

Consolidated Financial Results for the Year ended December 31, 2016

February 9, 2017

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
Shares traded: Tokyo Securities Exchange, JASDAQ
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Schedule of ordinary annual shareholders' meeting: March 24, 2017
Schedule of dividends payment: March 27, 2017
Schedule of annual securities report submission: March 27, 2017
Preparation of supplementary materials for annual financial results: Yes
Information meeting for financial results to be held: Yes (for institutional investors)

1. Consolidated operating results (From January 1, 2016 to December 31, 2016)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)
(Negative figures are shown in parenthesis)

	Net sales		Operating income/(loss)		Ordinary income/(loss)	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2016	226,646	19.6	6,930	—	6,614	—
December 31, 2015	189,473	(14.8)	(23,440)	—	(25,898)	—

(Note) Comprehensive income/(loss):

Year ended December 31, 2016: 5,350 million yen <—%>

Year ended December 31, 2015: (34,845) million yen <—%>

	Net income/(loss) attributable to owners of parent		Net income/(loss) per share	Net income/(loss) per share, fully diluted	Return on shareholders' equity	Ratio of ordinary income/(loss) to total assets	Ratio of operating income/(loss) to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
December 31, 2016	5,366	—	40.37	—	4.9	3.7	3.1
December 31, 2015	(34,951)	—	(262.88)	—	(27.3)	(14.1)	(12.4)

(Note) Equity method earnings :

Year ended December 31, 2016: —

Year ended December 31, 2015: —

(2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2016	180,499	110,214	60.9	827.32
December 31, 2015	178,868	108,853	60.8	817.29

(Note) Owner's equity:

As of December 31, 2016 : 110,000 million yen

As of December 31, 2015 : 108,666 million yen

(3) Cash flows

	Net cash provided by/(used in) operating activities	Net cash used in investing activities	Net cash provided by/(used in) financing activities	Cash and cash equivalents at end of period
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
December 31, 2016	19,761	(11,032)	(7,912)	21,244
December 31, 2015	(14,560)	(13,252)	19,611	20,388

2. Dividends

	Dividends per share					Dividend Payment	Dividend payout ratio	The ratio of dividend to shareholders' equity
	First Quarter-End	Second Quarter-End	Third Quarter-End	Year-End	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of Yen)	%	%
December 31, 2015	—	0.00	—	30.00	30.00	3,988	—	3.1
December 31, 2016	—	0.00	—	30.00	30.00	3,988	74.3	3.6
December 31, 2017 (Estimated)	—	0.00	—	30.00	30.00	—	46.9	—

3. Consolidated earnings forecasts for the year ending December 31,2017 (From January 1, 2017 to December 31, 2017)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	Yen
Interim period	113,500	8.2	2,000	—	1,500	—	3,000	—	22.56
Annual	236,500	4.3	9,000	29.9	8,500	28.5	8,500	58.4	63.93

4. Other

(1) Changes in significant subsidiaries (Changes in scope of consolidation): None

Newly consolidated: — Excluded: —

(2) Changes of significant accounting principles, procedures and descriptions for the financial results report

1. Changes caused by revision of accounting standard: Yes
2. Changes other than (2) - 1. above: None
3. Changes in accounting estimation: None
4. Restatement of correction: None

(3) The number of shares outstanding (Common stock)

1. The number of shares outstanding (inclusive of treasury stock)
December 2016: 132,960,000 shares December 2015: 132,960,000 shares
2. The number of treasury stock
December 2016: 869 shares December 2015: 869 shares
3. Average number of common shares outstanding
December 2016: 132,959,131 shares December 2015: 132,959,131 shares

(Public accountant's audit status)

At the time of disclosure of the financial results, the financial statement audit procedures based upon the Financial Instruments and Exchange Act have not 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 earnings report is Japanese. An English translation hereof is provided for reference purpose only.

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1. Operating results

(1) Business strategy

During the consolidated fiscal year 2016, while continuing to undertake food quality and safety initiatives, McDonald's Holdings Company (Japan), Ltd. and subsidiaries ("Group") took the following actions to deliver the best possible restaurant experience to our customers in accordance with our four-point business revitalization plan for mid- to long-term growth: "Customer Focused Initiatives", "Accelerate Restaurant Revitalization", "Localize our Business Structure" and "Improve Cost and Resource Efficiency".

<Customer Focused Actions>

Putting customers at the center of everything we do, we focused on bringing about visible points of change to customers and took a variety of actions to strengthen our menu, value and connections 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.

- Customer-engaging campaign

We introduced promotions that engage customers, including the "Kitano Iitoko Gyutto Burger", McDonald's fist burger naming campaign in February and "Club House Burgers" where customers tweeted deliciousness by the number of stars along with their comments.

- Campaign to rediscover our delicious regular menu

"McChoco Fries", a surprising combination of French Fries and chocolate drew and "McDonald's Ura Menu", offering 285 different ways of enjoyment by adding three types of "jalapeno", "cream cheese sauce" and "smoke bacon" toppings by choice to the 15 regular menu burgers, were very well received by our customers.

- Menu using local specialties

A new brand "By McSWEETS" was launched to "enjoy sweets easily and at anytime". On top of regular menu items, we offered products featuring local specialty ingredients such as "McShake" made with Setouchi lemon juice and pineapples from Okinawa prefecture, "McFlurry Hyuganatsu Cheese" using Hyuganatsu (a citrus fruit) from Miyazaki prefecture, and "Triangle Peach Cream Pie" with peach from Wakayama prefecture.

