'000	2019	2018	2017
Key figures			
Revenue	457 068	414 321	297 332
Operating profit	166 764	146 273	106 144
Net financials	(31 767)	(51 957)	(40 290)
Profit for the year	92 689	66 375	202 564
Balance sheet total			
Balance sheet total	2 054 040	1 641 704	1 632 913
Investments in property, plant and equipment	23 983	13 851	364
Equity	509 358	389 456	323 081
Financial ratios			
Return on assets	9,0	8,9	12,1
Equity ratio	24,8	23,7	19,8
Return on equity	20,6	18,6	91,3
Average number of full-time employees			
Average number of full-time employees	56	57	51

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Ratios". The financial ratios have been calculated as follows:

Return on assets	$\frac{\text{Profit/loss from ordinary activities} \times 100}{\text{Average assets}}$
Equity ratio	$\frac{\text{Closing equity} \times 100}{\text{Equity \& liabilities at year - end}}$
Return on equity	$\frac{\text{profit/loss for the year} \times 100}{\text{Average equity}}$

Management's review (continued)

Operating review

Principal activities

The main activity of the Group is to acquire real estate by leasing 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. Food Folk Danmark ApS (former name McDonald's Danmark ApS) was previously 100% owned by McD Europe Ltd, a wholly owned subsidiary of McDonald's Corporation, but was acquired by Food Folk Danmark Holdings ApS on 31/3-2017.

By the end of 2019, Food Folk had 88 licensed McDonald's restaurants in Denmark, all operated by 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 was unchanged compared to 2018.

Unusual circumstances

To the management's knowledge, no unusual circumstances have occurred during 2019.

Events after the balance sheet date

We acknowledge the risk caused by Covid-19 outbreak after the reporting date. However, it does not materially affect the company's financial position at 31 December 2019, because there were no existing uncertainties at this time giving any implications or adjusting the financial position.

Development in activities and financial position

Profit/loss for the year (including comparison with forecasts previously announced)

During 2019, the McDonald's restaurants in Denmark increased system wide sales* by 9.6% (2018: +7.5%)

The Group realized a revenue increase of 10.3% compared to the previous year (2018: +9%), mainly driven by a combination of increased System Wide Sales and franchised income from refranchised restaurants.

Operating profit for the year increased by DKK 20,491 thousand to DKK 166,764 thousand (2018: DKK 146,273 thousand) which corresponds to an increase of 14%. The increase in operating income is primarily driven by higher sales whereas operating expenses are in line with last year.

The result of the year increased by DKK 26,314 thousand to a total of DKK 92,689 thousand (2018: DKK 66,375 thousand), which corresponds to a increase of 39.6%.

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

**= system wide sales reflect the accumulated turnover in all McDonald's restaurants in Denmark.*

Outlook

In February / March 2020, Covid-19 broke out in Europe and this will have an impact on the Group full-year result for 2020. At the time of rendering of accounts, it is not possible to predict the extent of that impact in a reliable way more than to mention it will have a significant negative impact. The subsidiary Food Folk Denmark Aps is following developments and the authorities' recommendations closely and is taking the measures that are deemed necessary to reduce the impact in the short and long term.

Particular risks

The Group does not have any significant risk apart from what is common from the industry since the majority of transactions are denominated in Danish Kroner, long term financing is secured with fixed interests and outstanding receivables are of short term nature. For further details on the Group's risk profile we refer to note 18.

Management's review (continued)

Food Folk Corporate Social Responsibility

Food Folk Denmark's CSR strategy and initiatives

It is important to Food Folk Denmark 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 in Denmark is involved in numerous projects and initiatives regarding climate, human rights, environmental issues, anti-corruption and bribery and social and staff matters and gender diversity. The CSR achievements are aggregated from McDonald's in Denmark's 88 restaurants and the head office.

Initiatives are decided in each area based on an overall cost/benefit evaluation. Thus, no area has a due diligence process or KPI's. However, projects are continuously evaluated and scaled up/down based on their effectiveness.

Risk

Initiatives are decided in each area based on an overall cost/benefit evaluation. Thus, no area has a due diligence process or KPI's. However, projects are continuously evaluated and scaled up/down based on their effectiveness.

On human rights we could encounter minor issues with our code of conduct due to the large supply chain, which is why we conduct thorough auditing via a third-party auditor.

On environment we are aware that all companies have a task in the green transition, which is why we have implemented new packaging and contributed to counter littering in Denmark in several years including 2019.

On anti-corruption and bribery, we do not consider any risk in Denmark, due to the country's rank as one of the world's least corrupt countries. However, to be absolutely compliant with the high McDonald's standards, Food Folk Denmark follows the McDonald's Global's anti-corruption policy (read more on corporate.mcdonalds.com/corpmcd/investors-relations/codes-of-conduct.html).

On social and staff matters, high turnover will always be a risk, as McDonald's brand is strong and valued on the Danish labour market. We thus attempt to strengthen and support our employees by providing extra benefits such as external education programs and continuous feedback to the employees from the restaurants' management teams.

Impact on climate

We continuously aim to lessen our carbon footprint. Food production has a significant impact on climate change. This is why we aimed to lessen our food waste, when we rebuilt 77 restaurants out of 88 in 2017-2019 - now redesigned to the new made-to-order system. The impact is already visible. Last year alone, the food waste decreased 9.3%, whilst the business grew in sales.

In order not to waste the valuable resources contained in food waste, grease, and cooking oil, these waste materials are used in the production of biogas, ultimately resolving in a smaller carbon footprint for the Danish society by displacing fossil fuels.

Management's review (continued)

Food Folk Corporate Social Responsibility (continued)

Human rights

We cherish human rights and we believe we have one of the most diverse groups of employees.

Our suppliers are an important part of our business too. Thus, we audit all our relevant suppliers through an independent auditor to ensure, that our partners comply with our code of conduct. Human rights is one of four core values that we audit, read more at link below under "Supplier code of conduct": <https://corporate.mcdonalds.com/corpmcd/scale-for-good/our-people-and-communities/respecting-human-rights.html>

All suppliers, for which Food Folk Denmark is considered responsible, passed their audits in 2019. All global suppliers are connected to one McDonald's market, who is responsible for their auditing.

Environment

We continuously evaluate our packaging and look for greener alternatives – to save on plastics, harmful waste, and CO2. In 2019, Food Folk conducted tests with paper straws in Norway and plastic trays out of marine plastic litter. These tests will likely result in new packaging on one or several areas of McDonald's in Denmark in 2020.

McDonald's in Denmark wish to make a difference on littering too. In 2019, we raised our financial commitment to our co-founded NGO 'Keep Denmark Clean'. In their project called 'Clean Nature' they organized 329 routes of litter collection in 2019. A total of 30 municipalities participated along with over 6000 volunteers. We are proud of their success and monitor the project closely.

In 2019 we continued our 'one block policy', entailing employees to collect litter in the immediate area surrounding each restaurant. The one block policy results in McDonald's staff continuously helping the local area keeping the streets clean not only for McDonald's own litter, but also the society's general littering.

Furthermore, McDonald's is continuing to work for animal welfare by focusing on a cage eggs phase out. In 2018, McDonald's laid the foundation for removing cage eggs and during 2019 the process was done and McDonald's in Denmark is now completely cage eggs free – also when it comes to so called hidden eggs, e.g. in sauces, dressings and cakes.

