

## Consolidated Financial Results for the Six Months Ended June 30, 2017

August 9, 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: August 10, 2017

Preparation of supplementary materials for quarterly financial results: Yes

Quarterly results briefing: Yes (For analysts)

### 1. Consolidated operating results (From January 1, 2017 to June 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/(loss)		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2017	121,229	15.6	9,427	—	10,131	—	10,716	—
June 30, 2016	104,893	23.0	47	—	(151)	—	158	—

(Note) Comprehensive income/(loss):

Three months ended June 31, 2017: 10,473 million yen (—%)

Three months ended June 31, 2016: 43 million yen (—%)

	Net income per share	Net income/(loss) per share, fully diluted
	(Yen)	(Yen)
June 30, 2017	80.60	—
June 30, 2016	1.19	—

#### (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, 2017	182,197	116,489	63.9
As of December 31, 2016	180,499	110,214	60.9

(Note) Owner's equity: As of June 30, 2017: 116,489 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: Yes

**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 June 30, 2017: 132,960,000 shares As of December 31, 2016: 132,960,000 shares
2. Number of treasury stock  
As of June 30, 2017: 869 shares As of December 31, 2016: 869 shares
3. Average number of common shares outstanding  
As of June 30, 2017: 132,959,131 shares As of June 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.

## Contents

<b>1. Qualitative information on financial results for the second quarter ended June 30, 2017</b>	
(1) Qualitative information on consolidated operating results-----	2
(2) Qualitative information on consolidated financial position-----	3
(3) Qualitative information on consolidated earnings forecasts-----	4
<b>2. Quarterly consolidated financial statements</b>	
(1) Quarterly consolidated balance sheets-----	5
(2) Quarterly consolidated statements of income and comprehensive income -----	7
(3) Quarterly consolidated statements of cash flows -----	9
(4) Notes to quarterly consolidated financial statements -----	10
(Note for assumption of going concern)-----	10
(Note for significant changes in shareholders' equity)-----	10
(Application of simplified accounting policies for quarterly financial statements) -----	10
(Segment information)-----	10

## 1. Qualitative Information on Financial Results for the Second Quarter Ended June 30, 2017

### (1) Qualitative information on consolidated operating results

(Operating results)

During the consolidated cumulative second quarter of this year, McDonald's Holdings Company (Japan) Ltd. and subsidiaries (the "Group" or "we") continued its strong momentum from last year and saw 14.3% same-store sales growth thanks to the synergy of various activities the Group has been carrying out since 2015, where it listens to customers and focuses on customers' needs.

System-wide sales were 233,231 million yen (up 28,217 million yen from the same period last year), revenue was 121,229 million yen (up 16,336 million yen from the same period last year), and ordinary income was 10,131 million yen (we posted ordinary loss of 151 million yen a year earlier). Net income attributable to owners of the parent was 10,716 million yen, reflecting recognition of 2,475 million yen of commercial agreement fund as special income (up 10,558 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 operations.
  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 to work on enhancing "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.

We executed the following actions during the second quarter:

"Taste"

In January, we announced the "Oishisa Kojo Sengen", our relentless commitment to tastiness of core menu items, and revamped "Premium Roast Coffee" as the first product of this initiative. Then, the second round was launched in February; we added "Ginger Pork Burger" (nickname: YAKKI), a new regular item to our "Otegro Mac" lineup. The launch of the third round, "Gran" series, was in April; three authentic meaty beef sandwiches developed to Japanese customers' taste were added as new regular menu items. A revamp of "McFlurry with OREO Cookies" followed as the fourth round. All these products have been very well received by customers.

We also held the first-ever "McDonald's General Election" in January, where the number one sandwich of McDonald's Japan was selected by a popularity vote; about 1.1 million customers voted for their favorite. In May, a much-loved 2016 limited-time offer "McDonald's URA Menu" hit the market again as "McDonald's URA Menu 2". In June, the "Big Mac Festival" campaign was launched, where we offered "Grand Big Mac" and "Giga Big Mac" as well as jars of Big Mac Sauce and McDonald's and BEAMS DESIGN collaboration items for the first time; this campaign created a buzz.

