

Consolidated Financial Results for the Six Months Ended June 30, 2016

August 9, 2016

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
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Schedule of dividends payment: -
Schedule of quarterly securities report submission: August 10, 2016
Preparation of supplementary materials for quarterly financial results: Yes
Quarterly results briefing: Yes (For analysts)

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

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income/(loss)		Ordinary loss		Net income (loss) attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2016	104,893	23.0	47	—	(151)	—	158	—
June 30, 2015	85,281	(29.5)	(18,291)	—	(19,536)	—	(26,220)	—

(Note) Comprehensive income/(loss):

Six months ended June 30, 2016: 43 million yen (—%)

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

	Net income/(loss) per share	Net income/(loss) per share, Fully diluted
	(Yen)	(Yen)
June 30, 2016	1.19	—
June 30, 2015	(197.21)	—

(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 June 30, 2016	172,698	104,908	60.6
As of December 31, 2015	178,868	108,853	60.8

(Note) Owner's equity: As of June 30, 2016: 104,719 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	220,000	16.1	3,300	—	2,200	—	1,000	—	7.52

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

(1) Consolidated Business Results

(Qualitative Information on Consolidated Business Results)

During the six months ended June 30 2016, same-store sales were up for the third consecutive quarter with 23.2% growth. System-wide sales were 205,014 million yen (up 32,988 million yen compared to the same period last year) and consolidated sales were 104,893 million yen (up 19,612 million yen compared to the same period last year). Operating income was 47 million yen (up 18,339 million yen compared to the same period last year), reflecting higher sales and restaurant profitability improvements. Net income attributable to owners of parent was 158 million yen (up 26,378 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 second quarter, while continuing to focus on food safety and quality, we executed the following actions in accordance with the four-point business revitalization plan ("Customer Focused Initiatives", "Accelerate Restaurant Revitalization", "Localized Business Structure", and "Cost and Resource Efficiency Improvement") to deliver the best possible restaurant experience to customers.

<Customer focused initiatives>

- Offering value through "Otegoro Mac":

"Chicken Cheese Burger (Chiki Chee)" was launched as a new addition to the menu lineup of "Otegoro Mac", which offers sandwiches for 200 yen, side menu items for 150 yen, and desserts and beverages for 100 yen, allowing customers to mix and match for their perfect meal or choose a great value snack depending on their budget and needs. Since its launch, "Otegoro Mac" has been well received by customers; we celebrated sales of more than 50 million units in April

- New and exciting limited-time offerings:

We launched customer-led promotions and brought surprising food news to create excitement and bring fun and passion in our restaurants. In January, "McChoco Potato" was launched, offering a new and surprising combination. In February, we launched a burger naming campaign and sold "Kitano Iitoko Gyutto Burger"; this campaign and product were well received by customers. And then in June, we introduced two new LTO sauces, "Creamy Cheese" and "Fruit Curry", for Chicken McNuggets with a fun and exciting "Kaito Nuggets" promotion campaign. In addition, we implemented "McDonald's Ura Menu" campaign where customers select their favorite topping(s) from 3 options ("Jalapeno", "Cream Cheese", and "Smoked Bacon") and add it/them to 15 available burgers of their choice; many customers enjoyed a new taste of our regular menu items.

- 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.

As a first series of "BurgerLove", we launched "Grand Big Mac" and "Giga Big Mac", size up versions of our regular menu "Big Mac", in early April. The size and taste of these two burgers created a big buzz. Then in late April, "Club House Burgers" were launched as the second series of BurgerLove concept products. These products offered with our pride and confidence were highly rated by our customers. As the third series, we offered Hawaiian menu "Loco Moco Burger" this year again; the Loco Moco Burger was first

introduced last year and was certified by the Hawaii Tourism Japan as tasting authentically Hawaiian. The product was well received by customers.

- 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

<Accelerate Restaurant Revitalization>

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 second quarter, 211 remodels and 2 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 427 restaurants as of the end of the second quarter.

Classification	Previous Year-End	Newly Opened	Closed	Classification Change		Current Reporting Period
				Increase	Decrease	
Company-operated	954	1	(14)	4	—	945
Franchised	2,002	1	(27)	—	(4)	1,972
Total	2,956	2	(41)	4	(4)	2,917

<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.

<Cost and Resource Efficiency Improvement >

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.

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

1) Financial Statement Analysis

At the end of the second quarter, current assets totaled 30,162 million yen, decreased 4,362 million yen from the end of the previous fiscal year. This was due mainly to a decrease of cash and deposits by 2,891 million yen and a 826 million yen decrease in accounts receivable-trade.