Anti-corruption and bribery

All employees at the headquarters of McDonald's in Denmark have previously conducted a yearly e-learning course on how to avoid corruption and bribery. In 2019 and 2020 McDonald's in the Nordics will develop a specific Nordic policy on anti-corruption and Code of Conduct. A new scheme is thus in the making to further improve this area in McDonald's.

Social and staff matters

Our employees form the core of our business. Thus, we measure employee satisfaction every year, and we aim to improve our scores every time.

To ensure our employees' continued development and satisfaction, we offer a range of mandatory and optional educations. Furthermore, all our employees complete the mandatory McD-learning courses.

Our optional educations are created in collaboration with external academies in Denmark. Thus, we offer our employees a unique opportunity to combine work and education. In 2019, 199 employees were enrolled in one of our external education programs.

Furthermore, McDonald's corporates closely with KLAPjob, which is part of LEV, an organization for people with cognitive disabilities. Since 2014, McDonald's has hired 76 people with cognitive disabilities. LEV states, that they are very happy with the cooperation and that the disabled citizens enjoy a great welcome every time in the restaurants.

Gender diversity

At the management level, the gender ratio of managers are 53.3% females and 46.7% males. For the future, a similar approx. 50/50 split between genders is expected to be continued.

The board consists of one male director.

Statement of profit or loss and other comprehensive income

Parent company			Group			
2019	2018	* DKK'000	Note	2019	2018	*
0	0	Revenue	1	457 068	414 321	
(198)	(149)	Other external expenses	3	(168 155)	(177 468)	
0	0	Depreciation, amortisation and impairment	8, 9	(79 337)	(53 119)	
0	0	Staff cost	4	(40 920)	(40 163)	
0	0	Other operating income, net	2	(1 892)	2 702	
(198)	(149)	Total expenses		(290 304)	(268 048)	
(198)	(149)	Operating profit or loss		166 764	146 273	
987	114	Financial income	5	60 323	114	
(24 739)	(29 346)	Financial expense	6	(92 090)	(52 071)	
(23 752)	(29 232)	Net finance expenses		(31 767)	(51 957)	
116 800	95 723	Share of profit of equity accounted investees, net of tax	10	(32)	(72)	
92 850	66 342	Profit or loss before tax		134 965	94 244	
(161)	33	Tax for the year	7	(42 276)	(27 869)	
92 689	66 375	Profit or loss		92 689	66 375	
		Attributable to				
(80 987)	(32 378)	Reserve for net revaluation according to the equity method		0	0	
173 676	98 753	Retained earnings		92 689	66 375	
92 689	66 375	Profit or loss		92 689	66 375	
		Statement of comprehensive income				
92 689	66 375	Profit or loss		92 689	66 375	
0	0	Other comprehensive income for the year, net of income tax		0	0	
92 689	66 375	Comprehensive income for the year		92 689	66 375	

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of application.

Statement of financial position at 31 December

Parent company			Group			
2019	2018	* DKK'000	Note	2019	2018	*
Assets						
Non current assets						
0	0	Property, plant and equipment	8	1 669 053	1 227 222	
0	0	Intangible assets	9	181 830	190 189	
591 093	672 080	Investments in subsidiaries and associates	10	109	141	
591 093	672 080			1 850 992	1 417 552	
Current assets						
0	0	Trade and other receivables	12	70 206	74 773	
20 128	74 278	Receivables from related parties	22	129 998	143 373	
44	6 005	Tax receivable		2 844	6 006	
0	0	Cash and cash equivalents	13	0	0	
20 172	80 283			203 048	224 152	
611 265	752 363	Total Assets		2 054 040	1 641 704	
Equity and liabilities						
Equity attributable to equity holders of the parent						
30 000	30 000	Share capital	14	30 000	30 000	
90 517	90 517	Share premium	14	90 517	90 517	
110 959	191 946	Reserve for net revaluation according to the equity method		0	0	
277 882	76 993	Retained earnings		388 841	268 939	
509 358	389 456	Total equity		509 358	389 456	
Non current liabilities						
101 540	362 839	Other interest-bearing loans and borrowings	15	1 177 335	905 557	
0	0	Provisions	16	13 677	18 821	
0	0	Deferred tax liabilities	11	212 029	197 695	
101 540	362 839			1 403 041	1 122 073	
Current liabilities						
0	0	Other interest-bearing loans and borrowings	15	64 483	25 890	
197	68	Trade and other payables	17	75 195	102 766	
0	0	Payables to group entities	22	1 169	774	
170	0	Tax payable		170	245	
0	0	Provisions	16	624	500	
367	68			141 641	130 175	
101 907	362 907	Total liabilities		1 544 682	1 252 248	
611 265	752 363	Total equity and liabilities		2 054 040	1 641 704	

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of application.

Statement of changes in equity

Parent company

DKK'000	Share capital	Share premium	Reserve for net revaluation according to the equity method	Retained earnings	Total equity
Balance at 1 January 2018	30 000	90 517	224 324	(21 657)	323 184
Profit or loss	0	0	(32 378)	98 753	66 375
Total comprehensive income for the period	0	0	(32 378)	98 753	66 375
Other changes in equity of subsidiaries	0	0	0	(103)	(103)
* Balance at 31 December 2018	30 000	90 517	191 946	76 993	389 456

DKK'000	Share capital	Share premium	Reserve for net revaluation according to the equity method	Retained earnings	Total equity
Balance at 1 January 2019	30 000	90 517	191 946	76 993	389 456
Profit or loss	0	0	(80 987)	173 676	92 689
Total comprehensive income for the period	0	0	(80 987)	173 676	92 689
Other changes in equity of subsidiaries	0	0	0	27 213	27 213
Balance at 31 December 2019	30 000	90 517	110 959	277 882	509 358

Group

DKK'000	Share capital	Share premium	Reserves	Retained earnings	Total equity
Balance at 1 January 2018	30 000	90 517	0	202 564	323 081
Profit or loss	0	0	0	66 375	66 375
Total comprehensive income for the period	0	0	0	66 375	66 375
* Balance at 31 December 2018	30 000	90 517	0	268 939	389 456

DKK'000	Share capital	Share premium	Reserves	Retained earnings	Total equity
Balance at 1 January 2019	30 000	90 517	0	268 939	389 456
Profit or loss	0	0	0	92 689	92 689
Adjustment on initial application of IFRS 16 (net of tax)	0	0	0	27 213	27 213
Total comprehensive income for the period	0	0	0	119 902	119 902
Balance at 31 December 2019	30 000	90 517	0	388 841	509 358

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of application.

Basis of preparation

Reporting entity

Food Folk Danmark Holdings ApS is a limited liability company domiciled in Denmark.

The financial statements for the period 31 December 2018 and 31 December 2019 comprise the consolidated financial statements for Food Folk Danmark Holdings ApS and its subsidiaries (the Group) and separate parent company financial statements.

The Group's main activity consists of acquiring 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 (hereafter referred to as McDonald's), the holder of the McDonald's global trademark.

The Board of Directors and the Managing Director discussed and approved the Financial Statements for 2019 of Food Folk Danmark Holdings ApS on 1 April 2020.

Accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated and parent company financial statements, except for the implementation of IFRS16 Leases as described in the section below.