Additionally, in celebration of the 45th anniversary of opening McDonald's first restaurant in Ginza in 1971, "45th Anniversary Campaign" was introduced to express our appreciation for the many years of patronage, offered very well-known and long-seller menu items and other products in collaboration with very popular characters and were very well received.

(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 2016 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.

- Enhanced convenience with “McDonald’s Official App”

The official McDonald’s app, introduced in 2015 and has been downloaded 30 million times, is receiving ongoing improvements to enhance convenience based on customer voice. During the year, we improved usability and added origins of key food ingredients, final food processing countries, allergy and nutrient information to address requests by many customers.

(Fun Place to Go)

The following initiatives were implemented to communicate that McDonald’s is a fun place to go:

- McAdventure

A proactive approach is taken in providing a work experience program at McDonald’s restaurants for children, where they get to wear McDonald’s uniform and learn different things such as making “hamburger” in the kitchen.

- Collaboration with “Pokémon GO”

McDonald’s Japan became the exclusive launch partner of “Pokémon GO”, providing “gym” and “poke stop” for the “Pokémon GO” game at its approximately 2,900 restaurants.

- FREE Wi-Fi

“McDonald’s FREE Wi-Fi” has been introduced at approximately 1,700 restaurants as of the end of 2016, enabling customers to watch Netflix original films.

(Enhanced Restaurant Experience)

Multiple initiatives were executed to further enhance restaurant experience, the most important aspect of McDonald’s brand experience.

- Enhanced QSC

Through enhanced floor service and revised manual with bigger smiles and heartier greetings of our crew, we are providing the best-in-class service from taking orders to leaving the restaurant. Also, a new cleaning tool was introduced to enhance cleanliness of dining area including tables, restrooms and floor.

- “KODO” receives more than 4.7 million comments from customers

First launched in April 2015, “KODO” the smartphone app designed to directly hear customer voices received more than 4.7 million comments as of the end of 2016. These valuable comments and feedbacks are proactively utilized at individual restaurants, taking actions to improve QSC.

- “2nd Food Safety Summit”, an initiative to ensure food quality and safety

A total of 250 attendees from the entire domestic and international suppliers of key food ingredients as well as McDonald’s leadership team members, McDonald’s Quality Assurance staff as well as external experts from Ministry of Agriculture and Tokyo University of Marine Science and Technology were invited for the “Food Safety Summit”.

This Summit intends to further deepen understanding of food safety and quality, enhance hygiene quality control standards and further strengthen quality control and mutual cooperation of the overall supply chain.

- Enhanced allergy information search function

We revamped “Allergy Search”, a function to search product allergy information on our website. In addition to “Contained Menu Items” for the 27 specific food ingredients based on conventional food labeling, “Menu Items Without Use of Specific Food Ingredients” has been added especially for customers with food allergies. This easy-to-use search tool offers a collective search of multiple allergens including “shrimp”, “crab” and “soba” (buckwheat noodle).

<Acceleration of Restaurant Revitalization>

In order to offer best possible dining experience and bring about visible points of change to customers, we are working on plans to modernize 90% of our restaurants by the end of 2018 and preferentially investing resources in remodeling of existing restaurants.

During this consolidated fiscal year, we have conducted 555 remodels, including restaurants in food courts and shopping malls, as well as 4 rebuilds. Also, Dual Point Service, a system that separates ordering and receiving foods, to enhance customer service, were introduced to 575 restaurants.

<Acceleration of Restaurant Revitalization>

Category	Previous Year-End	Newly Opened	Closure	Ownership Change		Current Year-End
				Increase	Decrease	
Company-operated Restaurant	954	3	(18)	4	(4)	939
Franchised Restaurant	2,002	3	(33)	4	(4)	1,972
Total	2,956	6	(51)	8	(8)	2,911

<Localization of Business Structure>

In June 2015, in order to bring engagement and decision making closer to our customers, we introduced Regional Headquarters System that divides the Japan market into three distinct regions (East Japan, Central Japan and West Japan). Under this localized structure, each region/restaurant is working closely with local communities, taking various actions rooted in local communities and customers, such as holding sport events and traffic safety events in cooperation with local governments. Through these activities, the support system for franchise owners and restaurants has been enhanced as well, contributing to improvement of QSC (Quality, Service and Cleanliness) and growth of business.

<Improvement in Cost and Resource Efficiency>

Profitability is steadily increasing due to strategic closures and 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.

(2) Analysis of Operating Results

<System-wide Sales and Revenue>

During this consolidated fiscal year, we made a strong business recovery thanks to a synergy of various customer-first initiatives undertaken in accordance with our Business Revitalization Plan: same-store sales increased 20.0%, system-wide sales increased 61,935 million yen from last year to 438,488 million yen, and revenue increased 37,172 million yen from last year to 226,646 million yen.

<Cost of Sales>

Cost of sales margin for company-operated restaurants decreased by 9.8 percentage points year-on-year primarily due to an increase in revenue and an increase in restaurant profitability brought about by improvement in restaurant operations and closures of unprofitable restaurants. Also, franchise cost of sales ratio decreased by 20.5 percentage points due to an increase in franchise revenue resulting from an increase in revenue.

