

Consolidated Financial Results for the Six Months Ended June 30, 2015

August 12, 2015

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
Stock market: Tokyo Securities Exchange, JASDAQ
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Schedule of dividends payment: -

Schedule of quarterly securities report submission: August 14, 2015

Preparation of supplementary materials for quarterly financial results: Yes

Quarterly results briefing: Yes (For institutional investors and analysts)

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

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income/(loss)		Ordinary income/(loss)		Net income/(loss)	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2015	85,281	(29.5)	(18,291)	—	(19,536)	—	(26,220)	—
June 30, 2014	121,000	(6.7)	3,512	(50.3)	3,233	(56.7)	1,852	(59.4)

(Note) Comprehensive income/(loss):

Six months ended June 30, 2015: (26,314) million yen (—%)

Six months ended June 30, 2014: 1,855 million yen (△59.4%)

	Net income/(loss) per share	Net income/(loss) per share, Fully diluted
	(Yen)	(Yen)
June 30, 2015	(197.21)	—
June 30, 2014	13.93	—

(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 June 30, 2015	176,348	117,383	66.5
As of December 31, 2014	188,048	147,740	78.5

(Note) Owner's equity: As of June 30, 2015: 117,199 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)	—	—	—	—	—

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

**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 income/(loss)		Ordinary income/(loss)		Net income/(loss)		Net income/(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 June 30, 2015: 132,960,000 shares As of December 31, 2014: 132,960,000 shares
2. Number of treasury stock
As of June 30, 2015: 869 shares As of December 31, 2014: 869 shares
3. Average number of common shares outstanding
As of June 30, 2015: 132,959,131 shares As of June 30, 2014: 132,959,161 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.

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1. Qualitative Information on Financial Results for the Six Months Ended June 30, 2015

(1) Consolidated Business Results

(Qualitative Information on Consolidated Business Results)

During the six months ended June 30 2015, system-wide sales were 172,025 million yen (down 65,753 million yen from the same period last year) impacted by a continuously challenging business environment due in part to the prolonged impact of food-related issues occurred since last year. Consolidated sales were 85,281 million yen (down 35,718 million yen from the same period last year) and same-store sales fell 27.5% compared with the same period last year.

Ordinary loss was 19,536 million yen (down 22,770 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 26,220 million yen (down 28,072 million yen from the same period last year) including a 3,516 million yen impairment charges and 2,562 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 April 16 announcement regarding “Earnings Forecast for Fiscal Year Ending December 31, 2015 and Business Revitalization Plan”.

(Qualitative Information on Business Strategies)

Actions to Ensure Foods Safety and Quality

During the six months ended June 30, 2015, 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; the project aims to disclose information on food safety and quality, to hold regular meetings to exchange opinions with customers, and to provide customers with opportunities to visit our restaurants and production sites. This project is just the beginning and a part of our on-going commitment to disclosure and transparency of 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 six months ended June 30, 2015 are as follows:

■ Customer Focused Initiatives

In April, we revamped our official smartphone app and introduced a new app “KODO” to directly listen to customer’s voice. KODO offers a function that allows customers to instantly share their opinions on our restaurants. Owing to this new app, we have received 70,000 comments from customers by the end of July which will help us provide even better services at our restaurants.

Also, we set May 25 as “McSmile Day” and took the following actions to deliver best service and a restaurant experience to customers and put a smile on their faces.

- The re-introduction of ‘Smiles 0 Yen’, an icon that represents our commitment to serve our customers with the biggest smiles at any time, 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” in response to customer requests for more vegetable menu
- More choice, better value and more straightforward pricing with the launch of EVM choice; we are receiving positive feedback from customers about the variety of choices with no upcharge
- The revamp of menu board design for more visual and intuitive layout and the introduction of hand held menus that allow customers to browse the menu while they are in line waiting to order, giving them greater convenience and ordering comfort

■ 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	5	(9)	31	(0)	1,036
Franchised	2,084	5	(16)	0	(31)	2,042
Total	3,093	10	(25)	31	(31)	3,078

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 500 restaurants, including the ones located in food courts and shopping malls, by the end of this year. 27 remodels have been completed during the six months ended June 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

Broad-scale national strategies, programs and initiatives, such as national marketing, product development and operation system development, are defined as “Big M” activities, whereas the activities rooted in restaurants and/or local communities are defined as “Little M”. We have decided to strengthen our Little M activities and operate our business in a manner more rooted in local communities and restaurants. To promote Little M activities and realize business management which is even more closely connected to our customers, the regional HQ system was introduced in June. We reorganized McDonald’s Japan into three regions (East Japan, Central Japan and West Japan). Each region has business functions such as Marketing, HR and Finance, and has full business execution responsibility for their region; this has enabled us to reduce layers in the organization and implement activities rooted in local communities and customers.

■ 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 six months ended June 30, 2015 were as follows; this is in line with our plan and there is no change in the full-year plan we announced on April 16.