Functional and presentation currency

The consolidated financial statements and the parent company financial statements are presented in DKK rounded to the nearest DKK 1,000.

Basis of accounting

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and additional requirements in the Danish Financial Statements Act.

This is the first set of financial statements in which IFRS 16 Leases has been adopted. Changes to significant accounting policies are described below.

Details of the Group's accounting policies are included below.

Changes in significant accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards (as IFRIC 23) are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

Adoption of IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees.

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019.

Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented as previously reported, under IAS 17 and related interpretations.

The details of the changes in Group's accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

The Group leases mainly properties.

The Group presents right-of-use assets that do not meet the definition of investment property in "Property, plant and equipment", the same line item as it presents underlying assets of the same nature that it owns.

The Group presents lease liabilities in "Other interest-bearing loans and borrowings" in the statement of financial position.

Basis of preparation (continued)

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17.

At transition, lease liabilities are measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and the book value of the contra asset to the Dilapidation provision. In addition, since the payments due under the lease are already included in the lease liability, the Onerous contract provision has not been recognized anymore but reclassified against the right-of-use assets as an impairment as at 1 January 2019.

Lease incentives and other straight lining effects are included in the lease liability, resulting in the straight lining asset/liability to be derecognised against retained earnings at the transition date.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Group used the following practical expedients when applying IFRS 16:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. As a lessor

The Group leases out part of its properties, including right-of-use assets. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor, the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor.

The Group sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases.

On transition to IFRS 16, the right-of-use assets recognised from the head leases are presented according to point B above, while sub-lease contracts are classified as operating leases under IFRS 16.

D. Impacts on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in the retained earnings. The impact on transition is summarised below:

Financial statements line item	<i>Derecognition</i>	<i>Recognition of lease</i>	DKK'000 1 January 2019
Right-of-use assets (presented in Property, plant and equipment)	(6 548)	490 750	484 202
Prepaid expense (presented in Trade and Other Receivables)	-	(645)	(645)
Deferred taxes	(7 675)	-	(7 675)
Straight-line lease liability (presented in Trade and Other Payables)	34 888	-	34 888
Onerous contracts (presented in Long term provisions)	6 548	-	6 548
Financial Lease liabilities	-	(490 105)	(490 105)
Retained earnings	(27 213)	-	(27 213)

Basis of preparation (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 2.7%.

	DKK'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's financial statements	172 297
Discounted using the incremental borrowing rate at 1 January 2019	143 331
Finance lease liabilities recognised as at 31 December 2018	-
Recognition exemption for leases of low-value assets	(2 652)
Recognition exemption for leases with less than 12 months of lease term at transition	-
Extension options reasonably certain to be exercised	349 427
Lease liabilities recognised at 1 January 2019	490 105

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised as at 31 December 2019:

	DKK'000
- Right-of-use assets (presented in Property, plant and equipment - see note 8)	459 206
- Prepaid expense (presented in Trade and Other Receivables)	(660)
- Financial Lease liabilities (presented in Other interest-bearing loans and borrowings - see note 15)	(468 195)

Also, in relation to those leases under IFRS 16, during the year ended 31 December 2019, the Group has recognised:

	DKK'000
- depreciation charges and impairment reversal	27 257
- interest costs	13 096
- (instead of) operating lease expense	(36 366)

Expenses recognized among "Other external expenses" during 2019, excluded from the application of IFRS16, are:

	DKK'000
- variable lease payments not included in the measurement of lease liabilities	1 959
- expenses relating to other short-term leases	-
- expenses relating to leases of low-value assets	1 730
- other expenses	14

iii. Variable lease payments based on sales

Some leases of restaurants contain variable lease payments that are based on sales that the Group makes at the restaurant.

Fixed and variable rental payments for the period ended 31 December 2019 were as follows:

	DKK'000
Fixed payments	1 568
Variable payments	1 959
Total lease payments based on sales	3 527

The Group expects the incidence variable lease payments over the fixed ones to increase consistently with the sales growth expected for the future years.

iv. Extension Options

Most of the restaurants' lease contracts contain extension options exercisable only by the Group and not by lessors up to a specific period (usually not higher than one year) before the end of the non-cancellable contract period. The Group assesses at lease commencement whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

According to the master franchise agreement with McDonald's, expiring 31 March 2037, a restaurant cannot be closed without its approval, even though it is loss making. It is therefore assumed that the lease term will be renewed until 31 March 2037 if there is not an approval from McDonald's to close a specific restaurant.

As a consequence, all available extension options have already been included in the lease term until the closest date to 31 March 2037. No other potential future lease payments not included in lease liabilities can therefore be disclosed.

Standards issued but not yet effective

The IASB has issued a number of new or amended accounting standards and interpretations, effective for annual periods beginning after 1 January 2020. The approved, though not yet effective, standards and IFRICs will be applied as they become mandatory for the Group.

Basis of preparation (continued)

Use of judgements and estimates

In preparing the consolidated financial statement, Management has made judgements, estimates and assumptions that affect how the Group's accounting policies are applied and the amount of assets, liabilities, income and expenses reported. The actual results may deviate from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

The following provides information about judgements made in applying those accounting policies that most significantly impact the amounts recognised in the consolidated and separate financial statements:

Gross vs. net recognition of royalty income and out-of-pocket expenses

Food Folk both receives royalty income from the sub-franchisees and pays royalty income to McDonald's. These amounts represent the fees for using the McDonald's brand and intellectual property.

McDonald's has stipulated that Food Folk is required to charge its sub-franchisee a fixed percentage of systemwide sales as a royalty expense.

Based on the indicators in IFRS 15 management has assessed that Food Folk is acting as a principal (requiring royalty payments to be recognised gross). This is substantiated by the fact that Food Folk is responsible and bears the risk that the sub-franchisees do not perform in accordance with the license granted by McDonald's, being also primarily responsible for providing the services to the franchisees.

Costs and fees (out-of-pocket expenses) related to leaseholds that are used by sub-franchisees are invoiced with no mark-up to the sub-franchisee, and recognised net of payments received from franchisees.

Based on the indicators in IFRS 15 management has assessed that Food Folk is acting as an agent (requiring out-of-pocket costs to be recognised net). This is substantiated by the fact that other parties are primary responsible for providing the services related to the out-of-pocket costs and that the price for the services related to the out-of-pocket costs are not determined by Food Folk.

Investment incentives

Food Folk grants investment incentive to franchisees, by reducing the franchise fee for a certain period after investment. The incentive is recognised as a reduction of revenue as the discount is provided to the franchisee. Historical data shows that the incentives offered are generally around 1% of systemwide sales.

Minimum lease term

The lease term has an impact on the accounting for:

- right-of-use assets
- Restoration provisions

According to IFRS 16 the lease term includes the non-cancellable period of the contract and any further periods for which the lessee has an option to continue to lease the asset and for which, at the time of inception of the lease, it is judged reasonably certain that the lessee will exercise that option.

Food Folk has a 20-year agreement with McDonald's (expiring in 2037) requiring Food Folk to ensure that there is a certain number of restaurants in the market, and restaurants can only be closed if permission is granted by McDonald's. Management has assessed that renewable leases expiring before 2037 will be in general extended, unless otherwise agreed with McDonald's.

