McDonald's Restaurants (New Zealand) Limited

Annual Report

For the year ended 31 December 2017

Annual Report

For the year ended 31 December 2017

The Board of Directors present their Annual Report, including financial statements of the company for the year ended 31 December 2017, and the auditor's report thereon.

The shareholders of the company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of the sections (a) and (e) to (j) of section 211 (1) of the Act.

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statements on 14th May 2018.

David Howse
Director
14th May 2018

Katrina Felton
Director
14th May 2018

Statement of Financial Position

As at 31 December 2017

	Note	2017 $'000	2016 $'000
Current Assets			
Cash and cash equivalents	5	18,944	15,339
Trade and other receivables	6	18,707	18,516
Inventories	7	888	1,192
Total Current Assets		38,539	35,047
Non current Assets			
Property, plant and equipment	8	293,267	291,799
Goodwill	9	35,137	29,134
Total Non-Current Assets		328,404	320,933
Total Assets		366,943	355,980
Current Liabilities			
Trade and other payables	10	31,087	27,180
Interest-bearing loans & borrowings	11	226,968	226,363
Provisions	12	5,200	6,115
Total Current Liabilities		263,255	259,658
Non current Liabilities			
Trade and other payables	10	1,453	13
Other accrued liabilities	10	7,954	7,860
Deferred tax liability	3	17,887	14,956
Total Non-Current Liabilities		27,294	22,829
Total Liabilities		290,549	282,487
Net Assets		76,394	73,493
Shareholders' Equity			
Contributed equity	13	26,941	26,941
Retained earnings		49,392	46,715
Reserves		61	(163)
Total Shareholders' Equity		76,394	73,493

The above Statement of Financial Position should be read in conjunction with the accompanying notes.
For and on behalf of the Board, who authorised the issue of these financial statements on 14th May 2018.

David Howse
Director
14th May 2018

Katrina Felton
Director
14th May 2018

Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue from sale of goods		144,067	156,778
Rental Revenue		82,343	72,994
Licence Fees		1,533	885
Service Fees		31,984	28,895
Interest Received - Other persons		171	154
Total Revenue		260,098	259,706
Gain on sale of assets		22,349	5,653
Raw materials and consumables used		(46,477)	(44,638)
Employee benefits expense		(48,234)	(54,751)
Depreciation, amortisation & impairment expense	8	(13,329)	(13,175)
Finance costs		(5,718)	(7,586)
Rental and lease expenses		(11,398)	(10,883)
Service fees paid to ultimate chief entity		(25,273)	(22,581)
Other expenses		(33,881)	(35,410)
Profit from continuing operations before tax		98,137	76,335
Income tax expenses	3	(30,460)	(23,526)
Net profit for the year		67,677	52,809
Other Comprehensive Income		-	-
Total Comprehensive Income attributable to shareholders		67,677	52,809

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Issued Capital	Retained Earnings	Reserves	Total
At 31 December 2015		26,941	23,906	833	51,680
Comprehensive Income for the year		-	52,809	-	52,809
Stock option and restricted stock units amortisation		-	-	(996)	(996)
Dividends paid	4	-	(30,000)	-	(30,000)
At 31 December 2016		26,941	46,715	(163)	73,493
Comprehensive Income for the year		-	67,677	-	67,677
Stock option and restricted stock units amortisation		-	-	224	224
Dividends paid	4	-	(65,000)	-	(65,000)
At 31 December 2017		26,941	49,392	61	76,394

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		309,260	302,205
Payments to suppliers		(163,065)	(161,176)
Payments to employees		(46,693)	(55,895)
Interest received		171	154
Interest paid		(5,718)	(7,586)
Income tax paid		(24,857)	(21,560)
Withholding tax paid		(2,569)	(1,066)
NET CASH FLOWS FROM OPERATING ACTIVITIES		66,529	55,076
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(15,339)	(18,665)
Proceeds from disposal of property, plant and equipment		463	13,068
Purchase of restaurants		(7,907)	(1,354)
Proceeds from sale of restaurants		24,253	9,877
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		1,470	2,926
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from / (repayments of) bank borrowings		606	(25,563)
Dividends paid		(65,000)	(30,000)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(64,394)	(55,563)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,605	2,439
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		15,339	12,900
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	18,944	15,339

The above Statement of Statement of Cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

As at 31 December 2017

1 Corporate Information

The financial statements of McDonald's Restaurants (New Zealand) Limited (the "Company") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 14th May 2018.

The Company is incorporated in New Zealand under the Companies Act 1993. The financial statements of McDonald's Restaurants (New Zealand) Limited have been prepared in accordance with the Financial Reporting Act 1993.