(Rounding)

	Projected Annual Amount (Announced on April 16)	Booked Amount for 1 st Half 2015		
		Impact on Ordinary Income	Special Loss	Total
Acceleration of Restaurant Revitalization	5.8	0.3	2.6	2.9
Voluntary Early Retirement Program	0.8	-	0.6	0.6
Financial Measures for Franchisees	12.6	8.6	-	8.6
Impairment Loss	4.9	-	3.5	3.5
Marketing Spend & Other Investments	1.4	0.4	-	0.4
Total	25.5	9.3	6.7	16.0

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

1) Financial Statement Analysis

At the end of the second quarter, current assets totaled 34,695 million yen, decreased 13,809 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, and the reclassification of receivables from financial support programs for franchisees down to Investment and other assets within noncurrent assets.

Non-current assets totaled 141,653 million yen, a 2,109 million yen increase from the end of the previous fiscal year. Property and equipment decreased by 3,331 million yen reflecting impairment charges. On the other hand, intangible assets increased by 2,300 million yen for software acquisitions.

Current liabilities were 28,963 million yen, a 1,492 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 following the approval of the execution of strategic closures for restaurants by the Board of Directors on April 16, 2015.

Non-current liabilities totaled 30,000 million yen, a 17,164 million yen increase from the end of the previous fiscal year, primarily due to the long-term loans payable.

2) Cash Flow Summary

Cash and cash equivalent at the end of the second quarter was 25,217 million yen, down 3,411 million yen from the end of the previous fiscal year.

Cash flow for the six months ended June 30, 2015 is as follows:

(Cash flow from operating activities)

A total of 13,117 million yen was spent for operating activities (an increase of 13,366 million yen from the same period previous year); a pre-tax loss of 26,320 million yen, a depreciation and amortization of 4,161 million yen, and impairment loss of 3,516 million yen are the main contributors.

(Cash flow from investing activities)

A total of 6,702 million yen (an increase 819 million yen from the same period last year) was allotted for investing activities. A total payment of 6,633 million yen for acquisition of property and equipment was the main reason for the above.

(Cash flow from financing activities)

Cash flow from financing activities totaled 16,457 million yen (a decrease of 4,686 million yen), mainly because of the bank borrowings of 22,000 million yen and dividend payments of 3,988 million yen.

(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.

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.

(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 six months ended June 30, 2015 is immaterial.

3. Condensed consolidated financial statements

(1) Condensed consolidated balance sheets

Millions of yen	December 31, 2014	June 30, 2015
(Assets)		
Current assets		
Cash and deposits	28,628	25,217
Accounts receivable - trade	5,010	3,703
Raw materials and supplies	1,011	1,009
Deferred tax assets	23	23
Income taxes receivable	2,707	-
Other	11,257	4,759
Allowance for doubtful accounts	(134)	(18)
Total current assets	48,504	34,695
Noncurrent assets		
Property and equipment		
Buildings and structures, net	43,587	42,005
Machinery and equipment, net	4,350	3,773
Tools, furniture and fixtures, net	3,439	3,193
Land	17,442	17,388
Lease assets, net	3,865	3,334
Construction in progress	710	366
Total property and equipment	73,394	70,063
Intangible assets		
Goodwill	497	935
Software	3,070	4,931
Other	692	693
Total intangible assets	4,260	6,560
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Pension assets	6,078	5,735
Deferred tax assets	160	221
Lease and guarantee deposits	44,212	42,975
Other	12,129	18,805
Allowance for doubtful accounts	(757)	(2,773)
Total investments and other assets	61,889	65,029
Total noncurrent assets	139,544	141,653
Total assets	188,048	176,348

Millions of yen	December 31, 2014	June 30, 2015
(Liabilities)		
Current liabilities		
Accounts payable - trade	545	49
Lease obligations	1,548	1,516
Accounts payable - other	13,902	14,742
Short-term borrowings	-	2,500
Accrued expenses	4,857	4,321
Income taxes payable	505	86
Provision for bonuses	276	213
Provision for loss on store closing	20	1,840
Other	5,814	3,693
Total current liabilities	27,471	28,963
Noncurrent liabilities		
Long-term loans payable	500	19,375
Lease obligations	3,292	2,806
Deferred tax liabilities	994	822
Deferred tax liabilities due to land revaluation	390	314
Provision for bonuses	574	437
Provision for directors' bonuses	91	45
Provision for directors' retirement benefits	420	42
Liability for retirement benefits	1,696	1,707
Asset retirement obligations	4,565	4,139
Other	311	311
Total noncurrent liabilities	12,836	30,000
Total liabilities	40,307	58,964
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	84,319	53,720
Treasury stock	(1)	(1)
Total shareholders' equity	150,555	119,957
Accumulated other comprehensive income		
Revaluation reserve for land	(4,667)	(4,295)
Remeasurements of defined benefit plans	1,671	1,538
Total accumulated other comprehensive income	(2,996)	(2,757)
Minority interests	181	184
Total net assets	147,740	117,383
Total liabilities and net assets	188,048	176,348

