56 1002769

McDonald's Restaurants Limited

Report and Financial Statements

31 December 2005

Registered No. 1002769

Directors

Sir Bernard Ingham	(resigned 30 June 2005)
P B Beresford	(resigned 7 July 2006)
M J Roberts	
R Smyth (USA)	(resigned 1 July 2005)
T Haynes (UK)	(resigned 31 December 2005)
J Fergus (UK)	(resigned 30 June 2005)
G Steeves	
S Easterbrook	(appointed 1 January 2005)

Secretary

J Hilton-Johnson

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

11-59 High Road
East Finchley
London N2 8AW

Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

Results and dividends

The profit for the year, after taxation, amounted to £49,410,000 (2004 (restated)– £68,154,000).

The company paid a dividend of £635,318,000 in the year to McDonalds Real Estate LLP (2004 – £4,115,000).

Principal activity and review of the business

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

Disabled employees

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

Employee involvement

The company communicates regularly with all employees on matters relating to its performance. Employees are encouraged to contribute to the decision making process through regular staff meetings. In addition, there is a bulletin board in each restaurant where memoranda relating to company policy are displayed. There is also a regular publication known as MDUK which contains news and views from McDonald's people.

Directors and their interests

The directors who served during the year, none of whom had any direct interest in the shares of the company, are listed on page 1.

Events after the balance sheet date

In February 2006 a decision was made to close 25 restaurants in the UK. Refer to note 22 for further details.

Charitable contributions

During the year the company made charitable contributions totalling £2,197,000 (2004 – £531,000).

These were made to:

	2005	*2004*
	£000	*£000*
Ronald McDonald House Charities (UK)	2,110	524
Western Spirit	–	7
Tsunami Appeal	87	-
	2,197	531

Directors' report (continued)

Auditors

The company has passed a resolution under section 386 of the Companies Act 1985 not to reappoint auditors annually. Ernst & Young LLP have expressed their willingness to continue in office for the forthcoming year.

On behalf of the Board

Director

16 October 2006

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' report

to the members of McDonald's Restaurants Limited

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

16 October 2006

Profit and loss account

for the year ended 31 December 2005

	Notes	*2005* *£000*	*2004 (restated)* *£000*
Turnover	2	1,103,436	1,113,622
Cost of sales		(988,597)	(955,931)
Exceptional cost of sales	3	(15,296)	–
Gross profit		99,543	157,691
Administrative expenses		(59,058)	(59,922)
Operating profit	4	40,485	97,769
Interest receivable		3,320	3,339
Interest payable and similar charges	7	(6,856)	(4,468)
		(3,536)	(1,129)
Profit on ordinary activities before tax		36,949	96,640
Tax on profit on ordinary activities	8	12,461	(28,486)
Profit for the financial year		49,410	68,154
Dividends paid		(635,318)	(4,115)
Retained (loss)/profit for the year		(585,908)	64,039

Statement of total recognised gains and losses

for the year ended 31 December 2005

	2005 *£000*	*2004 (restated)* *£000*
Profit for the financial year	49,410	68,154
Actuarial loss	(13,200)	(8,300)
Deferred tax on actuarial loss	3,960	2,490
Total recognised gains and losses relating to the year	40,170	62,344
Prior year adjustment (as explained in note 1)	(44,144)	
Total gains and losses recognised since last annual report	(3,974)	

Balance sheet

at 31 December 2005

	Notes	2005 £000	2004 (restated) £000
Fixed assets			
Tangible assets	9	684,480	694,413
Investments	10	40,428	40,492
		724,908	734,905
Current assets			
Stocks	11	8,279	8,436
Debtors	12	138,139	108,667
Cash at bank and in hand		30,735	46,180
		177,153	163,283
Creditors: amounts falling due within one year	13	(742,344)	(145,549)
Net current (liabilities)/assets		(565,191)	17,734
Total assets less current liabilities		159,717	752,639
Creditors: amounts falling due after more than one year	14	(21,944)	(26,210)
Provisions for liabilities and charges	15	(51,535)	(54,183)
Net assets excluding pension liability		86,238	672,246
Pension liability	21	(48,610)	(39,470)
Net assets including pension liability		37,628	632,776
Capital and reserves			
Called up share capital	16	234	234
Profit and loss account	17	37,394	632,542
	17	37,628	632,776