The nature of the operations and principal activities of the Company are the establishment and operation of a chain of family restaurants.

2 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013. For the purposes of complying with NZ GAAP, the company is a for-profit entity. The financial statements comply with New Zealand equivalent to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS RDR"), other New Zealand accounting standards and authoritative notices to entities that apply NZ IFRS. The financial statements have also been prepared on a historical cost basis.

The Company is eligible to report in accordance with NZ IFRS RDR on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Group has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

The financial statements provide comparative information in respect of the previous period.

(b) Statement of Compliance

The financial statements of the company comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

2. Summary of Significant Accounting Policies (continued)

(c) Changes in Accounting Policy
Uniform accounting policies have been applied on a consistent basis with those of the previous year, unless stated otherwise.

(d) Foreign Currencies
Transactions in foreign currencies are converted to New Zealand Dollars at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies have been converted to New Zealand dollars at the rate of exchange ruling at balance date. All realised or unrealised exchange gains or losses have been recognised in the Statement of Comprehensive Income.

(e) Cash and Cash Equivalents
Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Trade and Other Receivables
Trade and other receivables are carried at original invoice amount less any provision for uncollectible debts.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

(g) Inventories
Inventories are stated at the lower of cost, determined on the first-in first-out basis, and net realisable value.

(h) Investment Properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the Company has elected to apply the cost model in accounting for investment properties. They are stated at cost less accumulated depreciation and any impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a consistent basis with that disclosed in the Property, Plant and Equipment policy.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Comprehensive Income in the year of retirement or disposal.

2. Summary of Significant Accounting Policies (continued)

(h) Investment Properties (Continued)
Transfers are made to investment property when, and only when, there is a change in use, evidenced by the ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(i) Property, Plant, Equipment and Depreciation
Property, Plant and Equipment is stated at original cost less aggregate depreciation. Depreciation is provided on a straight-line basis on all tangible property, plant and equipment assets other than owned land and buildings on leased land, at rates calculated to allocate the assets' cost less estimated residual value over their estimated useful lives. Buildings on leased land are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the improvements.

The classifications of property, plant and equipment and major depreciation periods used are as follows:

Buildings on owned land	35-50 years	Furniture & Fittings	5-10 years
Buildings on leased land	5-40 years	Motor Vehicles	5 years
Restaurant Equipment & Signs	3-12 years		

(j) Property, Plant, Equipment held for sale
Land, building and equipment held for sale is stated at the lower of original cost less aggregate depreciation or net realisable value. They are not depreciated or amortised. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of de-recognition.

(k) Impairment
The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the recoverable amount of an asset is less than its carrying amount, the item is written down to its recoverable amount. The write down of an asset recorded at historical cost is recognised as an expense in the Statement of Comprehensive Income.

2. Summary of Significant Accounting Policies (continued)

(l) Goodwill

Goodwill represents the excess of cost over the fair value of the net tangible assets and identifiable intangible assets of acquired restaurant businesses measured at the date of acquisition. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the portion of the business that will be retained.

The annual goodwill impairment test compares the fair value of the business, with its carrying amount including goodwill. If the carrying amount of the business exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the business's goodwill and the carrying amount of goodwill.

Goodwill has an infinite life as there is no foreseeable limit to the period over which it is expected to generate new cash inflows for the Company.

(m) Trade and Other Payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred.

2. Summary of Significant Accounting Policies (continued)

(o) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Company as a lessee

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Company as a lessor

Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

(p) Provisions and Employee Leave Benefits

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and maternity leave. Liabilities arising in respect of wages, salaries, annual leave and any other employee entitlements expected to be settled within twelve months are measured at their nominal amounts based on remuneration rates expected to be paid when the liability is settled. The calculation of the liability in respect of bonuses payable to employees requires an estimation of the performance level of employees.

(q) Share-based payment transactions

The value of the equity-based compensation scheme described in Note 17 is being recognised as an employee benefits expense over the vesting period of the grant as well as the creation of an employee benefit equity reserve. The payment required to be made by the Company as a result of employees and directors exercising options during the year is charged against the equity reserve.

2. Summary of Significant Accounting Policies (continued)

(r) Revenue Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity as well as the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Control of the goods has passed to the customer. Control passes at the point of sale.

Rental revenue, service fees and management fees
Brought to account on an accruals basis. Recognition occurs at the time the services are rendered.

Licence fees
Control of the restaurant has passed to the licensee.

Interest
Control of the right to receive the interest payment.

