

Consolidated Financial Results for the Nine Months Ended September 30, 2016

November 9, 2016

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: November 10, 2016

Preparation of supplementary materials for quarterly financial results: None

Quarterly results briefing: None

1. Consolidated Operating Results (From January 1, 2016 to September 30, 2016)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income/(loss)		Ordinary income/(loss)		Net income (loss) attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2016	165,252	20.1	3,805	—	3,445	—	3,209	—
September 30, 2015	137,547	(20.1)	(20,795)	—	(22,304)	—	(29,279)	—

(Note) Comprehensive income/(loss):

Nine months ended September 30, 2016: 3,016 million yen (—%)

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

	Net income/(loss) per share	Net income/(loss) per share, Fully diluted
	(Yen)	(Yen)
September 30, 2016	24.14	—
September 30, 2015	(220.21)	—

(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, 2016	174,018	107,881	61.9
As of December 31, 2015	178,868	108,853	60.8

(Note) Owner's equity: As of September 30, 2016: 107,692 million yen. As of December 31, 2015: 108,666 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, 2015	—	0.00	—	30.00	30.00
December 31, 2016	—	0.00	—	30.00	30.00
December 31, 2016 (Forecast)	—	—	—	30.00	30.00

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

**3. Forecasts on Consolidated Operating Results for the Year ending December 31, 2016
(From January 1, 2016 to December 31, 2016)**

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	225,000	18.8	5,000	—	4,600	—	3,800	—	28.58

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

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, 2016: | 132,960,000 shares | As of December 31, 2015: 132,960,000 shares |
| 2. Number of treasury stock | | |
| As of September 30, 2016: | 869 shares | As of December 31, 2015: 869 shares |
| 3. Average number of common stock outstanding | | |
| As of September 30, 2016: | 132,959,131 shares | As of September 30, 2015: 132,959,131 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, 2016

(1) Qualitative information on consolidated operating results

(Qualitative Information on Consolidated Business Results)

During the nine months ended September 30, 2016, same-store sales were up for the fourth consecutive quarter with 21.1% growth. System-wide sales were 320,892 million yen (up 46,977 million yen compared to the same period last year) and consolidated sales were 165,252 million yen (up 27,705 million yen compared to the same period last year). Ordinary income was 3,445 million yen (up 25,750 million yen compared to the same period last year), reflecting recovery in sales and restaurant profitability improvements. Net income attributable to owners of parent was 3,209 million yen (up 32,488 million yen compared to the same period last year).

- (*) 1. Same-store sales are the total sales of restaurants operating for 13 months or longer.
2. System-wide sales are the combined net sales of company-operated and franchised restaurants; the amount does not equal to net sales presented in the quarterly consolidated statements of income.
3. Operating results are not presented in relation to the segment information as the business of McDonald's Holding Company (Japan), Ltd. (the "Group" or "we") is based solely on operations of hamburger restaurants.

(Business strategies)

During the consolidated cumulative third quarter, while continuing to focus on food quality and safety, we executed the following actions in accordance with the four point business revitalization plan ("Customer focused initiatives", "Investing in upgrading our restaurant portfolio", "Localized business structure", and "Major cost and resource efficiency initiatives") towards mid to long term growth and to deliver the best possible restaurant experience to customers.

<Customer focused initiatives>

We have been focusing our efforts on providing changes that are visible to our customers and that are designed around the idea of putting the customer first. We engaged in activities that focus on the menu, value, and on strengthening our engagement with customers.

➤ Menu

New concept "BurgerLove"

Our passion to serve burgers that are only available at McDonald's to many customers, our commitment and devotion to quality burgers, and our respect to our customers who love burgers were formed into a new concept "BurgerLove". Under this new concept, we focused on developing attractive menu items and customer communications. The following products went on sale for a limited time, and each of these tasty menu was very well received by customers.