(Breakdown of Cost of Sales)

(Unit: Million Yen)

	Year ended December 31, 2015		Year ended December 31, 2016		Year-on-year change	
	Amount	%	Amount	%	Amount	%
Company-operated restaurants' cost of sales	142,513	100.0%	147,994	90.2%	5,480	(9.8) %
(Breakdown)						
Raw material	53,326	37.4%	58,157	35.4%	4,831	(2.0) %
Labor	46,548	32.7%	47,084	28.7%	535	(4.0) %
Other	42,638	29.9%	42,752	26.0%	113	(3.9) %
Franchised restaurants -occupancy expenses	45,151	96.2%	47,303	75.7%	2,151	(20.5) %
Other	0	83.4%	-	-%	(0)	-%
Total	187,665	99.0%	195,297	86.2%	7,631	(12.9) %

<Selling, General and Administrative Expenses>

Selling, general and administrative expenses decreased 2.6 percentage points from the previous year as a result of effective marketing activities and optimization of general and administrative costs.

(Breakdown of Selling, General and Administrative Expenses)

(Unit: Million Yen)

	Year ended December 31, 2015		Year ended December 31, 2016		Year-on-year change	
	Amount	%	Amount	%	Amount	%
Selling, general & administrative expenses	25,247	13.3%	24,417	10.8%	(829)	(2.6) %
(Breakdown)						
Advertising & selling	5,978	3.2%	5,816	2.6%	(161)	(0.6) %
Other	19,269	10.2%	18,601	8.2%	(668)	(2.0) %

<Ordinary Income (Loss)>

Ordinary Income was 6,614 million yen, reflecting sales recovery and restaurant profitability improvement. (Ordinary loss of 25,898 million yen was posted for the previous consolidated fiscal year.)

<Net Income (Loss) Attributable to Owners of the Parent>

Net income attributable to owners of the parent was 5,366 million yen after 1,094 million yen of tax provision (net loss attributable to owners of the parent of 34,951 million yen was recognized for the previous consolidated fiscal year) due to 6,614 million yen of ordinary income, plus special income from 582 million yen for reversal of store closing reserve offsetting by special loss of 707 million yen such as impairment loss and loss on disposals of fixed assets.

- (*)
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 consolidated statements of income.
 3. Operating results are not presented in relation to the segment information as the business of our Group is based solely on operations of hamburger restaurants.

(3) Analysis of financial position

1. Summary of Group's Assets, Liabilities and Net Assets

Current assets at the end of the current consolidated fiscal year were 41,174 million yen, an increase of 6,650 million yen from the previous fiscal year. This is mainly as a result of an increase in accounts receivables-trade and reclassification of the current portion of account receivable long-term to current assets.

Noncurrent assets were decreased 5,019 million yen from the previous fiscal year to 139,324 million yen; this is mainly due to a decrease in investments and other assets resulting from collection of lease and guarantee deposits.

Current liabilities were decreased 1,682 million yen from the previous fiscal year to 39,802 million yen, due primarily to an increase in consumption tax payable and repayment of short-term loans.

Non-current liabilities were increased 1,951 million yen from the previous fiscal year to 30,482 million yen due mainly to an increase in long-term loans payable.

2. Cash Flow Summary

The status of cash flow for the current consolidated fiscal year is as follows:

Cash and cash equivalent ("Cash") at the end of the current year was 21,244 million yen, up by 856 million yen from the previous fiscal year.

(Cash flow from operating activities)

The net cash flow from operating activities was 19,761 million yen. (A decrease of 14,560 million yen was reported for the previous consolidated fiscal year.) This was mainly due to income before taxes of 6,489 million yen, depreciation and amortization expenses of 9,194 million yen, an increase in other liabilities of 3,412 million yen, an increase in other allowances of 2,065 million yen, and an increase in accounts receivable-trade of 2,438 million yen.

(Cash flow from investing activities)

Cash spent on investment activities totaled 11,032 million yen (decrease of 2,219 million yen from the previous fiscal year). This is mainly as a result of payment of 14,715 million yen for acquisition of tangible non-current assets and income of 4,458 million yen coming from collection of deposits and guarantees.

(Cash flow from financing activities)

A total of 7,912 million yen was used in financing activities. (The income of 19,611 million yen was reported for the previous fiscal year.) This is primarily as a result of revenue of 12,000 million yen from long-term borrowings, long-term loan repayment of 9,500 million yen, short-term loan repayment of 5,000 million yen and the dividend payments of 3,988 million yen.

	2012	2013	2014	2015	2016
Equity ratio	75.4%	80.5%	78.5%	60.8%	60.9%
Equity ratio based on market prices	135.2%	167.6%	189.3%	194.8%	225.4%
Years required to redeem liabilities	0.5 years	1.2 years	—	—	1.3years
Interest-coverage ratio	218.6 times	86.3 times	—	—	83.4times

Equity Ratio: $\text{Equity} / \text{Total Assets}$

Equity Ratio based on Market Prices: $\text{Market Capitalization} / \text{Total Assets}$

Years Required to Redeem Liabilities: $\text{Interest-bearing Liabilities} / \text{Operating Cash Flow}$

Interest-Coverage Ratio: $\text{Operating Cash Flow} / \text{Interest Payments}$

*Each of the foregoing ratios is calculated on the basis of consolidated financial data.

*Market capitalization is calculated based on outstanding shares excluding treasury stocks.

*Interest-bearing liabilities refer to all liabilities on the consolidated balance sheets on which interest is paid.

*Operating cash flow and interest payments are calculated using the respective figures for cash flow from operating activities and interest expenses paid, as listed on the consolidated cash flow statements.