Assumptions and estimation uncertainties

When preparing the consolidated financial statements of the Group, Management makes a number of accounting estimates and assumptions on which the recognition and measurement of the Group's assets and liabilities are based.

The following provides information about assumptions and estimation uncertainties with a significant risk of resulting in a material adjustment in the year ending 31 December 2019:

Impairment test intangible assets and property, plant and equipment

When there is an indication of impairment, an estimate is made of how the Company's individual cash-generating units will be able to generate sufficient positive net cash flows to support the value of other net assets of the unit. Estimates of future cash flows many years in the future will be subject to some degree of uncertainty. The key assumptions supporting recoverable amounts mainly comprise discount rate (WACC) and expectations regarding future systemwide sales in restaurants.

Provisions

The restoration provision is determined based on the net present value of expected future cash flows. Estimates of future cash flows will be subject to uncertainty. The key assumptions supporting the provisions are expectations regarding future systemwide sales in restaurants, cost per square meter for restoring leaseholds and the discount rate used to calculate the present value of the future cash flows. Please refer to note 16 for more details related to the provisions.

Significant accounting policies

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Food Folk Danmark Holdings ApS and entities under its control. Control is achieved when the Group has the power to direct the relevant activities of an entity, is exposed to or has rights to variable returns from its involvement with the entity and is able to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

When necessary, the financial statements of subsidiaries are adjusted to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group members are fully eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances and transactions are eliminated in the consolidation.

Foreign currency

Transactions in currencies other than the functional currency are foreign currency transactions.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date. Foreign currency translation adjustments made when such transactions are settled or as a result of translation of monetary items denominated in foreign currencies at year-end exchange rates are recognised in profit or loss under financial income or financial expenses.

Foreign currency differences arising from the translation of certain items are recognised in OCI.

Statement of profit or loss

Revenues

Revenues consists of fees from franchised restaurants recognized over time, as the customer simultaneously consumes and receives benefit from the service as the service is performed.

Franchise fees from franchised restaurants are based on a percent of sales realised by the franchised restaurant if they exceed a minimum monthly amount and are recognised in the period they are earned.

Incentives granted to franchisees are calculated and recognized as part of the variable revenue for the period.

Revenue is presented net of discounts, rebates and incentives granted. Also, revenue is also presented net of VAT and other indirect taxes charged on behalf of third parties.

Other operating income, net

Other operating income, net is secondary to the principal activities of the Group and includes gains and losses on disposal of intangible assets and property, plant and equipment.

Raw materials and consumables

Raw materials and consumables include expenses relating to raw materials and consumables used in the restaurants.

Other external expenses

Other external expenses include expenses relating to the entity's core activities, including expenses relating to advertising, administration, premises, bad debts, royalties paid to McDonald's, etc.

Costs and fees related to leaseholds that are used by sub-franchisees are invoiced with no mark-up to the sub-franchisee, and recognised net of payments received from franchisees. According to the Franchise agreements the franchisees are required to cover all costs related to the premises used as restaurants, such as common costs, marketing contributions, municipality fees and property taxes. As Food Folk does not obtain control of the goods or the right to the services, more than momentarily, in advance of transferring those goods or services to the franchisee, Food Folk acts as an agent rather than as a principal in rendering the services.

Significant accounting policies (continued)

Staff costs

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

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled fully within 12 months of the reporting date, then they are discounted.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Positive changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Financial expenses comprise interest, losses on transactions denominated in foreign currencies, amortisation of financial liabilities, including finance lease commitments, and surcharges under the Danish tax prepayment scheme, etc.

Negative changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Share of profit of equity accounted investees

The item includes the Company's proportionate share of the profit/loss for the year in equity accounted investees after elimination of intra group gains or losses, impairment of goodwill and amortisation/depreciation of other excess values at the time of acquisition.

Tax for the year

Income tax expense comprises current and deferred tax. It is recognised in profit except to the extent that it relates to a business combination or items recognised directly in equity or in OCI.

Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Statement of financial position

Property, plant and equipment

Items of property, plant and equipment are measured at cost which includes capitalised borrowing costs, less accumulated depreciation and impairment losses.

The cost of certain items of property, plant and equipment at 31 March 2017, the Group's date of transition to IFRS, was determined with reference to its fair value at that date.

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. The present value of estimated liabilities related to restoring leaseholds is added to the cost of leasehold improvements or buildings if the liabilities are provided for.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Significant accounting policies (continued)

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Buildings	40 years
Leasehold improvements	length of lease + options but maximized to 30 years
Fixtures and fittings and equipment	3-10 years

Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year.

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 statement of profit or loss as other operating income net.

Intangible assets

Other intangible assets, including rights (key money), software licences that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Since the period of amortisation is based on the assets expected useful life, no salvage value has been taken into account. Amortisation is calculated to write off the cost of intangible assets using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful lives for current and comparative periods are as follows:

Contractual rights	2-20 years
Software licenses	3-5 years

Useful lives are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on the disposal of 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 activities, net.

Investments in subsidiaries and associates

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies.

Interests in subsidiaries and associates are accounted for using the equity method. The investments are initially recognised at cost, which includes transaction costs. The equity value consists of the parent company's proportionate share of the entities' equity, adjusted for distributions plus goodwill and intra-group losses and less intra group gains and gain on bargain purchase, 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.

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss of equity accounted investees, until the date on which significant influence or control ceases.

Significant accounting policies (continued)

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss under 'Depreciation and amortisation'. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Receivables

Receivables are measured at amortised 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. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Prepayments

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

Cash and cash equivalents

Cash comprises cash balances and bank balances. Due to the nature of the scheme, balances in the Group's cash pool scheme are not considered cash but are recognised under 'Receivables from/Payables to related parties'.

Income tax and deferred tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Based on the liability method, provisions for deferred tax are calculated of all temporary differences between carrying amounts and tax values, with the exception of temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised 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 initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. Borrowing costs, including capital losses, are recognised as financing costs in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

When the Group has a legal obligation to restore a leasehold/leased land, a provision is recognised corresponding to the present value of expected future costs.

Deferred income

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

Significant accounting policies (continued)

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index/rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'Other interest-bearing loans and borrowings' in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant accounting policies (continued)

Policy applicable before 1 January 2019

At inception of an arrangement, the Group determines whether the arrangement is, or contains, a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements relating to the lease on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance costs on the liability is recognised using the Group's incremental borrowing rate.

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Presentation of cash flow statement

The consolidated cash flow statement shows the Group's cash flows from operating, investment and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning of the year.

Cash flows from operating activities are determined using the indirect method and stated as the consolidated profit for the year adjusted for non-cash operating items, including depreciations and amortisations, gain on sale of property, plant and equipment, provisions and changes in working capital, interest received and income tax paid.

Cash flows from investing activities comprises payments connected with the purchase and sale of non-current assets, including property, plant and equipment.

Cash flows from financing activities include proceeds from loans and repayments on borrowings, interest and financing cost payments, capital reductions and dividends.

Cash and cash equivalents consist of cash and short-term deposits with a maturity of three months or less and an insignificant risk of changing value.

