

Consolidated Financial Results for the Nine Months Ended September 30, 2017

November 8, 2017

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 9, 2017
Preparation of supplementary materials for quarterly financial results: None
Quarterly results briefing: None

1. Consolidated operating results (From January 1, 2017 to September 30, 2017)

(1) Consolidated financial results

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2017	187,106	13.2	15,085	296.4	15,761	357.4	15,431	380.8
September 30, 2016	165,252	20.1	3,805	—	3,445	—	3,209	—

(Note) Comprehensive income:
Nine months ended September 30, 2017: 15,068 million yen (399.5%)
Nine months ended September 30, 2016: 3,016 million yen (—%)

	Net income per share	Net income per share, fully diluted
	(Yen)	(Yen)
September 30, 2017	116.07	—
September 30, 2016	24.14	—

(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, 2017	183,792	121,084	65.9
As of December 31, 2016	180,499	110,214	60.9

(Note) Owner's equity: As of September 30, 2017: 121,084 million yen. As of December 31, 2016: 110,000 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, 2016	—	0.00	—	30.00	30.00
December 31, 2017	—	0.00	—		
December 31, 2017(Forecast)				30.00	30.00

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

**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		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	248,500	9.6	16,500	138.1	17,500	164.6	20,000	272.7	150.42

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

4. Others

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

Newly consolidated: — Excluded: —

(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: None
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, 2017: 132,960,000 shares As of December 31, 2016: 132,960,000 shares
2. Number of treasury stock
As of September 30, 2017: 869 shares As of December 31, 2016: 869 shares
3. Average number of common shares outstanding
As of September 30, 2017: 132,959,131 shares As of September 30, 2016: 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.

(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 Third Quarter Ended September 30, 2017

(1) Qualitative information on consolidated operating results

(Operating results)

During the consolidated cumulative third quarter of this year, McDonald's Holdings Company (Japan) Ltd. and subsidiaries (the "Group" or "we") continued its strong momentum and saw 13.1% same-store sales growth thanks to the synergy of various activities where the Group listens to customers and focuses on providing the restaurant experience that meets customer expectations.

System-wide sales were 361,465 million yen (up 40,573 million yen from the same period last year), revenue was 187,106 million yen (up 21,854 million yen from the same period last year), and ordinary income was 15,761 million yen (up 12,315 million yen from the same period last year). Net income attributable to owners of the parent was 15,431 million yen, reflecting recognition of 2,475 million yen of commercial agreement fund as special income (up 12,222 million yen from 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 our Group is based solely on operations of hamburger restaurants.

(Business strategies)

In fiscal 2017, we continue and enhance investment in three most important areas for customers: "menu and value", "restaurant experience", and "brand engagement", while continuing to address food safety and quality. Furthermore, we are taking innovative actions in three areas such as 1) taste, 2) convenience and 3) people, to further improve customer experience.

We executed the following actions during the nine months ended September 30, 2017:

"Taste"

We announced the "Oishisa Kojo Sengen", our relentless commitment to tastiness of core menu items, under which we revamped "Premium Roast Coffee", added "Ginger Pork Burger" (nickname: YAKKI) to our "Otegro Mac" lineup, and launched new regular menu "Gran" series consisting of three authentic meaty beef sandwiches developed to Japanese customers' taste. All these products have been very well received by customers.

Our limited-time offers hit the market as well. Our legendary burger "Chicken Tatsuta" was introduced together with a new addition to the series "Chicken Taruta". Then, "Tsukimi Burger" was also introduced with a new addition to the series "Gesshoku Burger", bringing new and delicious taste to customers.

Dessert menu items and collaborative products with popular brands also attracted great attention of consumers. "McFlurry Morinaga Milk Caramel", a collaborative product with Morinaga & Co., Ltd., "Calpis McShake", a collaborative product with Asahi Calpis Beverage Co., Ltd., "McFlurry Black Thunder", a collaborative product with Yuraku Confectionery Co., Ltd., and "McShake Chelsea" with Meiji Co., Ltd. were offered as a limited time menu.