- April: "Grand Big Mac" and "Giga Big Mac", size up versions of our regular menu "Big Mac", and "Club House Burgers" offered with pride and pursuance of burger tastiness.
- May: "Loco Moco Burger" certified by the Hawaii Tourism Japan.
- July: "1955 Smokey America" depicting the good old American taste and "1971 Roast Soy Sauce" in pursuance of Japan's tastiness in celebration of McDonald's Japan's 45th anniversary
- August: "Hissho [Certain Victory] Burgers (beef and pineapple / chicken and tomato) under the theme of "Hissho [Certain Victory] as Olympics Worldwide Sponsor and Official Restaurant.
- September: "Tsukimi Burger" a popular regular seasonal menu now in its 25th anniversary and "Mangetsu Cheese Tsukimi" a new menu of the Tsukimi series.

New brand "By McSWEETS"

A new brand "By McSWEETS" was launched, showcasing the appeal of sweet dessert and beverage items as anytime snacks or treats for a wide age group of customers. On top of regular menu items, the following products featuring local specialty ingredients were added as limited time offers:

- February: "McShake Honey Lemon" made with Setouchi lemon juice and domestically produced honey

- March: “Hokkaido Milk Pie” using milk from Hokkaido and “McFlurry Uji Maccha & Azuki” featuring Hokkaido red beans and Uji green tea
- May: “Mac Shake Amanatsu Mikan” using Amanatsu (a yellowish orange citrus fruit) from Ehime prefecture
- June: “McFlurry Hyuganatsu Cheese” using Hyuganatsu (a citrus fruit) from Miyazaki Prefecture and “Mac Shake Okinawa Pine” using pineapples from Okinawa prefecture
- July: “McShake Yogurt Flavor”, a popular limited time menu
- August: “McShake Momo” using domestically produced peach and “McFlurry Banana Tart” reflecting the “banana tart” taste
- September: “Sankaku Momo Cream Pie” using the “Hakuho” produced in the Wakayama prefecture and “McShake Morinaga Milk Caramel”, a collaboration with “Morinaga Milk Caramel”

➤ Value

“Value Lunch” Value Enhancement

In addition to last October’s launch of “Otegoro Mac” which offers sandwiches for 200 yen, side menu items for 150 yen, and desserts and beverages for 100 yen --- enabling customers to order meals of their choice depending on their needs and budget, we started offering “Value Lunch” from September this year during lunch hours on weekdays. The new offerings serve popular regular items to further meet the needs and budget of customers, and are very well received.

➤ Engagement with Customers

The offer of new and exciting limited-time products

We take it important of engagement with customers when developing and launching new products. Through customer-engaging promotions and surprising food news we brought excitement and communicated fun and passion unique to McDonald’s.

- January: “McChoco Potato” a new and surprising combination
- February: “Kitano Iitoko Gyutto Burger”, a burger naming campaign
- June: “McDonald’s Ura Menu” campaign with a selection of favorite topping(s) from three options of “Jalapeno”, “Cream Cheese”, and “Smoked Bacon” and add it/them to 15 available burgers, and new sauces of “Creamy Cheese” and “Fruit Curry” for Chicken McNuggets with the appearance of “Kaito Nuggets” promotion campaign

Additionally, as of the end of September, the official McDonald’s app has been downloaded 27 million times and it has become one of the most used apps. In addition to the discount coupons, menu information, nutrition and ingredients information for all products is now available on the app to meet customer requests.

< Investing in upgrading our restaurant portfolio >

Aiming to deliver customer visible changes and offer the best possible restaurant experience to as many customers as possible, we are implementing the plan to modernize 90% of our restaurants by the end of 2018 and have narrowed our investment focus on remodels of existing restaurants. During the consolidated cumulative third quarter, 333 remodels and 4 rebuilds were completed, including the restaurants in a food court and a shopping mall. Dual Point Services (DPS) ---where the order and pick up areas are separated ---was introduced to 426 restaurants.