In addition to the above, our limited-time offers hit the market as well. In February, our legendary burger "Chicken Tatsuta" was introduced together with a new addition to the series "Chicken Taruta". Then, "Teritama" sandwiches were introduced in March.

Dessert menu items and collaborative products with popular brands also attracted great attention of consumers. We offered "McFlurry Morinaga Milk Caramel", a collaborative product with Morinaga & Co., Ltd., in May, and "Calpis McShake", a collaborative product with Asahi Calpis Beverage Co., Ltd., in June.

## “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 investigating resources in remodels of existing restaurants. During the cumulative second quarter, we have rebuilt 4 restaurants and remodeled 187 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 special locations) started accepting “dPOINTS” offered by NTT DOCOMO, Inc. from March 1 and “Rakuten Super Points” offered by Rakuten, Inc. from June 1.

Furthermore, in June, we introduced Uber’s food-delivery service, “UberEATS” at our 33 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	2	(6)	—	(2)	933
Franchised	1,972	—	(11)	2	—	1,963
Total	2,911	2	(17)	2	(2)	2,896

## “People”

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

In March, we held a “crew experience event” at all restaurants nationwide 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 crews. 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

### 1) Analysis of financial position

At the end of the second quarter, current assets totaled 43,914 million yen, a 2,740 million yen increase from the end of the previous fiscal year. This was mainly due to a 1,361 million yen increase in cash and deposits.

Non-current assets totaled 138,282 million yen, a 1,042 million yen decrease from the end of the previous fiscal year. This was mainly due to a 1,145 million yen decrease in lease and guarantee deposits and collections of long-term deferred accounts receivable.

Current liabilities were 35,922 million yen, a 3,880 million yen decrease from the end of the previous fiscal year. This decrease was primarily the results of a 1,644 million yen decrease in consumption taxes payable and a 1,316 million yen decrease in accounts payable-other.

Non-current liabilities totaled 29,785 million yen, a 696 million yen decrease from the end of the previous fiscal year resulting mainly from a 683million yen increase in provision for bonuses and a 1,250 million yen decrease in long-term loans payable.

## 2) Cash flow summary

Cash and cash equivalent at the end of the second quarter was 22,606 million yen, up 1,361 million yen from the end of the previous fiscal year.

Cash flow for the six months ended June 30, 2017 is as follows:

(Cash flow from operating activities)

A total of 10,970 million yen was generated for operating activities (an increase of 9,097 million yen from the same period previous last year) mainly due to a pre-tax income of 12,470 million yen.

(Cash flow from investing activities)

A total of 3,700 million yen (a decrease 1,982 million yen from the same period last year) was used in investing activities. This is primarily due to purchases of property and equipment for restaurant development for 4,829 million yen and collection of lease and guarantee deposits for 1,280 million yen.

(Cash flow from financing activities)

Cash flow used in financing activities was 5,894 million yen (net cash 956 million yen provided in the same period last year), mainly because of 1,250 million yen repayments of long-term loans payable and dividend payments of 3,988 million yen.

## **(3) Qualitative information on consolidated earnings forecasts**

An upward revision has been made to the consolidated annual earnings for the fiscal year ending December 31, 2017, primarily its recent strong earnings trend as well as the anticipation of impact from tax effect accounting in net income attributable to owners of parent. For details, please refer to the “Revision of Consolidated Financial Forecast for 2017” announced today.