Notes

1 Revenue

In the following table, revenue from contracts with customers is disaggregated by nature:

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Sub-franchisee income (fixed)	0	0	143 050	141 063
Sub-franchisee income (variable)	0	0	314 018	273 258
Total revenues	0	0	457 068	414 321

Independent sub franchisees have under franchise agreements the right to use McDonald's restaurants. The Franchise agreements have been granted for a period of up to 20 years from the date of issue. The franchise agreements include the following future minimum payments:

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Less than one year	0	0	136 927	128 876
Between one and five years	0	0	488 596	470 621
More than five years	0	0	1 151 330	1 121 874
Total leases as lessor	0	0	1 776 853	1 721 371

2 Other operating income, net

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Net gain on disposal of property, plant and equipment	0	0	(73)	257
Other income/expense	0	0	(1 819)	2 445
Total other operating income, net	0	0	(1 892)	2 702

3 Other external expenses

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Royalties and other fees to McDonald's Corporation	0	0	133 837	122 397
Lease expense	0	0	3 704	39 578
Other expenses	198	149	30 614	15 493
Total other external expenses	198	149	168 155	177 468

Fees to auditors and other operating expenses

Pursuant to section 96(3) of the Danish Financial Statements Act, fee paid to the Company's auditor appointed at the general meeting has not been disclosed.

4 Staff cost

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Wages and salaries	0	0	37 370	36 765
Social security costs	0	0	657	533
Contributions to defined contribution plans	0	0	2 893	2 865
Total staff cost	0	0	40 920	40 163
Average number of full-time employees	0	0	56	57
Average number of key management personnel	0	0	1	1

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

Notes (continued)

5 Financial income

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Net foreign exchange gain	982	114	982	114
Other interest income (see note 15)	5	0	59 341	0
Total finance income	987	114	60 323	114

6 Financial expense

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Net foreign exchange loss	829	1 105	909	1 117
Interest on financial liabilities	0	0	52 482	21 309
Interest on financial lease liabilities	0	0	13 096	0
Interests on related parties liabilities	23 910	28 240	25 299	28 676
Unwinding of discounts	0	0	298	186
Other interest expense	0	1	6	783
Total	24 739	29 346	92 090	52 071

7 Tax for the year

Recognised in the income statement

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Current year	(44)	(33)	35 412	31 011
Adjustments for prior years	205	0	205	493
Total current tax expense	161	(33)	35 617	31 504

Deferred tax expense

Origination and reversal of temporary differences	0	0	6 659	(3 635)
Total deferred tax expense	0	0	6 659	(3 635)

Tax expense in income statement (excluding share of tax of equity accounted investees)	161	(33)	42 276	27 869
Total tax expense	161	(33)	42 276	27 869

Total income tax from other comprehensive income	0	0	0	0
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Reconciliation of effective tax rate

Profit or loss before tax	92 850	66 342	134 965	94 244
Tax using the corporation tax rate in Denmark of 22%	20 427	14 595	29 693	20 734
Non-deductible expenses	5 225	6 431	12 378	6 642
Tax exempt revenues	(25 696)	(21 059)	0	0
Under / (over) provided in prior years	205	0	205	493
Total tax expense	161	(33)	42 276	27 869

Notes (continued)

8 Property, plant and equipment

Group	Land and buildings	Leasehold improvements	Right-of-use asset	Fixtures, fittings and equipment	Under construction	Total
DKK'000						
Cost						
Balance at 1 January 2018	1 227 705	51 328	0	6 096	0	1 285 129
Other acquisitions	940	11 041	0	494	1 376	13 851
Disposals	(3 954)	53	0	(20)	0	(3 921)
Balance at 31 December 2018	1 224 691	62 422	0	6 570	1 376	1 295 059
Balance at 1 January 2019	1 224 691	62 422	0	6 570	1 376	1 295 059
Adjustment on initial application of IFRS 16	0	(688)	491 438	0	0	490 750
Other acquisitions	0	844	1 586	316	21 237	23 983
Transfer	0	265	0	190	(455)	0
Disposals	0	0	0	(157)	(93)	(250)
Balance at 31 December 2019	1 224 691	62 843	493 024	6 919	22 065	1 809 542
DKK'000						
Depreciation and impairment						
Balance at 1 January 2018	23 285	2 397	0	899	0	26 581
Depreciation charge for the year	33 148	5 848	0	2 435	0	41 431
Disposals	(212)	53	0	(16)	0	(175)
Balance at 31 December 2018	56 221	8 298	0	3 318	0	67 837
Balance at 1 January 2019	56 221	8 298	0	3 318	0	67 837
Adjustment on initial application of IFRS 16	0	(13)	6 561	0	0	6 548
Depreciation charge for the year	32 064	5 752	33 805	1 115	0	72 736
Impairment losses	0	0	(6 548)	0	0	(6 548)
Disposals	0	0	0	(84)	0	(84)
Balance at 31 December 2019	88 285	14 037	33 818	4 349	0	140 489
Net book value						
At 31 December 2018	1 168 470	54 124	0	3 252	1 376	1 227 222
At 31 December 2019	1 136 406	48 806	459 206	2 570	22 065	1 669 053

Impairment loss and subsequent reversal

In 2019, the Group has identified that there are impairment indicators related to a number of CGUs (restaurants). Management has estimated the recoverable amount of the restaurants with impairment triggers based on its value in use. Based on the calculated value in use of restaurants the Group has recognised an impairment loss on Tangible Assets of DKK 6,548 thousand. The estimate of value in use was calculated using a pre-tax discount rate of 11.9%.

Notes (continued)

8 Property, plant and equipment (continued)

Security

At 31 December 2019, properties with a carrying amount of DKK 1,101 million (2018: DKK 1,130 million) were subject to a registered debenture that forms security for bank loans. As security for mortgage loans, the Group has registered mortgage security on the Group's properties of DKK 750 million.

9 Intangible assets

Group

DKK'000

Cost

Balance at 1 January 2018

Other acquisitions – externally purchased

Balance at 31 December 2018

Balance at 1 January 2019

Other acquisitions – externally purchased

Balance at 31 December 2019

DKK'000

Amortisation and impairment

Balance at 1 January 2018

Amortisation for the year

Disposals

Balance at 31 December 2018

Balance at 1 January 2019

Amortisation for the year

Balance at 31 December 2019

Net book value

At 31 December 2018

At 31 December 2019

	Contractual rights	Other	Total
	204 604	3 780	208 384
	0	1 250	1 250
	204 604	5 030	209 634
	204 604	5 030	209 634
	0	4 789	4 789
	204 604	9 820	214 424
	Contractual rights	Other	Total
	7 698	62	7 760
	10 658	1 030	11 688
	0	(3)	(3)
	18 356	1 089	19 445
	18 356	1 089	19 445
	10 658	2 491	13 149
	29 014	3 580	32 594
	186 248	3 941	190 189
	175 590	6 240	181 830

Notes (continued)

10 Investments in subsidiaries and associates

Parent company

	Profit after tax	Other comprehensive income	Total comprehensive income	Investment in subsidiaries	
DKK'000					
Subsidiaries	116 800	0	116 800	591 093	
	Legal form	Domicile	Interest %	Equity	Net result
Food Folk Danmark ApS	ApS	Denmark	100 %	456 544	124 601

The subsidiary is the owner of the master franchisee agreement with McDonald's Corporation and operates McDonald's restaurants in the Danish territory.