Director

16 October 2006

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Basis of preparation

The accounting policies adopted by the company are set out below and are consistent with those of the previous year, except for the adoption of FRS 21 'Events after the Balance Sheet Date', the presentation requirements of FRS 25 'Financial Instruments: Disclose and Presentation', FRS 28 'Corresponding Amounts' and FRS 17 'Retirement Benefits'.

The prior year comparatives have been restated as a result of the company's first time adoption of FRS 17. This has resulted in the recognition of a £34,160,000 pension liability net of deferred tax being recognised on the balance sheet and the reversal of the SSAP 24 pension prepayment of £8,799,000 at 1 January 2004, resulting in a decrease in the profit and loss account of £42,959,000 at 1 January 2004. The retained profit for 2004 decreased by £1,185,000, resulting in a decrease in shareholder funds at 31 December 2004 of the same amount. It is not possible to quantify the effect on retained profits for 2005.

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards.

The company has taken advantage of the exemption conferred by section 228 of the Companies Act 1985 not to prepare group financial statements on the grounds that group financial statements are prepared by the ultimate UK parent company. Consequently, the financial statements represent information about the company as an individual undertaking rather than the group.

Going Concern

The Directors have concluded that it is appropriate to prepare the accounts on a going concern basis because the parent company, MCD Europe Limited, has given a written undertaking that it will continue to support the Company to allow it to meet its liabilities as they fall due.

Presentation of cash flow statement

McDonald's Restaurants Limited has adopted the provisions of Financial Reporting Standard 1 (Revised 1996). The company has therefore taken advantage of the exemption in the Standard and has not prepared a cash flow statement on the grounds that it is a subsidiary undertaking where 90 per cent or more of the voting rights are controlled within the Group, and consolidated financial statements in which the company is included are publicly available.

Tangible fixed assets and depreciation

All tangible fixed assets are held at cost. Depreciation is provided on all fixed assets other than freehold land and long leasehold land where the unexpired portion of the lease is longer than one hundred years. The rates used are calculated to write off the cost of each asset by equal annual instalments over its expected useful life, as follows:

Freehold and long leasehold buildings	–	40 years
Long leasehold land	–	the last 100 years of the lease
Short leasehold land and buildings	–	40 years or the unexpired portion of the lease plus 14 years if shorter

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Capitalised interest

Interest incurred in the period during which assets are being prepared for their intended use by the company is capitalised as part of the costs of the assets and amortised in accordance with the useful life of the related asset. Interest to be capitalised is based on the average monthly rate for all borrowings.

Notes to the financial statements

at 31 December 2005

1. Accounting policies (continued)

Leased equipment

Where assets are financed by lease agreements that give rights approximating to ownership, they are included in fixed assets at amounts equivalent to cost as if they had been purchased outright. Leased assets are depreciated over their expected useful life.

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

Stocks

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

Following the implementation of FRS 17 "Retirement Benefits", the assets of the defined benefit scheme are measured at their market value at the balance sheet date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on AA bonds of appropriate term and currency to the liabilities. The extent to which the scheme's assets exceed/fall short of their liabilities is shown as a surplus/deficit in the balance sheet to the extent that a surplus is recoverable by the group of that a deficit represents an obligation of the group.

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

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

Foreign currencies

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

Notes to the financial statements

at 31 December 2005

2. Turnover

Turnover represents sales of products to customers and revenues from franchised restaurants from within the United Kingdom, and is stated net of value added tax. All turnover arises from continuing activities.

3. *Exceptional cost of sales*

	2005 £000	2004 £000
Impairment of fixed assets	2,652	–
Operating exceptional items	12,644	–
	15,296	–

The operating exceptional item relates to costs incurred in undertaking a restructuring of the company's supplier base.