(s) Income Tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2. Summary of Significant Accounting Policies (continued)

(u) Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following accounting policies for which significant judgements, estimates and assumptions are made:

(i) Impairment;

(ii) Employee Entitlements;

(iii) Share-Based Payment Transactions; and

(iv) Goodwill.

Details of the accounting policies adopted and the nature of the assumptions and conditions related to these areas are given in the relevant notes to the financial statements.

(v) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(w) Cash Dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the company law in New Zealand, a distribution is authorised when it is approved by the Board of Directors. A corresponding amount is recognised directly in equity.

	2017	2016
	$'000	$'000

3. Income Tax

(a) ***Income Tax Expense***

	2017 $'000	2016 $'000
The major components of income tax expense are		
Current Income Tax Charge	27,529	22,148
Deferred Income Tax	2,931	1,378
	30,460	23,526

(b) ***Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate***

	2017 $'000	2016 $'000
Accounting profit/(loss) before tax	98,137	76,335
At the Company's statutory income tax rate of 28%	27,478	21,374
Depreciation	2,332	2,276
Other non-deductible expenses	433	187
Filing adjustments	(21)	101
Other	238	(412)
Aggregate income tax expense	30,460	23,526

(c) ***Recognised deferred tax liabilities***

	2017 $'000	2016 $'000
Deferred tax liabilities	17,887	14,956

The gross movement in the deferred tax account is as follows:

	2017 $'000	2016 $'000
Balance at beginning of year	14,956	13,578
Charge in statement of comprehensive income	2,931	1,378
Balance at end of year	17,887	14,956
Depreciation	2,577	2,913
Capitalised cost	13,592	11,207
Other assets	3,572	3,564
Other liabilities	(1,854)	(2,728)
	17,887	14,956

4. Dividends Paid and Proposed

(a) Recognised amounts declared and paid during the year	**2017** $'000	**2016** $'000
Final dividend (unimputed), $2.37 per share (2016: $1.09 per share)	65,000	30,000
Imputation credit account		
Balance at the beginning of the year	176,132	154,573
Income tax payments during the year	25,800	21,559
Income tax refunds received during the year	(943)	-
Balance at end of the year	200,989	176,132

5. Cash and Cash Equivalents

Cash at bank and in hand	750	352
Short-term deposits	18,194	14,987
Total	18,944	15,339

6. Trade and other Receivables

Current		
Trade receivables	17,348	17,339
Prepayments	1,329	1,177
Receivable from Parent Entity	30	-
	18,707	18,516

7. Inventories

Food and paper at cost	888	1,192

8. Property Plant and Equipment

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.

	2017 $'000	2016 $'000
Land and Buildings		
Carrying amount at beginning	260,942	261,347
Additions	15,980	8,302
Disposals	(1,396)	(710)
Depreciation expense	(8,568)	(7,997)
	266,958	260,942
Plant and Equipment		
Carrying amount at beginning	30,857	38,154
Additions	11,725	3,011
Disposals	(11,512)	(5,130)
Depreciation expense	(4,761)	(5,178)
	26,309	30,857
Depreciation & impairment charges		
Building	8,568	7,997
Plant and equipment	4,761	5,178
Total depreciation & impairment expense	13,329	13,175
Land at cost	132,124	130,643
Building		
At cost	253,105	244,204
Accumulated depreciation & impairment	(118,271)	(113,905)
	134,834	130,299
Plant and Equipment		
At cost	51,304	65,260
Accumulated depreciation & impairment	(24,995)	(34,403)
	26,309	30,857

8. Property Plant and Equipment (Continued)

	2017	2016
	$'000	$'000
Total Property, Plant & Equipment		
At cost	436,533	440,107
Accumulated depreciation & impairment	(143,266)	(148,308)
	293,267	291,799

Of the above total written down value, $170,366,946 relates to assets classified as investment properties in line with accounting policy (h).

	2017
Investments	
Carrying amount at beginning	174,875
Additions	1,391
Disposals	(2,410)
Depreciation expense	(3,489)
	170,367

9. Goodwill

	2017	2016
Goodwill – net	35,137	29,134
Reconciliation		
Carrying amount at beginning of year	29,134	31,922
Additions	10,701	-
Disposals	(4,698)	(2,788)
Carrying amount at end of year	35,137	29,134

The above disclosure outlines the main financial impact of the business combinations resulting from the buying and selling of restaurant businesses from and to franchisees during the period. It would be impractical to disclose the revenue and related profit/loss of the combined entities for the period as though the additions were all at the start of the period due to the number of transactions involved with minimal profit impact for each individual transaction.