All rights, titles, interests and benefits in shares in subsidiaries have been pledged as security for punctual payment and discharge of obligations to McDonald's Corporation.

As secondary ranking security, all rights, titles and interests in shares in subsidiaries have been pledged as security for the fulfilment of the Food Folk Group Holdings AS group obligations towards the parties that have provided the Group's credit facilities.

Group

	Profit after tax	Other comprehensive income	Total comprehensive income	Investment in subsidiaries	
DKK'000					
Associates	(32)	0	(32)	109	
	Legal form	Domicile	Interest %	Equity	Net result
I/S Fællesskiltning*	I/S	Denmark	41.5%	236	(76)
McDonald's Marketing Coop Danmark A/S	AS	Denmark	1.1%	-	-

* The associate (held through Food Folk Danmark Aps) operates signage in proximity to one of the Company's real estate investments.

11 Deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities	
	2019	2018	2019	2018
DKK'000				
Property, plant and equipment	(2 304)	0	165 276	168 682
Intangible assets	0	0	39 525	41 213
Interest-bearing loans and borrowings	0	(278)	12 542	0
Provisions	(3 010)	(11 922)	0	0
Other	0	0	0	0
Tax (assets) / liabilities	(5 314)	(12 200)	217 343	209 895
Net of tax liabilities/(assets)	5 314	12 200	(5 314)	(12 200)
Net tax (assets) / liabilities	0	0	212 029	197 695

Movement in net deferred tax during the year

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Opening balance	0	0	197 695	201 330
Recognised in equity (initial application of IFRS 16)	0	0	7 675	0
Recognised in profit or loss	0	0	6 659	(3 635)
31 December	0	0	212 029	197 695
Total movement	0	0	14 334	(3 635)

Notes (continued)

12 Trade and other receivables

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Trade receivables	0	0	52 960	52 316
Deposits	0	0	7 430	7 553
Prepayments	0	0	6 940	6 052
Other receivables	0	0	2 876	8 852
Total trade and other receivables	0	0	70 206	74 773

13 Cash and cash equivalents

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Cash and cash equivalents	0	0	0	0
Total cash and cash equivalents	0	0	0	0

14 Share capital

Parent company and Group DKK'000	Ordinary shares	
	2019	2018
In thousands of shares	30 000	30 000
On issue at 22 February 2017	0	0
Issued for cash 1 January 2018	30 000	30 000
On issue at 31 December - fully paid	30 000	30 000
Parent company and Group DKK'000	Ordinary shares 2019	2018
Allotted, called up and fully paid Ordinary shares of DKK 1 each	30 000	30 000
Total	30 000	30 000
Shares classified as liabilities	0	0
Shares classified in shareholders' funds	30 000	30 000
Total	30 000	30 000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

No dividend was recognised during the period.

Notes (continued)

15 Other interest-bearing loans and borrowings

Group

The Group has taken out bank loans against security in the Group's owned land and properties.

DKK'000	2019	2018
Non-current other interest-bearing loans and borrowings		
Secured bank loans	631 276	542 718
Financial lease liabilities	444 519	0
Intergroup lendings	101 540	362 839
Total non-current other interest-bearing loans and borrowings	<u>1 177 335</u>	<u>905 557</u>
Current other interest-bearing loans and borrowings		
Secured bank loans	40 807	25 890
Financial lease liabilities	23 676	0
Total current other interest-bearing loans and borrowings	<u>64 483</u>	<u>25 890</u>

In July 2019, the Group completed the refinancing process started by the end of 2018. Two new facilities (A2-B2) have been obtained for a total amount of DKK 171 mln, while the original one (B1) has been renegotiated in Sep 2019 with a positive impact due to the derecognition of the liability for an amount of DKK 59 mln booked within the "financial income" line (see Note 5).

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
				2019	2019
DKK'000					
Danske Bank A/S - Facility A2	DKK	Variable	2024	18 888	18 400
Realkredit Danmark - Facility B1	DKK	0.56%	2034	569 782	511 309
Realkredit Danmark - Facility B2	DKK	0.91%	2037	148 344	142 374
Loan from Food Folk Group Holdings AS	EUR	8.00%	2042	101 540	101 540
Total				<u>838 554</u>	<u>773 623</u>

Other interest-bearing loans and borrowings are measured at amortised cost and secured against the Group's portfolio of owned land and buildings.

Loan to Food Folk Group Holdings AS (which is the only one applicable to the Parent company) is subordinated to all other creditors of the Group.

16 Provisions

Group	Dilapidation	Onerous contract	Total
DKK'000			
Balance at 1 January 2019	12 773	6 548	19 321
Adjustment on initial application of IFRS 16	0	(6 548)	(6 548)
Provisions made during the year	1 730	0	1 730
Provisions used during the year	(500)	0	(500)
Unwinding of discounted amount	298	0	298
Balance at 31 December 2019	<u>14 301</u>	<u>0</u>	<u>14 301</u>
Non-current	13 677	0	13 677
Current	624	0	624
Balance at 31 December 2019	<u>14 301</u>	<u>0</u>	<u>14 301</u>

The dilapidation provision relates to the expected cost of restoring leased premises to the condition specified in the lease documents on termination of these leases. These costs will be incurred on exit from the properties, and the amount that will be payable is primarily dependent on negotiations with the individual landlords on exit.

Notes (continued)

17 Trade and other payables

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Trade payables	0	0	22 885	24 309
Interest payable	0	0	81	0
Deposits received	0	0	9 401	9 439
VAT & duties	0	0	8 175	8 237
Payroll related	0	0	15 599	12 232
Other payables and accrued expenses	197	68	19 054	48 549
Total trade and other payables	197	68	75 195	102 766

18 Financial instruments

The Group uses various financial instruments. These include loans, cash and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign exchange risk, and interest rate risk. The policies for managing each of these risks are summarised below.

18 (a) Fair values of financial instruments

The fair value of all financial assets and liabilities by class together with their carrying amounts shown in the balance are as follows:

DKK'000	Parent company		Group	
	2019	2018	2019	2018
Cash and cash equivalents	0	0	0	0
Receivables from related parties	20 128	74 278	129 998	143 373
Trade and other receivables	0	0	70 206	74 773
Total financial assets at amortised cost	20 128	74 278	200 204	218 146
Financial assets used as hedging instruments	0	0	0	0
Financial assets designated as fair value through profit or loss	0	0	0	0
Total financial assets	20 128	74 278	200 204	218 146
* Other interest-bearing loans and borrowings	101 540	362 839	773 623	931 447
Trade and other payables	197	68	75 195	102 766
Payables to related parties	0	0	1 169	774
Provisions	0	0	14 301	19 321
Total financial liabilities at amortised cost	101 737	362 907	864 288	1 054 308
Financial liabilities used as hedging instruments	0	0	0	0
Financial liabilities designated as fair value through profit or loss	0	0	0	0
Total financial liabilities	101 737	362 907	864 288	1 054 308
Total net financial instruments	(81 609)	(288 629)	(664 084)	(836 162)

* Note: for the current year the fair value disclosure of lease liabilities is not required.

The fair value of financial instruments is deemed to be materially equivalent to the carrying value, except for other interest-bearing loans and borrowings with third parties. The fair value of other interest-bearing loans and borrowings for the Group is DKK 859,217 thousand.