*"Years required to redeem liabilities" and "interest coverage ratio" for 2014 and 2015 are not provided here due to the negative cash flows from operating activities.

(4) Fundamental policy with regard to the distribution of profits and dividend for the current and next fiscal year

Taking into consideration of the overall balance between business results, dividend payout ratios, and cash flows, the Company strives to return profits based on the continuous payment of a stable dividend, while maintaining financial indicators at appropriate levels, such as capital ratio and return on equity.

The Company's basic policy is to make annual dividend once in a year end from retained earnings and its decision making is made at annual shareholders' meeting.

For the current and next fiscal year, the Company is planning to make a dividend of 30 yen per share (consistent with the previous year) based on the above policy.

(5) Operational and other risks

The Group operating results and financial position are subject to the following risks.

References in this document relating future are based on the best estimates made as of December 31, 2016.

① Food safety control of the Company

McDonald's Company (Japan), Ltd. recognizes the importance of food safety in the restaurant industry. In going beyond the statutory food hygiene requirements, it carries out periodic independent inspections based on the HACCP technique as known as global standard for cleanliness management method (Hazard Analysis Critical Control Point: see note below). It also has strict quality management system ("SQMS") by combining McDonald's Japan specific standards and the requirements from the international management system standards such as ISO9001, ISO22000, and PAS220. SQMS has 182 items of required items to be conducted by suppliers in order to maintain high quality cleanliness.

Meanwhile, at restaurants the appointment of Food Hygiene Inspectors, extermination of insect pests, strict enforcement of hand washing and the cleanliness of uniforms for employees, periodic maintenance of restaurant equipment, development of food management manual, employees' training, among others, enable us to provide safe products for our customers. We are planning to implement measures, which would, if any mishap should occur, provide prompt medical support and contain damage. We have also taken out indemnity insurance for such a possibility.

However, it is in the nature of the food and drink business that there is always the possibility of food poisoning or other health problems and these are the risk elements that could affect the Group's operating results.

(Note) A hygiene management procedures developed by NASA to produce space food.

② General food safety crisis

McDonald's Company (Japan), Ltd. takes customers' concern very seriously so that we realize the importance of communicating where our food is produced, how McDonald's Japan ensures food safety and quality. Thus, it discloses names of countries for final processing and food materials and ensures robust quality controls. Specifically, it performs unannounced examinations by independent third party auditors, checks restaurants follow required procedures on a quarterly basis, and conducts inspections by government-designated inspectors upon arrivals of products in Japan.

However, in case of our brand being impaired by wide-spread rumor and large-scale quality issues, there is a risk of sales decrease, unexpected significant expenses such as food safety effort necessary investment, and advertising on food safety may occur and impact to our Group's operational results.

③ Restaurants' reliance on rented property

The Company's headquarters, offices and more than 95% of its restaurants are leased properties. The lease term can be extended upon agreement between the Company and a lessor. Contracts may be terminated

prematurely due to a lessor's circumstances, making the closure of some restaurants unavoidable even where they are profitable.

The Company pays a deposit to a lessor of which a security deposit (shikikin) is returned in full at the end of a contract, and a security money (hoshoukin) ["cooperative construction deposit" (kensetsukyoryokukin)] is returned as separate sums over several years up to a maximum 20 years. The current balance of lease and guarantee deposits is 37 billion 519 million yen. There is a risk that an entire or a part of this balance may become uncollectible due to bankruptcy or other problems of a lessor.

④ Fluctuations in the price of ingredients

The cost of the ingredients by McDonald's Company (Japan), Ltd. products, such as beef and potatoes, is subject to international commodity market conditions. Also, labor issues in exporting countries such as strikes could cause major delays in distributions which may lead to significant adverse impact to the Group's operational results.

⑤ Currency risk

Since part of the ingredients in food served at McDonald's Japan are imported, foreign exchange rates affect their costs. It makes every effort to avoid currency risk by having favorable exchange contracts with import agencies. However, there is no guarantee that we will be able to execute the optimum deal at all times. We may see the cost of sales rise, should the yen fall sharply beyond the scope of the contracts' coverage. This could affect the Group's operating results.

⑥ Risks associated with weather and natural disasters

In case an area heavily concentrated with our restaurants is struck by natural disasters (storm, earthquake), the affected restaurants may need to close temporarily or shorten its operation hours due to structural damage, impact to social infrastructure, logistics halt, or evacuation order. Further, possible long-term impact from natural disaster may discourage consumers to spend money, and this may cause serious impact to financial condition and performance of the Group.

⑦ Legal regulations

Our Company-operated and franchise restaurants are licensed by the authorities to operate in restaurant, pastry production and dairy product sales businesses and must comply with the provisions of the food hygiene law. It is also bound by many kinds of conservation ordinances designed to protect the environment, such as the Containers and Packaging Recycling Law. Should these restrictions be strengthened, our costs would increase, which in turn could affect the Group's operating results.

⑧ Competition

McDonald's Company (Japan), Ltd. is competing not only with other burger-based fast food chains, but also with convenience stores and so-called "nakashoku" (takeaway) businesses. The Group defines itself as a player in the IEO (Informal Eating Out) market; that is the market comprising of restaurant businesses excluding pubs, bars and canteens. We analyze our business within the framework of this market. Any intensification of competition within the IEO market could affect the Group's operating results.

