

## Consolidated Financial Results for the Nine Months Ended September 30, 2015

November 11, 2015

### McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)  
Stock market: Tokyo Securities Exchange, JASDAQ  
Representative: Sarah L. Casanova  
CEO and President, Representative Director  
Contact: Yutaka Masuda  
Senior Director, Finance Division  
Phone: +81-3-6911-6000

Schedule of dividends payment: -

Schedule of quarterly securities report submission: November 13, 2015

Preparation of supplementary materials for quarterly financial results: No

Quarterly results briefing: No

### 1. Consolidated operating results (From January 1, 2015 to September 30, 2015)

#### (1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income/(loss)		Ordinary loss		Net loss	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2015	137,547	(20.1)	(20,795)	—	(22,304)	—	(29,279)	—
September 30, 2014	172,248	(12.7)	238	(97.8)	(576)	—	(7,543)	—

(Note) Comprehensive income/(loss):

Nine months ended September 30, 2015: (29,460) million yen (—%)

Nine months ended September 30, 2014: (7,539) million yen (—%)

	Net loss per share	Net income/(loss) per share, Fully diluted
	(Yen)	(Yen)
September 30, 2015	(220.21)	—
September 30, 2014	(56.74)	—

#### (2) Consolidated financial position

(In millions of yen, with fractional amounts discarded)

	Total assets	Shareholders' equity	Owner's equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2015	172,265	114,237	66.2
As of December 31, 2014	188,048	147,740	78.5

(Note) Owner's equity: As of September 30, 2015: 114,051 million yen. As of December 31, 2014: 147,559 million yen

### 2. Dividends

	Dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of year	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
December 31, 2014	—	0.00	—	30.00	30.00
December 31, 2015	—	0.00	—		
December 31, 2015 (Forecast)				30.00	30.00

(Note) Changes to the dividend forecast from the most recently announced figures: Yes

The dividend forecast for the year ending December 31, 2015 has been changed. Further explanation is noted in Qualitative Information regarding Forecasts of the Consolidated Operating Results at page 4.

**3. Forecasts on the consolidated operating results for the year ending December 31, 2015  
(From January 1, 2015 to December 31, 2015)**

	Net sales		Operating loss		Ordinary loss		Net loss		Net loss per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	200,000	(10.0)	(25,000)	—	(31,000)	—	(38,000)	—	(285.80)

(Note) Changes to the earnings forecast from the most recently announced figures: None

**4. Others**

**(1) Significant changes in scope of consolidation:** None

(changes in scope of consolidation of specified subsidiaries)

**(2) Application of simplified accounting policies for quarterly financial statements:** Yes

**(3) Changes in accounting policies and accounting estimates**

1. Changes caused by revision of accounting standards: Yes
2. Changes other than (3) - 1. above: None
3. Changes in accounting estimates: None
4. Restatements: None

**(4) Number of shares outstanding (common stock)**

1. Number of shares outstanding (including treasury stock)  
As of September 30, 2015: 132,960,000 shares As of December 31, 2014: 132,960,000 shares
2. Number of treasury stock  
As of September 30, 2015: 869 shares As of December 31, 2014: 869 shares
3. Average number of common shares outstanding  
As of September 30, 2015: 132,959,131 shares As of September 30, 2014: 132,959,151 shares

(Indication of quarterly review procedure implementation status)

This quarterly earnings report is not subject to quarterly review procedures based upon the Financial Instruments and Exchange Act. At the time of disclosure of this report, the quarterly financial statement review procedures based upon the Financial Instruments and Exchange Act, have not been completed.

(Forward - looking statements)

Certain statements in this release, other than purely historical information, such as current plans, strategies, and beliefs are forward-looking statements. Such forward looking statements are based on management's assumptions and beliefs in light of information currently available to us, and it should be noted that risks and unforeseen factors could cause actual results to differ significantly from those discussed in the report. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

The governing language of this quarterly earnings report is Japanese. An English translation hereof is provided for reference purpose only.