Notes (continued)

18 Financial instruments (Continued)

18 (a) Fair values of financial instruments (continued)

Fair value hierarchy

All financial instruments measured at fair value use quoted prices (unadjusted) in active markets for identical assets or liabilities. As a result, no fair value hierarchy table is presented. If a table was presented, all financial instruments measured at fair value would be classed as Level 2 of the fair value hierarchy.

Effect of change of inputs used in fair value measurement

As the possibility of quoted prices (unadjusted) in active markets for identical assets not being available for these assets is remote, no analysis of the effect of changing one or more of the inputs used in fair value measurement to another reasonably possible assumption has been prepared.

18 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a franchiser or counterparty to a financial instrument fails to meet its contractual obligations. The Group's principal financial assets are bank balances and trade receivables and the maximum exposure to credit risk at the balance sheet date is represented by the carrying value of these assets.

The credit risk associated with bank balances is limited as the counterparties have high credit ratings assigned by international credit-rating agencies.

The principal credit risk arises therefore from trade receivables, which represent outstanding fees receivable. In order to limit the risk surrounding outstanding fees are reviewed on a regular basis in conjunction with debt ageing and collection history.

The Group also has a limited credit risk arising from trade receivables, which represent outstanding fees receivable. The risk is limited due to short payment terms and no receivables being past due. The Group has not realised any credit losses in 2019.

18 (c) Liquidity risk

Financial risk management

This liquidity risk is managed for both the Group and the Company by maintaining sufficient cash balances to meet working capital needs. Cash flow requirements are monitored by short-term and long-term rolling forecasts. In addition, the Company and the Group regularly reviews its position in relation to all financial covenants in place in relation to both its external borrowings and to McDonald's.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

Parent company

31 December 2019

DKK'000	Carrying amount	Contractual cash flows	1 year or less	1 to < 2 years	2 to 5 years	over 5 years
Non-derivative financial liabilities						
Intergroup loans	101 540	247 758	8 123	8 123	24 370	207 142
Payables to related parties	0	0	0	0	0	0
Trade and other payables	197	197	197	0	0	0
Total	101 737	247 955	8 320	8 123	24 370	207 142

31 December 2018

Non-derivative financial liabilities						
Intergroup loans	362 839	911 961	29 027	29 027	87 081	766 825
Payables to related parties	0	0	0	0	0	0
Trade and other payables	68	68	68	0	0	0
Total	362 907	912 029	29 095	29 027	87 081	766 825

Notes (continued)

18 Financial instruments (Continued)

18 (c) Liquidity risk (continued)

Group

31 December 2019

DKK'000	Carrying amount	Contractual cash flows	1 year or less	1 to < 2 years	2 to 5 years	over 5 years
Non-derivative financial liabilities						
Secured bank loans	672 083	859 217	63 777	63 039	186 699	545 702
Loan from Food Folk Group Holdings AS	101 540	247 758	8 123	8 123	24 370	207 142
Payables to related parties	1 169	1 169	1 169	0	0	0
Trade and other payables	75 195	75 195	75 195	0	0	0
Total	849 987	1 183 339	148 264	71 162	211 069	752 844

31 December 2018

Non-derivative financial liabilities						
Secured bank loans	568 608	772 336	46 267	45 853	134 999	545 217
Loan from Food Folk Group Holdings AS	362 839	911 961	29 027	29 027	87 081	766 825
Payables to related parties	774	774	774	0	0	0
Trade and other payables	102 766	102 766	102 766	0	0	0
Total	1 034 987	1 787 837	178 834	74 880	222 080	1 312 042

18 (d) Market risk

Market risk - Foreign currency risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's and Company's income or the value of its holdings of financial instruments.

The Group's and Company's operations have exposure to foreign currency risk at year end due to that the carrying amount of financial instruments in foreign currencies amounts to DKK 102,567 thousand. A change of 1% in the exchange rate at year end would have impacted the carrying amount of financial instruments in foreign currency by DKK 1,024 thousand, dependent on the EUR/DKK movement.

Market risk - Interest rate risk

Group

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

DKK'000	2019	2018
Fixed rate instruments		
Financial assets	0	0
Financial liabilities	(755 223)	(931 447)
Total fixed rate instruments	(755 223)	(931 447)
Variable rate instruments		
Financial assets	129 188	142 910
Financial liabilities	(18 400)	0
Total variable rate instruments	110 788	142 910

All financial assets and liabilities identified as fixed rate instruments in the above table are accruing interest at rates that are fixed for the life of the instrument. Interest rate swaps and caps are disclosed above at fair value as fixed rate instruments, whilst the loans that they are hedging are disclosed as variable rate instruments.

Sensitivity analysis

A change of 100 basis points in interest over the year would have increased/decreased the result for the year by DKK 1,108 thousand (2018: DKK 1,429 thousand). The analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of all financial instruments with variable interest rates.

Notes (continued)

18 Financial instruments (Continued)

18 (e) Capital management

The Group manages its capital to safeguard its ability to operate as a going concern and to optimise returns to shareholders. Overdraft and revolving credit facilities will be used to finance the working capital cycle if required.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 15 after deducting cash and cash equivalents, and equity attributable to the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The debt and equity balances in some parts of the Group, are subject to externally imposed capital requirements, such as those imposed by third party loan providers. The local tax treatment is also taken into consideration when determining the most appropriate capital structure for investments in subsidiaries.

19 Leases

The Group primarily leases properties for the purpose of operating a McDonald's restaurant. The initial lease term typically runs for a period from 5 to 10 years, with an option to renew the lease after that date. Lease payments are renegotiated at that date to reflect market rentals. Some leases are based on a fixed rate and some provide for additional rent payments that are based on changes in local price indices.

Non-cancellable lease rentals are payable as follows:

Group	2019	2018
DKK'000		
Less than one year	35 364	32 671
Between one and five years	58 825	56 108
More than five years	71 865	83 518
Total non-cancellable lease rentals	166 054	172 297

20 Commitments

Capital commitments

During the year ended 31 December 2019, the Group entered into contracts to purchase property, plant and equipment for DKK 5,450 thousand (2018: DKK 4,058 thousand).

Off-balance sheet arrangements (group)

The Group is jointly and severally liable with the co-owners of I/S Fællesskiltning for the partnership's obligations. The total statement of financial position amounts to DKK 264 thousand at year end (2018: DKK 337 thousand).

Other guarantees amount to DKK 7,909 thousand.

21 Contingencies

The Group has guaranteed that the subsidiary Food Folk Danmark ApS performs its obligations under credit agreement that the Food Folk Group Holdings AS group has entered into with a financial institution. The guarantee includes customary limitation that ensure that payments can't exceed what would normally be permitted to distributed as dividends from the companies. The Food Folk Group Holdings AS group's total obligation amounts to EUR 255 million as of 31 December 2019.

The Company is jointly taxed with the operating Danish entities in Food Folk Group. The Company is unlimited jointly and severally liable for Danish corporation taxes and withholding taxes on dividends and interest under the joint taxation scheme. The jointly taxed companies' total net liability to the Danish tax authorities is recognised in these financial statements. Any subsequent corrections of the taxable jointly taxed income or withholdings taxes, etc., may entail an increase in the Company's liability.