⑨ Personal data protection

The Group manages customers' personal data in strict accordance with the Personal Data Protection Law. If there is any leak, it would cause great damage to our customers and would put our credibility at risk.

2. Management policies

(1) Fundamental management policy

Since its foundation, the Group has always lived up to its fundamental management policy of being our customers' "favorite place and style to eat", which stands on the concept of "QSC & V". "QSC & V" represents four values provided to its customers, and we will continue to pursue the enhancement of corporate value and service to its stakeholders by providing the best "QSC & V" to our customers.

- Q = Quality (Products with the best taste and quality)
- S = Service (Speedy and pleasant service)
- C = Cleanliness (Clean and comfortable environment)
- V = Value (Maximum satisfaction of the customers)

(2) Performance indicators and targets

The Group recognizes sustainable profitability growth as the most critical business priority, and uses ordinary income ratio and ROE as major performance indicators.

(3) Mid-term management strategy

McDonald's vision is to become a "modern burger restaurant that connects with customers".

In and after 2017, we are going to shift into strengthening our business to ensure ongoing growth, based on the strong business foundation we built through execution of the Business Revitalization Plan, and continue to execute and focus further on the three pillars that are most important to customers; "Menu and Value", "Restaurant Experience" and "Brand".

Each pillar is based on our stance of sincerely listening to and understand customer voices and make ongoing efforts to meet their expectations. We will continue to put customer first.

2017 key strategies are as follows:

<Enhancement of "Menu and Value", "Restaurant Experience" and "Brand">

Menu, the foundation of restaurant business will be enhanced further to make seamless introduction of tasty products that delight our customers. Also, we will continue to offer and enhance Value Set lineup, Otegoro Mac and Value Lunch to ensure our everyday value for money and affordability.

Also, to enhance "restaurant experience", we will renovate 350 – 400 restaurants in addition to 555 remodels conducted in 2016 and to deliver even better hospitality and cleanliness. We will continue to offer promotions that bring fun and excitement unique to McDonald's.

<Investment to "Deliciousness", "Convenience" and "People">

To ensure that McDonald's becomes even more familiar and a place of excitement and connection, we are going to invest more on "deliciousness", "convenience" and "people".

- Investment to "Deliciousness"

Focus will be made on "enhanced taste of menu".

We announced that effort on January 12, 2017 with the declaration of "Oishisa Kojo Sengen", and the first product introduced on that day was our renewed Premium Roast Coffee, for which we revisited the beans and roasting process, and upgraded both to enhance the quality. We are going to make more burger and dessert announcements on future "Oishisa Kojo Sengen".

- Investment on "Convenience"

We are going to continue to enhance investment on our existing restaurants to "further enhance convenience". We will continue to install dual point service, digital menu boards and other services that are well received by our customers. In addition, we are preparing to introduce cashless payment at early stage to enable customers to order and pay with e-money and credit cards. Also, a pilot test is being held with points program, which has grown extensively in use.

We will expand testing of new order methods such as our self-order kiosks and tablets. Also, McDonald's official mobile app will evolve to provide more personalization and added value for each customer with a new approach to enhance restaurant experience.

- Investment on “People”

To provide the best-in-class restaurant experience to our customers, we will further accelerate investing in “people”, our valuable asset that support and execute QSC. In 2017, we will especially focus on initiatives of “staffing (secure sufficient number of restaurant crew), “training” and “communication” to further enhance QSC and bring business growth.

(4) Company challenges

As a food company, securing of ‘food safety’ is a top priority for the Group, and we are focusing on precise operation of food management system in order to provide safe meal for our customers. On top of improving our business, proactive engagement in social contribution activities is also important for us. Aiming to realize sustainable society, the Group has always been committed to community involvement.

3. Our policy of GAAP application

The Group adopts generally accepted accounting principles in Japan by considering comparability amongst competitors as well as one between periods for consolidated financial statements.

4. Consolidated financial statements

(1) Consolidated balance sheets

Millions of yen	December 31, 2015	December 31, 2016
(Assets)		
Current assets		
Cash and deposits	20,388	21,244
Accounts receivable - trade	8,119	10,558
Current portion of long-term accounts receivable	-	3,336
Raw materials and supplies	862	999
Deferred tax assets	478	597
Other	4,711	5,574
Allowance for doubtful accounts	(35)	(1,136)
Total current assets	34,524	41,174
Noncurrent assets		
Property and equipment		
Buildings and structures	83,645	90,454
Accumulated depreciation	(38,164)	(40,905)
Buildings and structures, net	45,481	49,548
Machinery and equipment	14,275	14,618
Accumulated depreciation	(10,360)	(10,423)
Machinery and equipment, net	3,915	4,195
Tools, furniture and fixtures	10,957	11,390
Accumulated depreciation	(8,623)	(8,687)
Tools, furniture and fixtures, net	2,334	2,703
Land	17,325	17,325
Lease assets	7,612	7,547
Accumulated depreciation	(4,738)	(5,560)
Lease assets, net	2,874	1,987
Construction in progress	479	1,118
Total property and equipment	72,410	76,878
Intangible assets		
Goodwill	1,195	907
Software	6,760	6,118
Other	693	694
Total intangible assets	8,650	7,720
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Long-term deferred accounts receivable	10,116	6,049
Pension assets	6,773	7,328
Deferred tax assets	224	124
Lease and guarantee deposits	41,457	37,519
Other	8,634	6,286
Allowance for doubtful accounts	(3,988)	(2,647)
Total investments and other assets	63,283	54,725
Total noncurrent assets	144,344	139,324
Total assets	178,868	180,499