4. Operating profit

This is stated after charging:	2005 £000	2004 £000
Depreciation – owned assets	35,804	37,829
– leased assets	11,866	13,901
Auditors' remuneration – audit services	129	117
– non-audit services	242	309
Operating lease rentals – land and buildings	96,202	89,230
– plant and machinery	1,694	2,097
Gain on the routine sale of fixed assets	(2,244)	(2,966)

5. Directors' emoluments

	2005 £000	2004 £000
Directors' fees	–	12
Other emoluments (excluding pension contributions)	395	2,661
Employer's pension contributions	30	173
	425	2,846

Notes to the financial statements

at 31 December 2005

5. Directors' emoluments (continued)

During the year two (2004 – six) directors exercised share options in McDonald's Corporation, the ultimate parent undertaking.

Retirement benefits are accruing to two directors under a company defined benefit scheme (2004 – six).

Highest paid director

	2005	*2004*
	£000	*£000*
Emoluments (excluding pension contributions)	268	553
Employer's pension contributions	13	35
Accrued pension at end of year	100	100

The highest paid director received £47,032 on the exercise of share options in the year (2005 – £349,000).

During the year two (2004 – three) of the directors were remunerated by McDonald's Corporation.

6. Staff costs

	2005	*2004*
	£000	*£000*
Wages and salaries	314,431	296,564
Social security costs	19,383	17,593
Other pension costs	7,928	7,614
	341,742	321,771

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

	2005	*2004*
	No.	*No.*
Office and management	516	497
Operations	47,352	47,556
	47,868	48,053

Notes to the financial statements

at 31 December 2005

6. Staff costs (continued)

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

As at 31 December 2005 options for shares 6,649,159 (2004 – 7,719,426) of the original grants remain unexercised, of which options 6,262,389 (2004 – 6,268,953) are exercisable at the balance sheet date. Any excess of market price over the option price at the time of the exercise is recorded by the company as employee compensation. The maximum liability under the plan at 31 December 2005 for all options granted and still in existence is £13,236,713 (2004 – £11,907,876). A provision of £12,118,633 (2004 – £9,133,808) has been recorded in the year for those options exercisable at the balance sheet date. The remaining contingent liability for options not yet exercisable is £1,118,080 (2004 – £2,774,068).

7. Interest payable and similar charges

	2005	*2004 (restated)*
	£000	*£000*
Due to parent undertaking and affiliates	3,717	3,393
Bank loans and overdrafts	2,378	87
Finance charges payable under finance leases	461	450
Pension interest (see note 21)	300	600
	6,856	4,530
Less: Amounts capitalised	–	(62)
	6,856	4,468

8. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005	*2004 (restated)*
	£000	*£000*
Current tax:		
UK corporation tax	(2,202)	20,903
Taxation under in previous years	(7,611)	4,126
Total current tax (note (b))	(9,813)	25,029
Deferred tax:		
Origination and reversal of timing difference	(245)	1,200
Taxation underprovided in previous years	(2,403)	2,257
Total deferred tax (note (c))	(2,648)	3,457
Tax on profit on ordinary activities	(12,461)	28,486

Notes to the financial statements

at 31 December 2005

8. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 – 30%). The differences are reconciled below:

	2005	*2004 (restated)*
	£000	*£000*
Profit on ordinary activities before tax	36,949	96,640
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 – 30%)	11,085	28,992
Expenses not deductible for tax purposes	4,867	4,290
Accelerated capital allowances	(1,187)	(1,031)
Tax (over)/underprovided in previous years	(7,611)	4,126
Other timing differences	1,431	(169)
Other – group relief surrendered from UK entities	(18,398)	(11,179)
Total current tax (note (a))	(9,813)	25,029

(c) Deferred tax

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

	2005	*2004 (restated)*
	£000	*£000*
Accelerated capital allowances	(54,170)	(52,436)
Pension costs	(121)	(150)
Other timing differences	2,756	(1,597)
Provision for deferred tax	(51,535)	(54,183)