Classification	Previous Year-End	Newly Opened	Closed	Classification Change		Current Reporting Period
				Increase	Decrease	
Company-operated	954	2	(17)	4	(4)	939
Franchised	2,002	1	(30)	4	(4)	1,973
Total	2,956	3	(47)	8	(8)	2,912

<Localized Business Structure>

To realize business management even more closely connected to customers, the regional HQ system was introduced in June 2015. The company was reorganized into three regions (East Japan, Central Japan and

West Japan). Under the localized structure, each region/restaurant is working closely with local communities, taking various actions rooted in local communities and customers, such as holding sporting events and traffic safety events in cooperation with local governments. Through these activities, the support system for franchised owner-operators and restaurants has been enhanced as well, contributing to improvement of QSC (Quality, Service and Cleanliness) and business growth.

< Major cost and resource efficiency initiatives >

Profitability is steadily increasing due to strategic closures and the optimization of general and administrative costs. To concentrate our resources into investments for long-term growth, we will continue to work on optimization of resources and take a fundamental review of our cost structure. Business is showing a continued solid sign of recovery due to the synergy effects created by series of customer first initiatives based on Business Revitalization Plan.

We strive to offer customers a variety of tasty, attractive products, such as new and surprising limited-time offers and seasonal core menu items, at a value price and provide customers with the best-in-class QSC (Quality, Service and Cleanliness) at a modern and comfortable restaurant environment. By improving the quality of comprehensive restaurant experience and through the activities rooted in local communities and customers, we aim to be a “Modern Burger Restaurant that Connects with Customers.”

(2) Qualitative Information on Consolidated Financial Position

At the end of the third quarter, current assets totaled 31,588 million yen, decreased 2,936 million yen from the end of the previous fiscal year. This was due mainly to decrease of cash and deposits by 1,844 million yen and a 1,710 million yen decrease in other current assets.

Non-current assets totaled 142,429 million yen, a 1,914 million yen decrease from the end of the previous fiscal year. This was primarily due to a 2,908 million yen increase in property and equipment bought about by acquisitions of buildings and structures and a 4,223 million yen decrease in investment and other assets resulting from collections of lease and guarantee deposits and other factors.

Current liabilities were 28,226 million yen, a 13,258 million yen decrease from the end of the previous fiscal year. The decrease was primarily the results of a 5 billion yen decrease in short-term loans payable, a 7,596 million yen decrease in accounts payables-other, and a 1,565 million yen decrease in provisions for loss on store closing.

Non-current liabilities totaled 37,910 million yen, a 9,380 million yen increase from the end of the previous fiscal year. This was mainly due to an increase of long-term loans payable of 10,125 million yen.

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

Sales are increasing solidly due to the synergy effects created by series of initiatives based on Business Revitalization Plan developed in last year April, and therefore we upwardly revised our consolidated financial forecasts for the year ending December 31, 2016. For more details, please refer to the “Notice on the Revision of Full Year Forecasts Ending December 31, 2016.”

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)

“Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013), and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, issued on September 13, 2013) have been applied from the first quarter; accordingly, the Group has made changes in the presentation of quarterly net income and other relevant line items and has changed from presenting minority interests to non-controlling interests. To reflect these changes in presentation, the current and previous periods are presented using the new standards.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

Millions of yen	December 31, 2015	September 30, 2016
(Assets)		
Current assets		
Cash and deposits	20,388	18,543
Accounts receivable-trade	8,119	8,605
Raw materials and supplies	862	1,001
Deferred tax assets	478	478
Other	4,711	3,000
Allowance for doubtful accounts	(35)	(41)
Total current assets	34,524	31,588
Noncurrent assets		
Property and equipment		
Buildings and structures, net	45,481	48,171
Machinery and equipment, net	3,915	3,952
Tools, furniture and fixtures, net	2,334	2,569
Land	17,325	17,325
Lease assets, net	2,874	2,160
Construction in progress	479	1,138
Total property and equipment	72,410	75,318
Intangible assets		
Goodwill	1,195	998
Software	6,760	6,358
Other	693	694
Total intangible assets	8,650	8,051
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Long-term deferred accounts receivable	10,116	9,965
Pension assets	6,773	6,415
Deferred tax assets	224	212
Lease and guarantee deposits	41,457	37,851
Other	8,634	8,546
Allowance for doubtful accounts	(3,988)	(3,995)
Total investments and other assets	63,283	59,060
Total noncurrent assets	144,344	142,429
Total assets	178,868	174,018