Millions of yen	December 31, 2015	December 31, 2016
(Liabilities)		
Current liabilities		
Accounts payable-trade	303	844
Short-term loans payable	5,000	-
Current portion of long-term loans payable	2,500	2,500
Lease obligations	1,428	1,152
Accounts payable-other	20,843	20,893
Accrued expenses	4,502	4,918
Income taxes payable	11	1,112
Consumption taxes payable	-	3,299
Provision for bonuses	428	2,307
Provision for loss on store closing	1,681	-
Provision for loss on disposal of inventories	337	261
Asset retirement obligations	453	-
Other	3,993	2,512
Total current liabilities	41,485	39,802
Noncurrent liabilities		
Long-term loans payable	18,125	20,625
Lease obligations	2,428	1,486
Deferred tax liabilities	1,351	1,342
Deferred tax liabilities due to land revaluation	311	291
Provision for bonuses	293	435
Provision for directors' bonuses	30	126
Provision for directors' retirement benefits	54	78
Liabilities for retirement benefits	1,474	1,424
Asset retirement obligations	4,149	4,352
Other	312	319
Total noncurrent liabilities	28,530	30,482
Total liabilities	70,015	70,284
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	44,955	46,333
Treasury stock	(1)	(1)
Total shareholders' equity	111,191	112,570
Accumulated other comprehensive loss		
Revaluation reserve for land	(4,261)	(4,242)
Remeasurements of retirement benefits	1,736	1,672
Total accumulated other comprehensive loss	(2,525)	(2,569)
Non-controlling interests		
Total net assets	108,853	110,214
Total liabilities and net assets	178,868	180,499

(2) Consolidated statements of income and comprehensive income

Millions of yen	Year ended December 31, 2015	Year ended December 31, 2016
Net sales		
Sales by Company-operated restaurants	142,539	164,136
Revenue from franchised restaurants	46,933	62,509
Others	0	-
Total net sales	189,473	226,646
Cost of sales		
Product cost	142,513	147,994
Franchised restaurants occupancy expenses	45,151	47,303
Others	0	-
Total cost of sales	187,665	195,297
Gross profit	1,807	31,348
Selling, general and administrative expenses	25,247	24,417
Operating income/(loss)	(23,440)	6,930
Non-operating income		
Interest income	108	96
Compensation income	98	23
Insurance income	34	80
Reversal of allowance for doubtful accounts	-	76
Income from contribution to facilities	-	69
Other	193	269
Total non-operating income	434	615
Non-operating expenses		
Interest expenses	190	241
Provision of allowance for doubtful accounts	1,009	-
Loss on disposal of Company-operated restaurants	1,312	508
Other	380	180
Total non-operating expenses	2,893	931
Ordinary income/(loss)	(25,898)	6,614
Special income		
Reversal of provision for loss on store closing	-	582
Total special income	-	582
Special loss		
Loss on disposals of noncurrent assets	506	393
Loss on sales of noncurrent assets	89	28
Impairment loss	3,542	286
Loss on store closing	927	-
Provision for loss on store closing	1,681	-
Early retirement program expenses	550	-
Loss on supply chain agreement settlement	1,961	-
Total special loss	9,259	707
Income/(loss) before income taxes	(35,158)	6,489
Current taxes	(19)	1,057
Deferred taxes	(192)	37
Total provision for income taxes	(212)	1,094
Net income/(loss)	(34,946)	5,394
Net income attributable to non-controlling interests	5	27
Net income/(loss) attributable to owners of parent	(34,951)	5,366

Consolidated statements of comprehensive income

Millions of yen	Year ended December 31, 2015	Year ended December 31, 2016
Net income/(loss)	<u>(34,946)</u>	<u>5,394</u>
Other comprehensive income/(loss)		
Revaluation reserve for land	36	19
Remeasurements of retirement benefits	<u>64</u>	<u>△63</u>
Total other comprehensive income/(loss)	<u>100</u>	<u>△43</u>
Comprehensive income/(loss)	<u>(34,845)</u>	<u>5,350</u>
Comprehensive income/(loss) attributable to:		
Owners of parent	(34,850)	5,323
Non-controlling interests	<u>5</u>	<u>27</u>

(3) Consolidated statements of changes in net assets

Year ended December 31, 2015

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	24,113	42,124	84,319	(1)	150,555
Cumulative effects of changes in accounting policies			(53)		(53)
Adjusted beginning Balance	24,113	42,124	84,266	(1)	150,502
Changes during the year					
Dividends			(3,988)		(3,988)
Net loss			(34,951)		(34,951)
Revaluation reserve for land			(369)		(369)
Changes in items other than shareholders' equity (net)					-
Total changes	-	-	(39,310)	-	(39,310)
Ending balance	24,113	42,124	44,955	(1)	111,191

	Other Cumulative Comprehensive Income/(Loss)			Non-controlling interest	Total net assets
	Revaluation reserve for land	Remeasurements of retirement benefits	Total accumulated other comprehensive income/(loss)		
Beginning balance	(4,667)	1,671	(2,996)	181	147,740
Cumulative effects of changes in accounting policies					(53)
Adjusted beginning Balance	(4,667)	1,671	(2,996)	181	147,687
Changes during the year					
Dividends					(3,988)
Net loss					(34,951)
Revaluation reserve for land	405		405		36
Changes in items other than shareholders' equity (net)		64	64	5	70
Total changes	405	64	470	5	(38,833)
Ending balance	(4,261)	1,736	(2,525)	187	108,853