At 1 January 2005 (restated)	(54,183)
Deferred tax charge in profit and loss account – current year	245
Deferred tax charge in profit and loss account – prior years	2,403
At 31 December 2005	(51,535)

Notes to the financial statements

at 31 December 2005

9. Tangible fixed assets

	Land and buildings £000	*Plant and equipment £000*	*Total £000*
Cost:			
At 1 January 2005	692,462	363,790	1,056,252
Additions	20,262	31,928	52,190
Disposals	(7,817)	(11,089)	(18,906)
Transfers to group companies	(551)	(205)	(756)
At 31 December 2005	704,356	384,424	1,088,780
Depreciation:			
At 1 January 2005	137,888	223,951	361,839
Provided during the year	19,264	28,406	47,670
Disposals	(418)	(7,437)	(7,855)
Impairment (see note 4)	1,886	766	2,652
Transfers to group companies	–	(6)	(6)
At 31 December 2005	158,620	245,680	404,300
Net book value:			
At 31 December 2005	*545,736*	*138,744*	*684,480*
At 1 January 2005	554,574	139,839	694,413

(a) Net book value of land and buildings consists of:

	2005 £000	*2004 £000*
Freehold	326,128	332,459
Long leasehold	67,418	67,532
Short leasehold	152,190	154,583
	545,736	554,574

Notes to the financial statements
at 31 December 2005

9. Tangible fixed assets (continued)

(b) Included in the net book value of tangible fixed assets is capitalised interest as follows:

	£000
At 1 January 2005	6,285
At 31 December 2005	6,012

The weighted average interest rate used for capitalising finance costs during the year was 5.32% (2004 – 5.36%).

(c) Included in the net book value of land and buildings are assets capitalised under finance leases as follows:

	2005 *£000*	*2004* *£000*
Net book value	10,111	10,145
Depreciation charged during the year	36	33

10. Investments

Investment in subsidiary undertakings

	Subsidiary undertakings *£000*	*Joint ventures* *£000*	*Total* *£000*
At 31 December 2004	39,889	603	40,492
Share of joint venture loss	–	(64)	(64)
At 31 December 2005	39,889	539	40,428

Notes to the financial statements

at 31 December 2005

10. Investments (continued)

McDonald's Restaurants Limited has a wholly owned subsidiary undertaking, McDonald's Hamburgers Limited, a company registered in the United Kingdom. The principal activity of McDonald's Hamburgers Limited is financing.

The revaluation of investments is the increase/(decrease) in the value of the investments in the joint ventures in line with the company's share of the post-tax profits which they have earned.

The company holds the following investments:

	Proportion of voting rights and shares held		*Aggregate of share capital and reserves*		*Profits/(losses) (unaudited)*	
	2005	*2004*	*2005*	*2004*	*2005*	*2004*
			£000	*£000*	*£000*	*£000*
Kingston Restaurants Limited	50%	50%	937	1,030	(93)	(67)
PJT Restaurants Limited	50%	50%	215	251	(35)	(34)

Both of the above companies are registered in the United Kingdom and their principal activities are the operation of limited menu quick service restaurants.

11. Stocks

	2005	*2004*
	£000	*£000*
Raw products	6,196	6,147
Other consumables	2,083	2,289
	8,279	8,436

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

12. Debtors

	2005	*2004 (restated)*
	£000	*£000*
Trade and other debtors	50,370	30,598
Amounts due from parent undertakings	7,561	63,078
Amounts due from affiliate undertaking	54,417	–
Prepayments	16,263	14,991
Corporation tax	9,528	–
	138,139	108,667

Notes to the financial statements

at 31 December 2005

13. **Creditors:** amounts falling due within one year

	2005 £000	2004 (restated) £000
Bank loan	550,000	–
Obligations under finance leases	89	78
Trade creditors	6,632	13,036
Amounts due to parent undertakings	9,956	2,663
Amounts due to subsidiary	57,073	54,223
Due to affiliates	52,615	3,118
Corporation tax	–	14,271
Other taxes and social security costs	19,124	22,702
Accruals	46,855	35,458
	742,344	145,549