In addition to the above, we introduced various customer engaging campaigns such as "McDonald's General Election" where the number one sandwich of McDonald's Japan was selected by a popularity vote, and "Tastiness Showdown" in which we introduced differing limited-edition burgers, "Tokyo Roast Beef Burger" (representing East Japan where McDonald's nickname is "Makku") and "Osaka Beef Cutlet Bureger" (representing West Japan where people call McDonald's "Makudo") to decide who would be crowned Champion and which would be the nickname of McDonald's Japan. Many customers participated and enjoyed these campaigns.

“Convenience”

With the aim to create noticeable changes and to offer the best possible restaurant experience for customers, we are working towards modernizing at least 90% of our restaurants by the end of 2018 and preferentially investing resources in remodels of existing restaurants. During the nine months ended September 30, 2017, we have rebuilt 5 restaurants and remodeled 308 restaurants including the ones at shopping malls and food courts.

Also, as part of our initiatives to improve customer convenience and to further enhance restaurant experience, all our restaurants nationwide (excluding the ones at certain distinguished locations) are now accepting payments by electronic money such as “nanaco” and “suica”, in addition to “dPOINTS” offered by NTT DOCOMO, Inc. and “Rakuten Super Points” offered by Rakuten, Inc.

Furthermore, in June, we introduced Uber’s food-delivery service, “UberEATS” and as of the end of this third quarter, the service is available at our 42 restaurants in Tokyo. We are working on expanding delivery service, including our own delivery service “McDelivery” which is now available at about 200 restaurants across Japan.

Classification	Previous year-end	Newly opened	Closed	Classification change		Current reporting period
				Increase	Decrease	
Company-operated	939	3	(7)	—	(7)	928
Franchised	1,972	2	(12)	7	—	1,969
Total	2,911	5	(19)	7	(7)	2,897

“People”

We are also committed to create a crew*-friendly work environment and will actively invest in “people”. (*crew = part-timers)

For the first time in our history, we held “crew experience events” at all restaurants nationwide in spring and autumn to communicate the appealing aspects of McDonald’s restaurants as a working place, and as a result, our restaurants welcomed so many people and were able to hire competent crew. We also made a major revision of crew training material; the revised material enabled us to provide high-quality training with reduced training hours.

(2) Qualitative information on consolidated financial position

At the end of the third quarter, current assets totaled 45,577 million yen, a 4,403 million yen increase from the end of the previous fiscal year. This was mainly due to a 3,449 million yen increase in other current assets and a 658 million yen increase in cash and deposits.

Non-current assets totaled 138,214 million yen, a 1,110 million yen decrease from the end of the previous fiscal year. This was mainly due to a 1,509 million yen decrease in lease and guarantee deposits, a 990 million yen increase in buildings and structures and a 2,533 million yen decrease in long-term deferred accounts receivable.

Current liabilities were 32,982 million yen, a 6,820 million yen decrease from the end of the previous fiscal year. This decrease was primarily the results of a 5,754 million yen decrease in accounts payable-other and a 1,142 million yen decrease in consumption taxes payable.

Non-current liabilities totaled 29,725 million yen, a 756 million yen decrease from the end of the previous fiscal year resulting mainly from a 1,875 million yen decrease in long-term loans payable, a 521 million yen decrease in lease obligations and a 1,207 million yen increase in provision for bonuses.

(3) Qualitative information on consolidated earnings forecasts

No change has been made to the forecasts on the consolidated operating results for the fiscal year ending December 31, 2017, announced on August 9, 2017.

2. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

Millions of yen	December 31, 2016	September 30, 2017
(Assets)		
Current assets		
Cash and deposits	21,244	21,903
Accounts receivable-trade	10,558	10,304
Current portion of long-term deferred accounts receivable	3,336	3,251
Raw materials and supplies	999	990
Deferred tax assets	597	597
Other	5,574	9,024
Allowance for doubtful accounts	(1,136)	(492)
Total current assets	41,174	45,577
Non-current assets		
Property and equipment		
Buildings and structures, net	49,548	50,539
Machinery and equipment, net	4,195	4,415
Tools, furniture and fixtures, net	2,703	3,687
Land	17,325	17,325
Lease assets, net	1,987	1,453
Construction in progress	1,118	307
Total property and equipment	76,878	77,728
Intangible assets		
Goodwill	907	626
Software	6,118	6,725
Other	694	694
Total intangible assets	7,720	8,045
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Long-term deferred accounts receivable	6,049	3,515
Pension assets	7,328	6,997
Deferred tax assets	124	289
Lease and guarantee deposits	37,519	36,010
Other	6,286	6,715
Allowance for doubtful accounts	(2,647)	(1,154)
Total investments and other assets	54,725	52,439
Total non-current assets	139,324	138,214
Total assets	180,499	183,792