Year ended December 31, 2016

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	24,113	42,124	44,955	(1)	111,191
Changes during the year					
Dividends			(3,988)		(3,988)
Net income			5,366		5,366
Revaluation reserve for land					
Changes in items other than shareholders' equity (net)					-
Total changes	-	-	1,378	-	1,378
Ending balance	24,113	42,124	46,333	(1)	112,570

	Other Cumulative Comprehensive Income/(Loss)			Non-controlling interest	Total net assets
	Revaluation reserve for land	Remeasurements of retirement benefits	Total accumulated other comprehensive income/(loss)		
Beginning balance	(4,261)	1,736	(2,525)	187	108,853
Changes during the year					
Dividends					(3,988)
Net income					5,366
Revaluation reserve for land	19		19		19
Changes in items other than shareholders' equity (net)		(63)	(63)	27	(36)
Total changes	19	(63)	(43)	27	1,361
Ending balance	(4,242)	1,672	(2,569)	214	110,214

(4) Consolidated statements of cash flows

Millions of yen	Year ended December 31, 2015	Year ended December 31, 2016
Net cash (used in) provided by operating activities		
Income/(loss) before income taxes and non-controlling interests	(35,158)	6,489
Depreciation and amortization	7,922	9,194
Impairment loss	3,542	286
Loss on store closing	927	-
Early retirement program expenses	550	-
Loss on supply chain agreement settlement	1,961	-
(Decrease) increase in allowance for doubtful accounts	3,131	(240)
(Decrease) increase in provision for loss on store closing	1,661	(1,681)
(Decrease) increase in other provisions	(506)	2,065
Decrease in liabilities for retirement benefits	(238)	(49)
Increase in pension assets	(763)	(554)
Interest income	(108)	(96)
Interest expenses	190	241
Loss on sales of noncurrent assets	89	28
Loss on disposals of noncurrent assets	1,550	300
Increase in accounts receivable - trade	(3,109)	(2,438)
Decrease (increase) in raw materials and supplies	149	(136)
Increase in goodwill from acquisition of franchised restaurants	(1,058)	(143)
Increase in long-term deferred accounts receivable	(4,105)	731
Decrease in other assets	4,003	1,480
(Decrease) increase in accounts payable-trade	(242)	541
Increase in accounts payable-other	5,190	127
(Decrease) increase in accrued expenses	(364)	419
(Decrease) increase in other current liabilities	(1,355)	3,412
Other, net	227	135
Subtotal	(15,913)	20,111
Interest income received	5	3
Interest expenses paid	(171)	(236)
Loss on store closing paid	(147)	(57)
Early retirement program expenses paid	(530)	(19)
Income taxes paid	(542)	(79)
Income taxes refunded	2,739	39
Net cash (used in) provided by operating activities	(14,560)	19,761
Net cash used in investing activities		
Purchase of property and equipment	(11,690)	(14,715)
Proceeds from sales of property and equipment	502	1,041
Payments for lease and guarantee deposits	(332)	(585)
Refunds from collection of lease and guarantee deposits	3,132	4,458
Purchases of software	(4,075)	(551)
Payments for assets retirement obligations	(807)	(652)
Other, net	17	(26)
Net cash used in investing activities	(13,252)	(11,032)
Net cash (used in) provided by financing activities		
Net increase (decrease) in short-term loans payable	5,000	(5,000)
Increase in long-term loan payable	22,000	12,000
Repayment of long-term payable	(1,875)	(9,500)
Repayment of lease obligations	(1,524)	(1,424)
Dividends paid	(3,988)	(3,988)
Net cash (used in) provided by financing activities	19,611	(7,912)
Effect of exchange rate changes on cash and cash equivalents	(38)	40
Net (decrease) increase in cash and cash equivalents	(8,239)	856
Cash and cash equivalents at beginning of period	28,628	20,388
Cash and cash equivalents at end of period	20,388	21,244

(5) Notes to consolidated financial statements

(Notes for assumption of going concern)

Not applicable.

(Significant accounting policies)

1. Basis of consolidation

Number of consolidated subsidiaries: 2

Name of consolidated subsidiaries: McDonald's Company (Japan), Ltd.
The JV, Ltd.

2. Fiscal years of consolidated subsidiaries

The fiscal year end of all consolidated subsidiaries is December 31.

3. Items related to accounting standards

(1) Valuation for major assets

i. Marketable and investment securities

(a) Held-to-maturity securities: cost amortization method (straight-line)

(b) Other securities: valued at cost using the periodic average method for unquoted.

ii. Inventories:

Raw materials and supplies

Inventories are measured at the lower of cost or market, determined by the total average method (book value is written down to the net realizable value).

(2) Depreciation and amortization

i. Property and equipment (excluding lease assets): straight-line method

Years of useful lives for major assets:

Buildings and structures: 2 - 50 years

Machinery and equipment: 2 - 15 years

Tools, furniture and fixtures: 2 - 20 years

ii. Intangible assets (excluding lease assets): straight-line method

For software intended for internal use, the straight-line method is applied based on the period of expected use by the Group (5 -10 years).

iii. Lease assets

Lease assets related to finance lease transactions with no transfer of ownership:

Straight-line method with estimated useful lives equal to lease terms, and zero residual values.