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## **1. Qualitative Information on Financial Results for the Nine Months Ended September 30, 2015**

### **(1) Consolidated Business Results**

#### **(Qualitative Information on Consolidated Business Results)**

During the nine months ended September 30, 2015, system-wide sales were 273,914 million yen (down 70,101 million yen from the same period last year) impacted by a continuously challenging business environment. Consolidated sales were 137,547 million yen (down 34,700 million yen from the same period last year) and same-store sales fell 20.2% compared with the same period last year. Ordinary loss was 22,304 million yen (down 21,727 million yen from the same period last year), reflecting the sales decline and one-time investments and expenses associated with Business Revitalization Plan. Overall, we recognized a net loss of 29,279 million yen (down 21,735 million yen from the same period last year) including a 3,516 million yen impairment loss and 2,564 million yen in total for loss on store closing and provision for loss on store closing, which were recorded under special loss.

Notes:

\* System-wide sales are the combined net sales of company-operated and franchised restaurants; the amount does not equal to the net sales shown on the consolidated quarterly income statements.

\* Same-store sales are the total sales of restaurants operating for 13 months or longer.

\* For the details of our Business Revitalization Plan, please refer to “Earnings Forecast for Fiscal Year Ending December 31, 2015 and Business Revitalization Plan” announced on April 16, 2015.

#### **(Qualitative Information on Business Strategies)**

##### **Actions to Ensure Foods Safety and Quality**

During the consolidated cumulative third quarter, by putting the further enhancement of our food quality and safety processes as our number one priority, we strived to regain customer trust; on top of the quality management system that has been in place since last year, we have taken the following actions:

To enhance our quality control system, including foreign object prevention, we conducted a thorough review and reinforcement of suppliers’ quality management systems, unannounced inspections at our restaurants by third party, and retraining programs for 140,000 crew across Japan.

In May, Mom’s Eye Project was launched to ensure the disclosure of food safety and quality related information. As part of this project, CEO Sarah Casanova is visiting all 47 prefectures to exchange opinions with customers at Mom’s Town Meeting, and has heard voices of mothers at 35 prefectures as of the end of October. Also, we are inviting 100 mothers to visit the farms supplying raw materials to us and our production factories; reports on these visits are available at McDonald’s official website and some social networking sites. We have been making continuous efforts to enhance transparency and disclosure of information about food quality.

##### **Business Revitalization Plan**

Aiming to regain confidence of customers and stakeholders, accelerate the business recovery, and lay foundation for future growth, we delivered against our four-pillar business revitalization plan: “Customer Focused Initiatives”, “Accelerate Restaurant Revitalization”, “Localize Our Business Structure”, and “Improve Cost and Resource Efficiency”. The actions we have taken in the nine months ended September 30, 2015 are as follows:

##### **■ Customer Focused Initiatives**

In April, we introduced a new smartphone app “KODO” to directly listen to customer’s voice. By the end of October, we have received approximately 1,200,000 comments from customers through KODO, which has enabled us to provide customers with even better services at our restaurants.

Also, we set May 25, 2015 as “McSmile Day” and took the following actions to deliver the best possible

service and a restaurant experience to customers to put a smile on their faces. Since the launch, we have been receiving positive responses from our customers and seeing improvement in customer satisfaction scores.

- More choice and more straightforward pricing with the launch of new EVM choice
- More visual and intuitive menu board layout and the introduction of hand held menus
- The re-introduction of ‘Smiles 0 Yen’, an icon that represents our commitment to serve our customers with the biggest smiles, back on the menu board across the country
- The introduction of new regular menu items “Vegetable Chicken Burger”, “Vegetable Chicken Muffin” and “Mogu Mogu Mac” to offer more vegetable menu options

Also, Shin Otegoro Sengen was launched on October 26, 2015 implementing the following actions to achieve even higher QSC&V (Quality, Service, Cleanliness, and Value) and meet the rapidly changing expectations of customers.