Notes (continued)

22 Related parties

Parent and ultimate controlling party

The Company, established on 22 February 2017, was acquired in February 2017 by its current Parent company, Food Folk Group Holdings AS (Norway). The ultimate controlling party of the Company is Guy Hands.

Key management personnel compensation

Compensation of the Company's key management personnel includes salaries, non-cash benefits and contributions to post-employment defined contribution plans.

Group related party transactions

Group companies within the Food Folk Group are rendering/receiving services for the use in ordinary business operations. All transactions are priced on an arm's length basis and are settled in cash at the request of the related party. None of the balances in respect of related party transactions are secured.

Parent company

DKK'000	<i>Sale of services</i> 2019	<i>Royalties</i> 2019	<i>Purchase of services</i> 2019	<i>Interest income</i> 2019	<i>Interest expenses</i> 2019
Food Folk Group Holdings AS	0	0	0	0	(23 910)
Food Folk Denmark Aps	0	0	(63)	0	0
Total	0	0	(63)	0	(23 910)
	<i>Loans payable outstanding</i> 2019	<i>Cash-pooling balances</i> 2019	<i>Receivables outstanding</i> 2019	<i>Payables outstanding</i> 2019	<i>Dividends received</i> 2019
DKK'000					
Food Folk Group Holdings AS	(101 540)	14 577	0	0	0
Food Folk Denmark Aps	0	0	5 551	0	225 000
Total	(101 540)	14 577	5 551	0	225 000
	<i>Sale of services</i> 2018	<i>Royalties</i> 2018	<i>Purchase of services</i> 2018	<i>Interest income</i> 2018	<i>Interest expenses</i> 2018
DKK'000					
Food Folk Group Holdings AS	0	0	0	0	(28 240)
Food Folk Denmark Aps	0	0	(63)	0	0
Total	0	0	(63)	0	(28 240)
	<i>Loans payable outstanding</i> 2018	<i>Cash-pooling balances</i> 2018	<i>Receivables outstanding</i> 2018	<i>Payables outstanding</i> 2018	<i>Dividends received</i> 2018
DKK'000					
Food Folk Group Holdings AS	(362 839)	74 275	3	0	0
Food Folk Denmark Aps	0	0	0	0	128 000
Total	(362 839)	74 275	3	0	128 000

Notes (continued)

22 Related parties (continued)

Group	<i>Sale of services</i>	<i>Royalties</i>	<i>Purchase of services</i>	<i>Interest income</i>	<i>Interest expenses</i>
	2019	2019	2019	2019	2019
DKK'000					
Food Folk Group Holdings AS	3 011	0	(7 215)	0	(25 299)
Food Folk Norge Holdings AS	50	0	0	0	0
Food Folk Holdings Suomi Oy	50	0	0	0	0
Food Folk Holdings Sverige AB	50	0	0	0	0
Food Folk Norge AS	4 600	0	(705)	0	0
Zero Five AS	732	0	0	0	0
Food Folk Suomi Oy	4 597	0	0	0	0
Food Folk Sverige AB	277	0	(5 472)	0	0
Total	13 367	0	(13 392)	0	(25 299)
	<i>Loans payable outstanding</i>	<i>Cash-pooling balances</i>	<i>Receivables outstanding</i>	<i>Payables outstanding</i>	<i>Dividends paid</i>
DKK'000	2019	2019	2019	2019	2019
Food Folk Group Holdings AS	(101 540)	129 189	233	(545)	0
Food Folk Norge AS	0	0	247	(34)	0
Zero Five AS	0	0	34	0	0
Food Folk Suomi Oy	0	0	241	0	0
Food Folk Sverige AB	0	0	54	(590)	0
Total	(101 540)	129 189	809	(1 169)	225 000
	<i>Sale of services</i>	<i>Royalties</i>	<i>Purchase of services</i>	<i>Interest income</i>	<i>Interest expenses</i>
DKK'000	2018	2018	2018	2018	2018
Food Folk Group Holdings AS	2 383	0	(4 147)	0	(28 676)
Food Folk Norge Holdings AS	50	0	0	0	0
Food Folk Holdings Suomi Oy	50	0	0	0	0
Food Folk Holdings Sverige AB	50	0	0	0	0
Food Folk Norge AS	4 275	0	0	0	0
Zero Five AS	523	0	0	0	0
Food Folk Suomi Oy	2 609	0	0	0	0
Food Folk Sverige AB	1 393	0	(6 751)	0	0
Total	11 333	0	(10 898)	0	(28 676)
	<i>Loans payable outstanding</i>	<i>Cash-pooling balances</i>	<i>Receivables outstanding</i>	<i>Payables outstanding</i>	<i>Dividends paid</i>
DKK'000	2018	2018	2018	2018	2018
Food Folk Group Holdings AS	(362 839)	142 910	2	(774)	0
Food Folk Norge AS	0	0	70	0	0
Food Folk Suomi Oy	0	0	70	0	0
Food Folk Sverige AB	0	0	321	0	0
Total	(362 839)	142 910	463	(774)	0

23 Subsequent events

We acknowledge the risk caused by Covid-19 outbreak after the reporting date, which could potentially impact the financial statement of 2020. However, it does not materially affect the company's financial position at 31 December 2019, because there were no existing uncertainties at this time giving any implications or adjusting the financial position.

Notes (continued)

24 Changes in liabilities from financing activities

Parent company

	Opening balance	IFRS 16 initial application	Cash flows	Non-cash transactions	Closing balance
DKK'000					
2019					
Debt to Parent company	362 839	0	(261 058)	(241)	101 540
Long-term liabilities	362 839	0	(261 058)	(241)	101 540
Debt to Parent company	0	0	0	0	0
Short-term liabilities	0	0	0	0	0
Liability from financing activities for 2019	362 839	0	(261 058)	(241)	101 540
2018					
Debt to Parent company	361 750	0	0	1 089	362 839
Long-term liabilities	361 750	0	0	1 089	362 839
Debt to Parent company	0	0	0	0	0
Short-term liabilities	0	0	0	0	0
Liability from financing activities for 2018	361 750	0	0	1 089	362 839

Group

	Opening balance	IFRS 16 initial application	Cash flows	Non-cash transactions	Closing balance
DKK'000					
2019					
Debt to credit institutions	542 718	0	150 863	(62 305)	631 276
Financial lease liabilities	0	463 299	(36 365)	17 585	444 519
Debt to Parent company	362 839	0	(261 058)	(241)	101 540
Long-term liabilities	905 557	463 299	(146 560)	(44 961)	1 177 335
Debt to credit institutions	25 890	0	(20 519)	35 436	40 807
Financial lease liabilities	0	26 806	0	(3 130)	23 676
Debt to Parent company	0	0	0	0	0
Short-term liabilities	25 890	26 806	(20 519)	32 306	64 483
Liability from financing activities for 2019	931 447	490 105	(167 079)	(12 655)	1 241 818
2018					
Debt to credit institutions	568 609	0	(26 937)	1 046	542 718
Debt to Parent company	361 750	0	0	1 089	362 839
Long-term liabilities	930 359	0	(26 937)	2 135	905 557
Debt to credit institutions	25 365	0	0	525	25 890
Debt to Parent company	0	0	0	0	0
Short-term liabilities	25 365	0	0	525	25 890
Liability from financing activities for 2018	955 724	0	(26 937)	2 660	931 447

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Adm. direktør

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