14. **Creditors:** amounts falling due after more than one year

	2005 £000	2004 £000
Amounts due to affiliates	12,029	16,066
Security deposits	70	210
Obligations under finance leases	9,845	9,934
	21,944	26,210

The maturity of obligations under finance leases is as follows:

	2005 £000	2004 £000
Amounts payable:		
Within one year	89	78
In two to five years	411	364
In more than five years	9,434	9,570
	9,934	10,012

Notes to the financial statements

at 31 December 2005

15. Provision for liabilities and charges

Deferred tax

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

	£000
At 1 January 2005 (restated)	54,183
Charge for the year (note 8)	(2,648)
At 31 December 2005	51,535

Deferred taxation provided in the financial statements is as follows:

	2005	*2004 (restated)*
	£000	*£000*
Differences in recognising expenses for taxation purposes, principally capital allowances in advance of depreciation	51,535	54,183

Full provision for deferred taxation is considered necessary since all timing differences are expected to reverse in the future. Provision has been made at a corporation tax rate of 30%, the rate currently prevailing.

16. Share capital

	Authorised		*Allotted, called up and fully paid*	
	2005	*2004*	*2005*	*2004*
	No.	*No.*	*£000*	*£000*
Ordinary shares of £1 each	224,400	224,400	224	224
"B" Ordinary shares of £1 each	10,000	10,000	10	10
	234,400	234,400	234	234

Notes to the financial statements

at 31 December 2005

17. Reconciliation of movements in shareholders' funds and movement on reserves

	Share capital £000	*Profit and loss reserve £000*	*Total share-holders' funds £000*
At 1 January 2004 (as previously stated)	234	617,272	617,506
Prior year adjustment – FRS 17	–	(42,959)	(42,959)
At 1 January 2004 (restated)	234	574,313	574,547
Retained profit for the financial year (restated)	–	68,154	68,154
Dividend paid	–	(4,115)	(4,115)
Actuarial loss (net of deferred tax) (restated)	–	(5,810)	(5,810)
At 1 January 2005 (restated, see note 1)	234	632,542	632,776
Retained profit for the financial year	–	49,410	49,410
Dividend paid	–	(635,318)	(635,318)
Actuarial loss (net of deferred tax)	–	(9,240)	(9,240)
At 31 December 2005	234	37,394	37,628

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

Included within the profit and loss reserve are charges of £48,610,000 (2004 (restated): charge of £39,470,000) relating to the pension reserve.

18. Capital commitments

Amounts contracted but not provided in the financial statements amounted to:

	2005 £000	*2004 £000*
Contracted	1,001	886

19. Lease commitments

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

	2005 £000	*2004 £000*
Leases expiring within one year	9	32
Leases expiring in two to five years	2,552	2,062
Leases expiring in more than five years	28,052	27,361
	30,613	29,455

Notes to the financial statements

at 31 December 2005

20. Related parties

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

During the year McDonald's Restaurants Limited paid £45,567,169 (2004 – £47,593,049) for provision of services. At the balance sheet date the amount due to McDonald's Marketing Co-operative Limited was £2,867,890 (2004 – £48,301).

21. Pension liability

Defined Contribution Scheme

The company operates a defined contribution scheme in the UK, the McDonalds Restaurants Stakeholder Scheme. The pension cost for the year was £326,714 (2004: £190,942). There were outstanding contributions at 31 December 2005 of £34,352 (2004: £18,260).

Defined Benefit Scheme

The company operates a defined benefit scheme. Calculations are based on an approximate update of the actuarial valuation of the scheme as at 31 December 2002 by a qualified independent actuary using the projected unit method. As the scheme has now been closed to new joiners, it should be expected that using this method the service cost will increase in future years as the existing members of the scheme approach retirement.

A full actuarial valuation was carried out at 31 December 2002. A full valuation is to be carried out in 2006.