## 2. Quarterly consolidated financial statements

### (1) Quarterly consolidated balance sheets

Millions of yen	December 31, 2016	June 30, 2017
(Assets)		
<b>Current assets</b>		
Cash and deposits	21,244	22,606
Accounts receivable-trade	10,558	9,033
Current portion of long-term deferred accounts receivable	3,336	3,281
Raw materials and supplies	999	1,029
Deferred tax assets	597	597
Other	5,574	7,806
Allowance for doubtful accounts	(1,136)	(439)
Total current assets	41,174	43,914
<b>Non-current assets</b>		
<b>Property and equipment</b>		
Buildings and structures, net	49,548	49,718
Machinery and equipment, net	4,195	4,092
Tools, furniture and fixtures, net	2,703	3,002
Land	17,325	17,325
Lease assets, net	1,987	1,626
Construction in progress	1,118	744
Total property and equipment	76,878	76,510
<b>Intangible assets</b>		
Goodwill	907	690
Software	6,118	6,277
Other	694	694
Total intangible assets	7,720	7,661
<b>Investments and other assets</b>		
Investment securities	56	56
Long-term loans receivable	9	9
Long-term deferred accounts receivable	6,049	4,337
Pension assets	7,328	7,107
Deferred tax assets	124	192
Lease and guarantee deposits	37,519	36,374
Other	6,286	7,241
Allowance for doubtful accounts	(2,647)	(1,209)
Total investments and other assets	54,725	54,110
Total non-current assets	139,324	138,282
<b>Total assets</b>	180,499	182,197

Millions of yen	December 31, 2016	June 30, 2017
<b>(Liabilities)</b>		
<b>Current liabilities</b>		
Accounts payable-trade	844	45
Current portion of long-term loans payable	2,500	2,500
Lease obligations	1,152	984
Accounts payable-other	20,893	19,577
Accrued expenses	4,918	5,256
Income taxes payable	1,112	1,923
Consumption taxes payable	3,299	1,655
Provision for bonuses	2,307	1,769
Provision for loss on disposal of inventories	261	—
Other	2,512	2,210
Total current liabilities	<u>39,802</u>	<u>35,922</u>
<b>Non-current liabilities</b>		
Long-term loans payable	20,625	19,375
Lease obligations	1,486	1,116
Deferred tax liabilities	1,342	1,240
Deferred tax liabilities due to land revaluation	291	291
Provision for bonuses	435	1,118
Provision for directors' bonuses	126	420
Provision for directors' retirement benefits	78	92
Liabilities for retirement benefits	1,424	1,450
Asset retirement obligations	4,352	4,358
Other	319	322
Total non-current liabilities	<u>30,482</u>	<u>29,785</u>
<b>Total liabilities</b>	<u>70,284</u>	<u>65,708</u>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	46,333	53,061
Treasury stock	(1)	(1)
Total shareholders' equity	<u>112,570</u>	<u>119,297</u>
<b>Accumulated other comprehensive income</b>		
Revaluation reserve for land	(4,242)	(4,242)
Remeasurements of retirement benefits	1,672	1,433
Total accumulated other comprehensive income	<u>(2,569)</u>	<u>(2,808)</u>
<b>Non-controlling interests</b>		
Total net assets	<u>110,214</u>	<u>116,489</u>
<b>Total liabilities and net assets</b>	<u>180,499</u>	<u>182,197</u>



**(2) Quarterly consolidated statements of income and comprehensive income**

Quarterly consolidated statements of income for the six months ended June 30, 2016 and 2017

<b>Millions of yen</b>	<b>Six months ended June 30, 2016</b>	<b>Six months ended June 30, 2017</b>
<b>Net sales</b>	104,893	121,229
<b>Cost of sales</b>	93,661	99,955
<b>Gross profit</b>	11,231	21,273
<b>Selling, general and administrative expenses</b>	11,183	11,846
<b>Operating income</b>	47	9,427
<b>Non-operating income</b>		
Interest income	49	111
Reversal of allowance for doubtful accounts	—	606
Compensation income	43	41
Insurance income	61	106
Income from fees for equipment	—	215
Other	184	121
Total non-operating income	338	1,202
<b>Non-operating expenses</b>		
Interest expenses	128	76
Provision of allowance for doubtful accounts	19	—
Loss on disposals of company-operated restaurants	222	282
Other	167	139
Total non-operating expenses	538	498
<b>Ordinary income/(loss)</b>	(151)	10,131
<b>Special income</b>		
Reversal of provision for loss on store closing	478	—
Commercial agreement fund	—	2,475
Total special income	478	2,475
<b>Special loss</b>		
Loss on disposals of noncurrent assets	124	135
Total special loss	124	135
<b>Income before income taxes</b>	201	12,470
Income taxes	41	1,758
<b>Net income</b>	160	10,712
Net income/(loss) attributable to non-controlling interests	1	(4)
<b>Net income attributable to owners of parent</b>	158	10,716