10. Trade and other payables and other accrued liabilities

	2017	2016
	$'000	$'000
Current		
Trade payables	14,967	13,884
Related party payables	3,110	3,371
Parent entity payables	-	40
Deferred income	441	440
Other taxes payable	6,338	5,444
Other accrued liabilities	6,231	4,001
	31,087	27,180
Non-Current		
Security deposits	1,453	13
Other Non-Current Accrued Liabilities		
Deferred income	4,462	4,852
Lease make good provision	2,566	2,024
Lease incentive	926	984
	7,954	7,860

11. Interest-Bearing Loans and Borrowings

Current

Interest bearing debt	226,968	226,363

Interest on loans is calculated under normal terms and conditions

12. Provisions

Employee Entitlements

Movement in Employee Entitlements – current and non current

Carrying amount at beginning	6,115	6,370
Additional provision	13,618	11,933
Amount utilised	(14,533)	(12,188)
	5,200	6,115

13. Contributed Equity

	2017	2016
	No. Shares	No.shares
Issued and paid up:		
Ordinary shares fully paid	27,421,021	27,421,021
	$'000	$'000
Issued and paid up:		
Ordinary shares fully paid	26,941	26,941

All issued shares have no par value.

14. Corporate Structure

The Company is an unlisted public company that is incorporated and domiciled in New Zealand. The address of the registered office of the Company is 302 Great South Road, Greenlane, Auckland. The Company is a subsidiary of McDonald's Restaurant Operations Inc, which is ultimately controlled by McDonald's Corporation, a company incorporated in the USA.

15. Related Party Disclosure

The directors of McDonald's Restaurants (New Zealand) Limited during the financial year and up to the date of this report were:

David Howse

Quentin Smith (resigned 10 April 2018)

Katrina Felton (appointed 13 March 2018)

The following related party transactions occurred during the financial year:

(1) McDonald's Restaurants (New Zealand) Limited paid trademark fees to McDonald's Asia Pacific LLC of $23,800,797 (2016: $22,344,162). Accrued trademark fees of $2,306,791 were payable to McDonald's Asia Pacific LLC as at 31 December 2017 (2016: $1,985,258).

(2) McDonald's Restaurants (New Zealand) Limited paid service fees for accounting and other services to McDonald's Australia Limited of $4,062,136 (2016: $4,436,834). Accrued service fees of $367,826 were payable to McDonald's Australia Limited as at 31 December 2017 (2016: $1,328,394).

(3) McDonald's Restaurants (New Zealand) Limited has trade receivables totalling $30,000 (2016: $40,000 trade payables) to McDonald's Corporation, the parent entity, which is incorporated in and based in the United States.

(4) McDonald's Restaurants (New Zealand) Limited paid location fees to McDonald's Asia Pacific LLC of $1,472,675 (2016: 236,935). Accrued location fees of $666,440 were payable to McDonald's Asia Pacific LLC as at 31 December 2017 (2016: $58,238).

All transactions from/to related parties are made at arms length, i.e at normal market prices and rates and on normal commercial terms.

16. Compensation to key management personnel

(1) McDonald's Restaurants (New Zealand) Limited paid compensation to key management personnel of $892,019 (2016:$1,398,257).

17. Share Based Payment Plans

(a) Employee Share Option Plan

Certain directors (and other members of the management) are granted options to take up shares in McDonald's Corporation, a listed Company incorporated in the United States of America. These options are exercisable at a fixed price determined at the time of issuance. All vested and unvested options at time of termination of employment are forfeited 30 days after termination of employment. The options do not provide dividend or voting rights.

Options granted prior to 2001 are exercisable as follows:
Exercisable after Year 1 - 25%
" " " 3 - 25%
" " " 5 - 25%
" " " 7 - 25%

Options granted from 2001 forward are exercisable as follows:
Exercisable after Year 1 - 25%
" " " 2 - 25%
" " " 3 - 25%
" " " 4 - 25%

All options not exercised within 10 years of issuance lapse and the recipient has no further interest in such options.

The fair value of the options are estimated at the date of grant using the Black Scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 31 December 2017.

	2017	**2016**
Dividend yield (%)	3.09	3.01
Risk-free Interest rate (%)	2.21	1.24
Expected volatility (%)	18.43	19.16
Share price at grant date (USD)	$128.09	$116.73

17. Share Based Payment Plans (Continued)

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Other than the conditions described above, no other features of options granted were incorporated into the measurement of fair value.