Millions of yen	December 31, 2016	September 30, 2017
(Liabilities)		
Current liabilities		
Accounts payable-trade	844	23
Current portion of long-term loans payable	2,500	2,500
Lease obligations	1,152	889
Accounts payable-other	20,893	15,139
Accrued expenses	4,918	5,736
Income taxes payable	1,112	2,199
Consumption taxes payable	3,299	2,156
Provision for bonuses	2,307	2,002
Provision for loss on disposal of inventories	261	—
Other	2,512	2,335
Total current liabilities	<u>39,802</u>	<u>32,982</u>
Non-current liabilities		
Long-term loans payable	20,625	18,750
Lease obligations	1,486	964
Deferred tax liabilities	1,342	1,176
Deferred tax liabilities due to land revaluation	291	291
Provision for bonuses	435	1,643
Provision for directors' bonuses	126	655
Provision for directors' retirement benefits	78	99
Liabilities for retirement benefits	1,424	1,447
Asset retirement obligations	4,352	4,373
Other	319	323
Total non-current liabilities	<u>30,482</u>	<u>29,725</u>
Total liabilities	<u>70,284</u>	<u>62,707</u>
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	46,333	57,826
Treasury stock	(1)	(1)
Total shareholders' equity	<u>112,570</u>	<u>124,013</u>
Accumulated other comprehensive income		
Revaluation reserve for land	(4,242)	(4,242)
Remeasurements of retirement benefits	1,672	1,313
Total accumulated other comprehensive income	<u>(2,569)</u>	<u>(2,928)</u>
Non-controlling interests		
	214	—
Total net assets	<u>110,214</u>	<u>121,084</u>
Total liabilities and net assets	<u>180,499</u>	<u>183,792</u>

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income for the nine months ended September 30, 2016 and 2017

Millions of yen	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Net sales	165,252	187,106
Cost of sales	143,446	153,125
Gross profit	21,805	33,981
Selling, general and administrative expenses	17,999	18,896
Operating income	3,805	15,085
Non-operating income		
Interest income	75	166
Reversal of allowance for doubtful accounts	—	612
Compensation income	14	34
Insurance income	73	111
Income from fees for equipment	—	420
Other	207	153
Total non-operating income	371	1,500
Non-operating expenses		
Interest expenses	189	130
Provision of allowance for doubtful accounts	99	—
Loss on disposals of company-operated restaurants	279	562
Other	162	130
Total non-operating expenses	730	823
Ordinary income	3,445	15,761
Special income		
Reversal of provision for loss on store closing	478	—
Commercial agreement fund	—	2,475
Total special income	478	2,475
Special loss		
Loss on disposals of noncurrent assets	247	357
Total special loss	247	357
Income before income taxes	3,677	17,879
Income taxes	466	2,452
Net income	3,211	15,427
Net income/(loss) attributable to non-controlling interests	1	(4)
Net income attributable to owners of parent	3,209	15,431

Quarterly consolidated statements of comprehensive income

For the nine months ended September 30, 2016 and 2017

Millions of yen	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Net income	3,211	15,427
Other comprehensive income		
Revaluation reserve for land	19	—
Remeasurements of retirement benefits	(214)	(358)
Total accumulated other comprehensive loss	(194)	(358)
Comprehensive income	3,016	15,068
Comprehensive income/(loss) attributable to:		
Owners of parent	3,015	15,072
Non-controlling interests	1	(4)

(3) Notes to consolidated financial statements

(Notes for assumption of going concern)

None

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

None

(Application of simplified accounting policies for quarterly financial statements)

Income taxes:

Income taxes are determined based on an effective tax rate for the estimated annual pre-tax income.

(Segment information)

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