**Quarterly consolidated statements of comprehensive income**

For the six months ended June 30, 2016 and 2017

<b>Millions of yen</b>	<b>Six months ended June 30, 2016</b>	<b>Six months ended June 30, 2017</b>
<b>Net income</b>	160	10,712
<b>Other comprehensive income</b>		
Revaluation reserve for land	19	—
Remeasurements of retirement benefits	(135)	(238)
Total accumulated other comprehensive loss	(116)	(238)
<b>Comprehensive income</b>	43	10,743
<b>Comprehensive income/(loss) attributable to:</b>		
Owners of parent	41	10,477
Non-controlling interests	1	(4)

**(2) Consolidated statements of cash flows**

For the six months ended June 30, 2016 and 2017

<b>Millions of yen</b>	<b>Six months ended June 30, 2015</b>	<b>Six months ended June 30, 2016</b>
<b>Net cash provided by operating activities</b>		
Income before income taxes	201	12,470
Depreciation and amortization	4,560	4,343
Commercial agreement fund	—	(2,475)
Income from fees for equipment	—	(215)
Decrease in allowance for doubtful accounts	(74)	(2,134)
Decrease in provision for loss on store closing	(1,557)	—
Increase in other provisions	730	191
Increase (decrease) in pension liabilities	(20)	26
Increase in pension assets	238	220
Interest income	(49)	(111)
Interest expenses	128	76
Loss on disposals of noncurrent assets	122	177
Increase in accounts receivable-trade	826	1,524
Increase in raw materials and supplies	(62)	(30)
Increase in goodwill from acquisition of franchised restaurants	(100)	—
Decrease in long term deferred accounts receivable	117	1,766
Increase (decrease) in other assets	760	(874)
Decrease in accounts payable-trade	(288)	(799)
Decrease in accounts payable-other	(4,981)	(1,526)
Increase (decrease) in accrued expenses	(568)	331
Increase (decrease) in other liabilities	1,875	(1,455)
Other, net	180	(218)
Subtotal	2,040	11,287
Interest income received	0	4
Interest expenses paid	(128)	(66)
Loss on store closing	(57)	—
Payment for early retirement related expenses	(19)	—
Proceeds from commercial agreement fund	—	537
Proceeds from fees for equipment	—	215
Income taxes paid	(107)	(1,037)
Income taxes refund	145	29
Net cash provided by operating activities	1,872	10,970
<b>Net cash used in investing activities</b>		
Purchases of property and equipment	(7,107)	(4,829)
Proceeds from sales of property and equipment	—	617
Payments for lease and guarantee deposits	(178)	(142)
Refunds of lease and guarantee deposits	2,830	1,280
Acquisitions of software	(505)	(652)
Asset retirement obligations	(724)	(23)
Other, net	4	49
Net cash used in investing activities	(5,682)	(3,700)
<b>Net cash (used in) provided by financing activities</b>		
Repayments short-term borrowings	(5,000)	—
Proceeds from long-term loans payable	12,000	—
Repayments of long-term loans payable	(1,250)	(1,250)
Repayments of lease obligations	(805)	(655)
Dividends paid	(3,988)	(3,988)
Net cash (used in) provided by financing activities	956	(5,894)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(37)	(14)
<b>Net (decrease) increase in cash and cash equivalents</b>	(2,891)	1,361
<b>Cash and cash equivalents at beginning of period</b>	20,388	21,244
<b>Cash and cash equivalents at end of period</b>	17,497	22,606

**(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.