(3) Allowances and provisions

i. Allowance for doubtful accounts

To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a statutory deduction ratio for general accounts receivable plus an amount for specific accounts for which collection appears doubtful.

ii. Provision for bonuses

Provision for bonuses has been recorded for future bonus payments to employees for this consolidated fiscal year. As some employees are entitled to stock-price-linked bonus, such an amount is estimated at the fair market value of each fiscal closing date for the period from the grant date to payment date calculated using the Black Scholes option model, multiplied by the proportion of the elapsed period over the total vested period. This calculation only reflects market conditions.

iii. Provision for store closing

A reasonably estimated amount is recorded in provision for store closing as loss expected to occur from store closing scheduled in a certain fiscal year.

iv. Provision for directors' bonuses

Directors are entitled to stock-price-linked bonus and such an amount is estimated at the fair market value of each fiscal closing date for the period from the grant date to payment date calculated using the Black Scholes option model, multiplied by the proportion of the elapsed period over the total vested period. This calculation only reflects market conditions.

v. Provision for directors' retirement benefits

In order to prepare for the payment of retirement benefit to directors, a provision is made for the estimated amount to be paid as of the end of the fiscal year based on the regulations of retirement allowance to retiring directors.

vi. Provision for loss on disposal of inventories:

A reasonably estimated amount is recorded in provision for inventories as loss expected to occur from disposal for this fiscal year.

(4) Accounting treatment for retirement benefit obligations

- i. For the purpose of retirement benefit obligation, straight-line method is used in attributing the current term retirement benefits estimated value through the end of this fiscal year.
- ii. Actuarial gain and loss is charged through income statement by allocating in straight-line method in each year of occurrence over a certain time period (6 years) at the time of respective fiscal year.

(5) Goodwill

Amortization of goodwill is computed by using the straight-line method over five years.

(6) Cash and cash equivalents

Cash and cash equivalents for the purpose of the consolidated statements cash flows includes cash on hand, deposits held at call, and short-term investments maturing in less than three months from the date of their acquisition, which must also be easily converted to cash and subject to minimal risk of price fluctuations.

(7) Other policies

Accounting for consumption taxes and local consumption taxes
Amounts shown in the consolidated financial statements are exclusive of consumption taxes.

(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 fiscal year; accordingly, the Group has made changes in the presentation of 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.

(Consolidated statement of income)

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

Loss on supply chain agreement settlement

In response to the recent reduction of our business, etc., McDonald's Company (Japan), Ltd. negotiated with business partners involved in its supply chain and reached agreement in the 4th quarter of the last consolidated fiscal year on an amount to be paid by McDonald's Company (Japan), Ltd. based on its long-term business relationship with the partners. It recorded 1,961 million yen as a loss on supply chain agreement settlement.

(Segment information)

(Segment information)

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

(Relevant information)

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

1. Information by Products and Service

Sales by Company – operated restaurants was 142 billion 539 million yen, Revenue from franchised restaurants was 46 billion 933 million yen, and other sales was 0 million yen. Revenue from franchised restaurants includes 51 million yen of gain on store sales brought by franchising of hamburger restaurants. Selling price of these restaurants was calculated based on the cash flow expected to be generated by the corresponding restaurant and agreed with buyer franchisee.

2. Information by Region

The Company does not own any consolidated subsidiaries in other countries or areas of the world other than Japan, so neither overseas sales nor tangible fixed asset exists.

3. Information by Major Customers

Description of this item is omitted as the Company does not have client whose purchase volume is more than 10% of total sales.

Fiscal year ended December 31, 2016 (January 1, 2016 to December 31, 2016)

1. Information by Products and Service

Sales by Company – operated restaurants was 164 billion 136 million yen, Revenue from franchised restaurants was 62 billion 509 million yen. Revenue from franchised restaurants includes 397 million yen of gain on store sales brought by franchising of hamburger restaurants. Selling price of these restaurants was calculated based on the cash flow expected to be generated by the corresponding restaurant and agreed with buyer franchisee.

2. Information by Region

The Group does not own any consolidated subsidiaries in other countries or areas of the world other than Japan, so neither overseas sales nor tangible fixed asset exists.

3. Information by Major Customers

Description of this item is omitted as the Company does not have client whose purchase volume is more than 10% of total sales.

(Per share-related financial information)

December 31, 2015		December 31, 2016	
Net assets per share	817.29	Net assets per share	827.32
Net income/(loss) per share	(262.88)	Net loss per share	40.37

Yen

Note: No amounts for fully diluted earnings per share have been shown because the Company had neither bonds with warrants nor convertible bonds outstanding.

Net loss per share is calculated based on the following information.

	Millions of yen	
	December 31, 2015	December 31, 2016
Net income (loss)	(34,951)	5,366
Income (loss) not available to common shareholders	-	-
Loss available to common shareholders	(34,951)	5,366
Average number of common stock outstanding (thousands shares)	132,959	132,959

(Significant Subsequent Events)**Significant Contract**

McDonald's Company (Japan),Ltd., our wholly owned subsidiary, has been in negotiation with OSI Group, LLC, the parent company of Shanghai HUSI, with respect to business matters rising from the 2014 supply incident which affected our brand. At the Board of Directors meeting held on January 31, 2017, a resolution was approved to enter into a commercial agreement such that the Company shall receive funds in support of recovery and growth of the business. Under the terms of the commercial agreement, the Company is likely to recognize approximately 2.4 billion yen as special income in the first quarter of the fiscal year ending December 31, 2017.