Under the terms of an Option Agreement with McDonald's Corporation, the Company has an obligation to that corporation to pay the difference between the exercise price of options issued by McDonald's Corporation and the market price of McDonald's Corporation shares at the time of exercise of any options. The amortisation expense for the year was $309,570 (2016: $263,744).
The following table illustrates the number and weighted average exercise prices (WAEP) of share options issued under the share option plan.

	2017 No	2017 WAEP (USD)	2016 No	2016 WAEP (USD)
Outstanding at the beginning of the year	31,172	101.12	37,303	85.52
Granted during the year	7,582	128.09	10,119	116.73
Forfeited during the year	(1,123)	108.23	(2,059)	96.70
Exercised during the year	(4,038)	100.39	(14,191)	71.88
Outstanding at the end of the year	33,593	107.06	31,172	101.12

Share options issued under the share option plan and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise Price USD	2017 No.	2016 No.
February 13, 2018	56.64	297	297
February 11, 2019	57.08	313	313
February 10, 2020	63.25	450	450
February 9, 2021	75.93	306	306
February 8, 2022	100.05	379	519
February 12, 2023	94.00	3,767	4,747
February 12, 2024	94.89	5,270	6,414
March 16, 2025	97.15	6,682	8,007
February 11, 2026	116.73	8,547	10,119
March 8, 2027	128.09	7,582	-
		33,593	31,172

17. Share Based Payment Plans (Continued)

(b) Restricted Stock units

Certain directors (and other members of the management) are granted restricted stock units to take up shares in McDonald's Corporation, a listed Company incorporated in the United States of America. These restricted stock units are equivalent to shares and will vest and convert to shares or cash at McDonald's Corporation's discretion in 3 years from the grant date. The units are converted to shares or cash at the market value at the time of conversion. Prior to vesting, restricted stock units have no value and cannot be sold.

	2017	2016
Outstanding at the beginning of the year	2,796	4,517
Granted during the year	993	1,527
Forfeited during the year	(248)	(1,006)
Exercised during the year	-	(2,242)
Outstanding at the end of the year	3,541	2,796

The fair value of the restricted stock units is estimated at the date of grant using the present value of discounted cash flows. The following table gives the assumptions made in determining the fair value of the restricted stock units granted in the year ended 31 December 2017.

	2017	2016
Expected life of restricted stock units (years)	3	3
Share price on grant date (USD)	$128.09	$116.73
Risk free interest rate	2.21%	1.24%

18. Commitments & Contingencies

Lease commitments

	2017	2016
Lease commitments under non-cancellable operating leases:		
Not later than 1 year	14,549	13,796
Later than 1 year and not later than 5 years	37,837	43,210
Later than 5 years	44,554	42,020
	96,940	99,026

Capital Commitments

Construction costs commitments of $1,187,884 exist at balance date (2016: $4,666,322)

18. Commitments & Contingencies (Continued)

Guarantees

McDonald's Restaurants (New Zealand) Limited has issued the following guarantees at 31 December 2017:

- it has provided a performance bond to an unrelated party worth $220,000.

No liability is expected to arise from the above guarantees.

19. Events after balance date

There were no events after the balance date that have significantly affected or may significantly affect the Company's operations, the results of those operations or the state of affairs in future financial years.

20. Auditors Remuneration

	2017	2016
	$'000	$'000
Audit Fees	197	167

21. Economic Uncertainty

McDonald's Restaurants (New Zealand) Limited is currently profit making but is in a net current asset deficit position. The Directors have prepared the accounts on a going concern basis as they have received assurance from the ultimate holding company of continued support. This continued support will enable the company to continue its operations and settle its obligations in the ordinary course of business without substantial disposition of assets, externally forced revisions of its operations or similar action until at least December 2018.

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Independent auditor's report to the Shareholders of McDonald's Restaurants (New Zealand) Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of McDonald's Restaurant (New Zealand) Limited ("the Company") on pages 3 to 23, which comprise the statement of financial position of the Company as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 3 to 23 present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholder's those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Company. Partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. We have no other relationship with, or interest in, the Company.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report which is expected to be made available to us after the date of this auditor's report.

Building a better working world

Our opinion on the financial statements does not cover the other information 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Megan Wilson.

Ernst & Young

Ernst & Young
Sydney
14 May 2018

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14 May 2018

Registrar of Companies
PO Box 5771
Auckland
New Zealand

Dear Sir/Madam,

I, Megan Wilson of EY Australia, am a registered company auditor and my registration number is 328186.

Our firm was responsible for the audit of McDonald's Restaurants (New Zealand) Limited and I was the signing partner on that engagement.

Yours sincerely,

Megan Wilson

Megan Wilson
Partner
Sydney