- Revamp of value menu items: launch of three new affordable yet filling regular menus of “Egg Cheese Burger”, “BBQ Pork Burger”, and “Ham Lettuce Burger” at 200 yen for a la carte and 500 yen for a combo
- Revamp of pricing structure and price change: review and consolidation of pricing tiers --- consolidated 9 tiers into a single pricing platform with the exception of approximately 40 restaurants in special locations
- “Connections with customers centered on cleanliness and enhanced dining experience”, the re-introduction of ‘Smiles 0 Yen’ across the country, greater hospitality, and stronger focus on cleanliness to enhance restaurant experience of our customers

In addition to the launch of the above regular menus, we introduced a variety of menu items during the consolidated cumulative third quarter including “Fresh Mac” and “Avocado Burger”, aiming to offer more attractive products that meet the needs of our customers and the times. Locally sourced ingredients were used for some of the limited time offer products such as “Hokkaido Cheese Tsukimi” and “McShake Murasaki Imo (Purple Sweet Potato)”.

#### ■ Acceleration of Restaurant Revitalization

The transition and current status of our restaurant portfolio are as follows:

Classification	Previous Year-End	Newly Opened	Closed	Classification Change		Current Reporting Period
				Increase	Decrease	
Company-operated	1,009	6	(21)	41	(11)	1,024
Franchised	2,084	5	(30)	11	(41)	2,029
Total	3,093	11	(51)	52	(52)	3,053

In order to offer the best possible dining experience and bring about visible points of change to our customers, we are narrowing our focus and concentrating our resources to remodeling of existing restaurants. Meanwhile we will build new restaurants only in limited and carefully-selected locations. Our plan is to remodel approximately 90% of all restaurants by 2018. 61 remodels have been completed, including the ones located in food courts and shopping malls, during the nine months ended September 30, 2015.

In addition, we will strategically close 131 restaurants with little long-term growth potential this year, and will reallocate resources resulting from the strategic closures to invest in the remodels of restaurants with greater growth potential.

#### ■ Localization of Our Business Structure

To promote activities rooted in restaurants and/or local communities, the regional HQ system was introduced in June, under which McDonald’s Japan was reorganized into three regions (East Japan, Central Japan and West Japan). With these changes, we are realizing closer ties with local communities as

“modern burger restaurant that connects with our customers”.

For instance, McAdventure, a program for kids to enjoy a visit to our kitchen, is available at more than 1,000 McDonald’s restaurants as of October. Various events that bring enjoyment to both children and families are implemented every week at our restaurants across the country, further strengthening ties with customers and local communities.

■ Improvement in Cost and Resource Efficiency

To concentrate our resources into investments for long-term growth, we have been working on optimization of resources and taking a fundamental review of our cost structure. Non-recurring and special charges we recognized for the consolidated cumulative third quarter were as follows; this is in line with our plan and there is no change in the full-year plan.

(Rounding : Billions of Yen)

	Projected Annual Amount (Announced on April 16, 2015)	Booked Amount for the nine months ended September 30, 2015		
		Impact on Ordinary Income	Special Loss	Total
Acceleration of Restaurant Revitalization	5.8	0.5	2.7	3.1
Voluntary Early Retirement Program	0.8	-	0.6	0.6
Financial Measures for Franchisees	12.6	10.7	-	10.7
Impairment Loss	4.9	-	3.5	3.5
Marketing Spend & Other Investments	1.4	0.4	-	0.4
Total	25.5	11.6	6.7	18.3

Going forward, regaining customer confidence in our food will remain to be our number one priority; on top of that, we aim to flawlessly execute our Business Revitalization Plan.

**(2) Qualitative Information on Consolidated Financial Position**

At the end of the third quarter, current assets totaled 29,685 million yen, decreased 18,818 million yen from the end of the previous fiscal year. This is mainly due to decrease in trade and other receivables resulting from lower sales, the decrease in cash and deposits from payment of dividends and royalties. Non-current assets totaled 142,579 million yen, a 3,035 million yen increase from the end of the previous fiscal year. Property and equipment decreased by 3,092 million yen reflecting impairment loss. On the other hand, intangible assets increased by 3,957 million yen for software acquisitions. Current liabilities were 28,722 million yen, a 1,251 million yen increase from the end of the previous fiscal year. This is mainly due to increases in short-term borrowings and provision for loss on store closing with the strategic closure.