Non-current assets totaled 142,535 million yen, a 1,808 million yen decrease from the end of the previous fiscal year. This was primarily due to a 1,813 million yen increase in property and equipment brought about by acquisitions of buildings and structures and a 3,335 million yen decrease in investment and other assets resulting from collections of lease and guarantee deposits and other factors.

Current liabilities were 29,053 million yen, a 12,431 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 5,059 million yen decrease in accounts payables-other, and a 1,557 million yen decrease in provisions for loss on store closing.

Non-current liabilities totaled 38,736 million yen, a 10,206 million yen increase from the end of the previous fiscal year; this was mainly due to an increase of long-term loans payable of 10,750 million yen.

2) Cash Flow Summary

Cash and cash equivalent at the end of the second quarter was 17,497 million yen, down 2,891 million yen from the end of the previous fiscal year.

Cash flow for the six months ended June 30, 2016 is as follows:

(Cash flow from operating activities)

A total of 1,872 million yen was generated for operating activities (a decrease of 13,117 million yen from the same period previous year); a pre-tax income of 201 million yen, a 4,560 million yen increase of depreciation and amortization of goodwill, a 1,875 million yen increase of other liabilities, and a 826 million yen decrease of accounts receivable-trade.

(Cash flow from investing activities)

A total of 5,682 million yen (a decrease 1,019 million yen from the same period last year) was allotted for investing activities. This is primarily due to purchases of property and equipment for restaurant development for 7,107 million yen and collection of lease and guarantee deposits for 2,830 million yen.

(Cash flow from financing activities)

Cash flow from financing activities totaled 956 million yen (a decrease of 15,501 million yen), mainly because of 12,000 million yen proceeds from long-term loans payable, 5,000 million yen repayments of short-term borrowings, 1,250 million yen repayments of long-term loans payable 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 the fiscal year ending December 31, 2016, announced on February 9, 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	June 30, 2016
(Assets)		
Current assets		
Cash and deposits	20,388	17,497
Accounts receivable-trade	8,119	7,293
Raw materials and supplies	862	924
Deferred tax assets	478	478
Other	4,711	4,002
Allowance for doubtful accounts	(35)	(34)
Total current assets	34,524	30,162
Noncurrent assets		
Property and equipment		
Buildings and structures, net	45,481	47,579
Machinery and equipment, net	3,915	3,901
Tools, furniture and fixtures, net	2,334	2,445
Land	17,325	17,325
Lease assets, net	2,874	2,432
Construction in progress	479	538
Total property and equipment	72,410	74,223
Intangible assets		
Goodwill	1,195	1,105
Software	6,760	6,564
Other	693	694
Total intangible assets	8,650	8,364
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Long-term deferred accounts receivable	10,116	9,998
Pension assets	6,773	6,534
Deferred tax assets	224	212
Lease and guarantee deposits	41,457	38,473
Other	8,634	8,578
Allowance for doubtful accounts	(3,988)	(3,915)
Total investments and other assets	63,283	59,948
Total noncurrent assets	144,344	142,535
Total assets	178,868	172,698

Millions of yen	December 31, 2015	June 30, 2016
(Liabilities)		
Current liabilities		
Accounts payable-trade	303	14
Short-term borrowings	5,000	-
Current portion of long-term loans payable	2,500	2,500
Lease obligations	1,428	1,293
Accounts payable-other	20,843	15,784
Accrued expenses	4,502	3,930
Income taxes payable	11	92
Provision for bonuses	428	1,057
Provision for loss on store closing	1,681	124
Provision for loss on disposal of inventories	337	332
Asset retirement obligations	453	53
Other	3,993	3,870
Total current liabilities	41,485	29,053
Noncurrent liabilities		
Long-term loans payable	18,125	28,875
Lease obligations	2,428	1,889
Deferred tax liabilities	1,351	1,236
Deferred tax liabilities due to land revaluation	311	291
Provision for bonuses	293	365
Provision for directors' bonuses	30	54
Provision for directors' retirement benefits	54	65
Liabilities for retirement benefits	1,474	1,454
Asset retirement obligations	4,149	4,188
Other	312	316
Total noncurrent liabilities	28,530	38,736
Total liabilities	70,015	67,789
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	44,955	41,124
Treasury stock	(1)	(1)
Total shareholders' equity	111,191	107,361
Accumulated other comprehensive loss		
Revaluation reserve for land	(4,261)	(4,242)
Remeasurements of defined benefit plans	1,736	1,600
Total accumulated other comprehensive loss	(2,525)	(2,642)
Non-controlling interests		
	187	189
Total net assets	108,853	104,908
Total liabilities and net assets	178,868	172,698

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income for the six months ended June 30, 2015 and 2016