(2) Condensed consolidated statements of operations and comprehensive loss

Condensed consolidated statements of operations for the six months ended June 30, 2014 and 2015

Millions of yen	Six months ended June 30, 2014	Six months ended June 30, 2015
Net sales	121,000	85,281
Cost of sales	104,753	91,004
Gross profit/(loss)	16,246	(5,723)
Selling, general and administrative expenses	12,734	12,568
Operating income/(loss)	3,512	(18,291)
Non-operating income		
Interest income	78	58
Compensation income	87	74
Insurance income	31	11
Other	119	96
Total non-operating income	317	241
Non-operating expenses		
Interest expenses	48	79
Provision of allowance for doubtful accounts	0	744
Loss on disposals of company-operated restaurants	470	311
Loss on cancellation of leasehold contracts	-	16
Other	76	333
Total non-operating expenses	595	1,486
Ordinary income/(loss)	3,233	(19,536)
Special loss		
Loss on disposals of noncurrent assets	23	73
Loss on sales of noncurrent assets	-	81
Impairment loss	-	3,516
Loss on store closing	-	722
Provision for loss on store closing	-	1,840
Early retirement program expenses	-	550
Total special loss	23	6,784
Income/(loss) before income taxes	3,210	(26,320)
Income taxes	1,355	(103)
Income/(loss) before minority interests	1,855	(26,217)
Minority interests in income	2	3
Net income/(loss)	1,852	(26,220)

Consolidated statements of comprehensive loss

For the six months ended June 30, 2014 and 2015

Millions of yen	Six months ended June 30, 2014	Six months ended June 30, 2015
Income/(loss) before minority interests	1,855	(26,217)
Accumulated other comprehensive income/(loss)		
Revaluation reserve for land	-	36
Remeasurements of defined benefit plans	-	(132)
Total accumulated other comprehensive income/(loss)	-	(96)
Comprehensive income/(loss)	1,855	(26,314)
Comprehensive income/(loss) attributable to:		
Shareholders of McDonald's Holdings Company (Japan)	1,852	(26,317)
Minority interests	2	3

(3) Consolidated statements of cash flows

For the six months ended June 30, 2014 and 2015

Millions of yen	Six months ended June 30, 2014	Six months ended June 30, 2015
Net cash provided by (used in) operating activities		
Income/ (loss) before income taxes and minority interests	3,210	(26,320)
Depreciation and amortization	4,960	4,161
Impairment loss	-	3,516
Loss on store closing	-	722
Early retirement program expenses	-	550
Increase in provision for loss on store closing	-	1,819
Increase (decrease) in pension liabilities	-	(5)
(Increase) decrease in pension assets	-	274
Increase (decrease) in other provisions	(737)	1,275
Interest income	(78)	(58)
Interest expenses	48	79
Loss on sales of noncurrent assets	-	81
Loss on disposals of noncurrent assets	320	384
Decrease in accounts receivable - trade	2,359	1,306
Decrease in raw materials and supplies	186	2
Increase in goodwill from acquisition of franchised restaurants	(344)	(593)
Decrease (increase) in other assets	233	(190)
Decrease in accounts payable-trade	(566)	(496)
Increase (decrease) in accounts payable-other	(581)	177
Increase (decrease) in accrued expenses	(532)	(546)
Increase (decrease) in other liabilities	1,305	(1,321)
Other, net	137	(166)
Subtotal	9,921	(15,347)
Interest income received	26	4
Interest expenses paid	(29)	(65)
Income taxes paid	(41)	(442)
Income taxes refund	3,489	2,733
Net cash provided by (used in) operating activities	13,366	(13,117)
Net cash used in investing activities		
Purchases of property and equipment	(5,998)	(6,633)
Proceeds from sales of property and equipment	104	198
Payments for lease and guarantee deposits	(750)	(248)
Refunds of lease and guarantee deposits	1,485	1,496
Purchases of software	(185)	(1,379)
Execution of asset retirement obligations	(143)	(144)
Payments for deposit provided for gift certificates	(400)	-
Other, net	4	8
Net cash used in investing activities	(5,883)	(6,702)
Net cash (used in) provided by financing activities		
Proceeds from long-term loans payable	-	22,000
Repayments of long-term loans payable	-	(625)
Repayment of lease obligations	(715)	(928)
Repurchase of treasury stock	(0)	-
Dividends paid	(3,971)	(3,988)
Net cash (used in) provided by financing activities	(4,686)	16,457
Effect of exchange rate changes on cash and cash equivalents	(3)	(48)
Net (decrease) increase in cash and cash equivalents	2,793	(3,411)
Cash and cash equivalents at beginning of period	60,139	28,628
Cash and cash equivalents at end of period	62,932	25,217

(4) Notes for assumption of going concern

None

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

None

(6) Segment information

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