Non-current liabilities totaled 29,306 million yen, a 16,469 million yen increase from the end of the previous fiscal year, primarily due to the long-term loans payable.

**(3) Qualitative Information regarding Forecasts on the Consolidated Operating Results**

No change has been made to the forecasts on the consolidated operating results for this fiscal year ending December 31, 2015, announced on April 16, 2015.

<Change to the dividend forecast>

Our dividend policy is to continuously provide dividends to reward shareholders based on an overall consideration of business performance, dividend ratio, and balance of cash flows while maintaining financial ratios such as capital ratio and return on equity.

As our four-pillar Business Revitalization Plan announced on April 16, 2015, has been progressing mostly as expected, we have changed our dividend forecast from *Yet to be Determined* as previously

announced on February 5, 2015 to 30 yen per share as an annual dividend for the year ending December 31, 2015.

## **2. Others**

### **(1) Changes in significant subsidiaries**

None

### **(2) Application of simplified accounting policies for quarterly financial statements**

Income taxes:

Income taxes are determined based on the effective tax rate, multiplied by the estimated annual pre-tax income/(loss).

### **(3) Change in accounting policy, change of estimation in accounting and modified restatement**

(Change in accounting policy)

Effective January 1, 2015, the Company has applied the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012; hereinafter the “Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” ASBJ Guidance No. 25, May 17 2012; hereinafter the “Guidance”), whereby the method of calculating retirement benefit obligation and current service costs have been revised. Based on this revision, the method of attributing expected retirement benefits to periods has been changed from the straight-line basis to the benefit formula basis, while the method of determining discount rates has been changed from the method based on the average period until the expected timing of retirement benefits payment to the method using a single weighted average discount rate reflecting the period up to the expected timing of retirement benefits payment and the amount of retirement benefits payment for each period.

With respect to application of the Standard and the Guidance, the transitional treatment as prescribed in article 37 of the Standard was applied. As of January 1, 2015, the effect of the change in the method of calculating retirement benefit obligation and current service costs was reflected in retained earnings.

As a result of this change, as of January 1, 2015, net defined benefit asset decreased by 68 million yen, retained earnings decreased by 53 million yen, and net defined benefit liability increased by 17 million yen. The effect of this change on operating loss, ordinary loss, and loss before income taxes and minority interests for the nine months ended September 30, 2015 is immaterial.

### 3. Consolidated quarterly financial statements

#### (1) Consolidated quarterly balance sheets

Millions of yen	December 31, 2014	September 30, 2015
(Assets)		
<b>Current assets</b>		
Cash and deposits	28,628	13,179
Accounts receivable - trade	5,010	10,941
Raw materials and supplies	1,011	978
Deferred tax assets	23	23
Income taxes receivable	2,707	-
Other	11,257	4,580
Allowance for doubtful accounts	(134)	(18)
Total current assets	48,504	29,685
<b>Noncurrent assets</b>		
<b>Property and equipment</b>		
Buildings and structures, net	43,587	41,919
Machinery and equipment, net	4,350	3,638
Tools, furniture and fixtures, net	3,439	3,148
Land	17,442	17,466
Lease assets, net	3,865	3,216
Construction in progress	710	912
Total property and equipment	73,394	70,302
<b>Intangible assets</b>		
Goodwill	497	1,216
Software	3,070	6,307
Other	692	693
Total intangible assets	4,260	8,217
<b>Investments and other assets</b>		
Investment securities	56	56
Long-term loans receivable	9	8
Pension assets	6,078	5,598
Deferred tax assets	160	220
Lease and guarantee deposits	44,212	42,417
Other	12,129	18,858
Allowance for doubtful accounts	(757)	(3,100)
Total investments and other assets	61,889	64,060
Total noncurrent assets	139,544	142,579
<b>Total assets</b>	188,048	172,265