Millions of yen	December 31, 2015	September 30, 2016
(Liabilities)		
Current liabilities		
Accounts payable-trade	303	19
Short-term borrowings	5,000	-
Current portion of long-term loans payable	2,500	2,500
Lease obligations	1,428	1,220
Accounts payable-other	20,843	13,246
Accrued expenses	4,502	4,337
Income taxes payable	11	527
Accrued consumption taxes	-	2,379
Provision for bonuses	428	1,588
Provision for loss on store closing	1,681	116
Provision for loss on disposal of inventories	337	303
Asset retirement obligations	453	2
Other	3,993	1,983
Total current liabilities	<u>41,485</u>	<u>28,226</u>
Noncurrent liabilities		
Long-term loans payable	18,125	28,250
Lease obligations	2,428	1,696
Deferred tax liabilities	1,351	1,195
Deferred tax liabilities due to land revaluation	311	291
Provision for bonuses	293	414
Provision for directors' bonuses	30	54
Provision for directors' retirement benefits	54	71
Liabilities for retirement benefits	1,474	1,449
Asset retirement obligations	4,149	4,168
Other	312	317
Total noncurrent liabilities	<u>28,530</u>	<u>37,910</u>
Total liabilities	<u>70,015</u>	<u>66,136</u>
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	44,955	44,176
Treasury stock	(1)	(1)
Total shareholders' equity	<u>111,191</u>	<u>110,412</u>
Accumulated other comprehensive loss		
Revaluation reserve for land	(4,261)	(4,242)
Remeasurements of defined benefit plans	1,736	1,521
Total accumulated other comprehensive loss	<u>(2,525)</u>	<u>(2,720)</u>
Non-controlling interests		
Total net assets	<u>108,853</u>	<u>107,881</u>
Total liabilities and net assets	<u>178,868</u>	<u>174,018</u>

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income for the nine months ended September 30, 2015 and 2016

Millions of yen	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Net sales	137,547	165,252
Cost of sales	149,240	143,446
Gross profit/(loss)	(2,692)	21,805
Selling, general and administrative expenses	18,102	17,999
Operating income/(loss)	(20,795)	3,805
Non-operating income		
Interest income	83	75
Compensation income	74	14
Insurance income	32	73
Other	104	207
Total non-operating income	295	371
Non-operating expenses		
Interest expenses	148	189
Provision of allowance for doubtful accounts	800	99
Loss on disposals of company-operated restaurants	479	279
Loss on cancellation of leasehold contracts	18	11
Other	357	150
Total non-operating expenses	1,804	730
Ordinary income/(loss)	(22,304)	3,445
Special income		
Reversal of Provision for loss on store closing	-	478
Total special income	-	478
Special loss		
Loss on sales of noncurrent assets	88	-
Loss on disposals of noncurrent assets	10	247
Impairment loss	3,516	-
Loss on store closing	727	-
Provision for loss on store closing	1,836	-
Early retirement program expenses	550	-
Total special loss	6,821	247
Income/(loss) before income taxes	(29,125)	3,677
Income taxes	148	466
Net income/(loss)	(29,274)	3,211
Net income attributable to non-controlling interests	4	1
Net income/(loss) attributable to owners of parent	(29,279)	3,209

Quarterly statements of comprehensive income

For the nine months ended September 30, 2015 and 2016

Millions of yen	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Net income/(loss)	(29,274)	3,211
Other comprehensive income		
Revaluation reserve for land	36	19
Remeasurements of defined benefit plans	(222)	(214)
Total accumulated other comprehensive loss	(186)	(194)
Comprehensive income/(loss)	(29,460)	3,016
Comprehensive income/(loss) attributable to:		
Owners of parent	(29,465)	3,015
Non-controlling interests	4	1

(3) Notes to quarterly consolidated financial statements

(Notes for assumption of going concern)

None

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

None

(Segment information)

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