Millions of yen	Six months ended June 30, 2015	Six months ended June 30, 2016
Net sales	85,281	104,893
Cost of sales	91,004	93,661
Gross profit/(loss)	(5,723)	11,231
Selling, general and administrative expenses	12,568	11,183
Operating income/(loss)	(18,291)	47
Non-operating income		
Interest income	58	49
Compensation income	74	43
Insurance income	11	61
Other	96	184
Total non-operating income	241	338
Non-operating expenses		
Interest expenses	79	128
Provision of allowance for doubtful accounts	744	19
Loss on disposals of company-operated restaurants	311	222
Loss on cancellation of leasehold contracts	16	11
Other	333	156
Total non-operating expenses	1,486	538
Ordinary loss	(19,536)	(151)
Special income		
Reversal of Provision for loss on store closing	-	478
Total special income	-	478
Special loss		
Loss on sales of noncurrent assets	81	-
Loss on disposals of noncurrent assets	73	124
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	6,784	124
Income/(loss) before income taxes	(26,320)	201
Income taxes	(103)	41
Net income/(loss)	(26,217)	160
Net income attributable to non-controlling interests	3	1
Net income/(loss) attributable to owners of parent	(26,220)	158

Quarterly statements of comprehensive income

For the six months ended June 30, 2015 and 2016

Millions of yen	Six months ended June 30, 2015	Six months ended June 30, 2016
Net income/(loss)	(26,217)	160
Other comprehensive income		
Revaluation reserve for land	36	19
Remeasurements of defined benefit plans	(132)	(135)
Total accumulated other comprehensive loss	(96)	(116)
Comprehensive income/(loss)	(26,314)	43
Comprehensive income/(loss) attributable to:		
Owners of parent	(26,317)	41
Non-controlling interests	3	1

(3) Consolidated statements of cash flows

For the six months ended June 30, 2015 and 2016

Millions of yen	Six months ended June 30, 2015	Six months ended June 30, 2016
Net cash (used in)/provided by operating activities		
Income/(loss) before income taxes and minority interests	(26,320)	201
Depreciation and amortization	4,161	4,560
Impairment loss	3,516	-
Loss on store closing	722	-
Early retirement program expenses	550	-
Increase (decrease) in allowance for doubtful accounts	1,889	(74)
Increase (decrease) in provision for loss on store closing	1,819	(1,557)
Increase (decrease) in other provisions	(623)	730
Decrease in pension liabilities	(5)	(20)
Decrease in pension assets	274	238
Remeasurements of defined benefit plans	(277)	(239)
Interest income	(58)	(49)
Interest expenses	79	128
Loss on sales of noncurrent assets	81	-
Loss on disposals of noncurrent assets	384	122
Decrease in accounts receivable - trade	1,306	826
Decrease in raw materials and supplies	2	(62)
Increase in goodwill from acquisition of franchised restaurants	(593)	(100)
Decrease (increase) in long term deferred accounts receivable	(3,883)	117
Increase in other assets	3,693	760
Decrease in accounts payable-trade	(496)	(288)
Increase (decrease) in accounts payable-other	177	(4,981)
Decrease in accrued expenses	(546)	(568)
Increase (decrease) in other liabilities	(1,321)	1,875
Other, net	111	419
Subtotal	(15,347)	2,040
Interest income received	4	0
Interest expenses paid	(65)	(128)
Loss on store closing	-	(57)
Payment for early retirement related expenses	-	(19)
Income taxes paid	(442)	(107)
Income taxes refund	2,733	145
Net cash (used in)/provided by operating activities	(13,117)	1,872
Net cash used in investing activities		
Purchases of property and equipment	(6,633)	(7,107)
Proceeds from sales of property and equipment	198	-
Payments for lease and guarantee deposits	(248)	(178)
Refunds of lease and guarantee deposits	1,496	2,830
Acquisitions of software	(1,379)	(505)
Asset retirement obligations	(144)	(724)
Other, net	8	4
Net cash used in investing activities	(6,702)	(5,682)
Net cash provided by financing activities		
Repayments short-term borrowings	-	(5,000)
Proceeds from long-term loans payable	22,000	12,000
Repayments of long-term loans payable	(625)	(1,250)
Repayments of lease obligations	(928)	(805)
Dividends paid	(3,988)	(3,988)
Net cash provided by financing activities	16,457	956
Effect of exchange rate changes on cash and cash equivalents	(48)	(37)
Net decrease increase in cash and cash equivalents	(3,411)	(2,891)
Cash and cash equivalents at beginning of period	28,628	20,388
Cash and cash equivalents at end of period	25,217	17,497

(4) 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.