Millions of yen	December 31, 2014	September 30, 2015
<b>(Liabilities)</b>		
<b>Current liabilities</b>		
Accounts payable - trade	545	6
Lease obligations	1,548	1,516
Accounts payable - other	13,902	13,308
Short-term borrowings	-	2,500
Accrued expenses	4,857	4,492
Income taxes payable	505	269
Provision for bonuses	276	358
Provision for loss on store closing	20	1,831
Other	5,814	4,440
Total current liabilities	27,471	28,722
<b>Noncurrent liabilities</b>		
Long-term loans payable	500	18,750
Lease obligations	3,292	2,730
Deferred tax liabilities	994	771
Deferred tax liabilities due to land revaluation	390	311
Provision for bonuses	574	450
Provision for directors' bonuses	91	53
Provision for directors' retirement benefits	420	47
Liability for retirement benefits	1,696	1,587
Asset retirement obligations	4,565	4,290
Other	311	311
Total noncurrent liabilities	12,836	29,306
<b>Total liabilities</b>	40,307	58,028
<b>(Net assets)</b>		
<b>Shareholders' equity</b>		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	84,319	50,641
Treasury stock	(1)	(1)
Total shareholders' equity	150,555	116,877
<b>Accumulated other comprehensive loss</b>		
Revaluation reserve for land	(4,667)	(4,274)
Remeasurements of defined benefit plans	1,671	1,448
Total accumulated other comprehensive loss	(2,996)	(2,826)
<b>Minority interests</b>		
Total net assets	147,740	114,237
<b>Total liabilities and net assets</b>	188,048	172,265

**(2) Consolidated quarterly statements of operations and comprehensive loss**

Consolidated quarterly statements of operations for the nine months ended September 30, 2014 and 2015

Millions of yen	Nine months ended September 30, 2014	Nine months ended September 30, 2015
<b>Net sales</b>	172,248	137,547
<b>Cost of sales</b>	152,852	140,240
<b>Gross profit/(loss)</b>	19,395	(2,692)
<b>Selling, general and administrative expenses</b>	19,156	18,102
<b>Operating income/(loss)</b>	238	(20,795)
<b>Non-operating income</b>		
Interest income	112	83
Compensation income	90	74
Insurance income	62	32
Other	124	104
Total non-operating income	390	295
<b>Non-operating expenses</b>		
Interest expenses	72	148
Provision of allowance for doubtful accounts	242	800
Loss on disposals of company-operated restaurants	777	479
Loss on cancellation of leasehold contracts	26	18
Other	87	357
Total non-operating expenses	1,206	1,804
<b>Ordinary loss</b>	(576)	(22,304)
<b>Special loss</b>		
Loss on disposals of noncurrent assets	8	101
Impairment loss	5,872	3,516
Loss on sales of noncurrent assets	-	88
Loss on store closing	-	727
Provision for loss on store closing	-	1,836
Early retirement program expenses	-	550
Shanghai Husi related expenses	2,514	-
Total special loss	8,396	6,821
<b>Loss before income taxes</b>	(8,972)	(29,125)
Income taxes	(1,433)	148
<b>Loss before minority interests</b>	(7,539)	(29,274)
Minority interests in income	4	4
<b>Net loss</b>	(7,543)	(29,279)

**Consolidated quarterly statements of comprehensive loss**

For the nine months ended September 30, 2014 and 2015

<b>Millions of yen</b>	<b>Nine months ended September 30, 2014</b>	<b>Nine months ended September 30, 2015</b>
<b>Loss before minority interests</b>	(7,539)	(26,274)
<b>Accumulated other comprehensive loss</b>		
Revaluation reserve for land	-	36
Remeasurements of defined benefit plans	-	(222)
Total accumulated other comprehensive loss	-	(186)
<b>Comprehensive loss</b>	(7,539)	(29,460)
<b>Comprehensive loss attributable to:</b>		
Shareholders of McDonald's Holdings Company (Japan)	(7,543)	(29,465)
Minority interests	4	4

**(3) Notes for assumption of going concern**

None

**(4) Notes for significant changes in the amount of shareholders' equity**

None

**(5) Segment information**

Business segment of the Group is only hamburger restaurant operation therefore the business segment information is omitted.