Major assumptions used by the actuary were:

	2005	*2004*	*2003*
Salary increases	4.6%	4.6%	4.5%
Pension increases – pre 6 April 1997 benefit	0%	0%	0%
– post 5 April 1997 benefit	2.6%	2.6%	2.5%
– post 5 April 2005 benefits	2.5%	0%	0%
Discount rate	4.7%	5.3%	5.4%
Inflation assumption	2.6%	2.6%	2.5%

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

	Rate 2005	*Value 2005*	*Rate 2004*	*Value 2004*	*Rate 2003*	*Value 2003*
Equities and property	7.7%	£105.4m	8.0%	£90.9m	8.0%	£70.4m
Bonds	4.1%	£24.7m	4.5%	£12.0m	4.8%	£13.9m
Cash	3.6%	£3.2m	3.6%	£0.9m	3.5%	£2.5m
Market value of assets		£133.3m		£103.8m		£86.8m
Estimated liabilities		£(203.0m)		£(160.4m)		£(135.6m)
Deficit		£(69.7m)		£(56.6m)		£(48.8m)
Related deferred tax		£21.1m		£17.1m		£14.6m
Net pension liability		£(48.6m)		£(39.5m)		£(34.2m)

Notes to the financial statements

at 31 December 2005

21. Pension liability *(continued)*

Analysis of the amount charged to operating profit

	2005	*2004*
	£m	*£m*
Current service cost	5.9	6.0
Past service cost	0.4	0.1
Total operating charge	6.3	6.1

Analysis of the amount charged to other finance income

	2005	*2004*
	£m	*£m*
Expected return on pension scheme assets	8.2	6.7
Interest on pension scheme liabilities	(8.5)	(7.3)
Net return	(0.3)	(0.6)

Analysis of the amount recognised in the statement of total recognised gains and losses

	2005	*2004*
	£m	*£m*
Actual return less expected return on pension scheme assets	14.2	2.0
Experience gains and (losses) arising on the scheme liabilities	6.2	(1.8)
Changes in assumptions underlying the present value of the scheme liabilities	(33.6)	(8.5)
Actuarial (loss) recognised in the statement of total recognised gains and losses	(13.2)	(8.3)

Movement in surplus during the year

	2005	*2004*
	£m	*£m*
Deficit in scheme at beginning of the year	(56.6)	(48.8)
Movement in the year:		
Current service cost	(5.9)	(6.0)
Contributions	6.7	7.2
Past service cost	(0.4)	(0.1)
Other finance charge	(0.3)	(0.6)
Actuarial loss	(13.2)	(8.3)
Deficit in scheme at end of the year	(69.7)	(56.6)

Notes to the financial statements

at 31 December 2005

21. Pension liability (continued)

History of experience gains and losses

	2005	*2004*	*2003*
(Gain) loss on plan assets			
Amount	£(14.2m)	£(2.0m)	£(7.0m)
% of scheme assets at end of year	10.7%	1.9%	8.1%
Experience (gain) loss on plan liabilities			
Amount	£(6.2m)	£1.8m	£(6.8m)
% of scheme liabilities at end of year	3.1%	1.1%	5.0%
Total actuarial (gain) loss recognised in STRGL			
Amount	£13.2m	£8.3m	£1.6m
% of scheme liabilities at end of year	6.5%	5.2%	1.2%

22. Events after the balance sheet date

In February 2006 the decision was made to close 25 restaurants in the UK. The estimate cost of closure is considered to be £21m, of which £2.3m has been provided in the year to 31 December 2005 as included within the impairment charge against the carrying value of fixed assets.

23. Ultimate parent undertaking

The parent undertaking of the smallest group of undertakings for which group financial statements are drawn up, and of which the company is a member is MCD Europe Limited. Copies of MCD Europe Limited's financial statements can be obtained from 178-180 Edgware Road, London W2 2DS.

The parent undertaking of the largest group of undertakings for which Group financial statements are drawn up, and of which the company is a member, is McDonald's Corporation Inc, incorporated in the United States of America. Copies of McDonald's Corporation's financial statements can be obtained from McDonald's Plaza, Oak Brook, Illinois 60521, USA.