

(Translation)



Consolidated Financial Results for the Year ended December 31, 2023

February 8, 2024

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <https://www.mcd-holdings.co.jp/en/>)
Shares traded: Tokyo Securities Exchange, Standard
Executive position of legal representative: Tamotsu Hiiro
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Schedule of ordinary annual shareholders' meeting: March 26, 2024
Schedule of dividends payment: March 27, 2024
Schedule of annual securities report submission: March 27, 2024
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, 2023 to December 31, 2023)

(1) Consolidated financial results

	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)	%
December 31, 2023	381,989	8.4	40,877	20.9	40,734	24.1	25,163	26.2
December 31, 2022	352,300	10.9	33,807	(2.1)	32,813	(2.4)	19,937	(16.7)

(Note) Comprehensive income:

Year ended December 31, 2023: 25,134 million yen <25.7%>

Year ended December 31, 2022: 19,995 million yen <(16.4)%>

	Net income per share	Net income per share, fully diluted	Return on shareholders' equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	(Yen)	(Yen)	%	%	%
December 31, 2023	189.26	-	11.6	13.8	10.7
December 31, 2022	149.96	-	9.9	12.2	9.6

(Note) Equity method earnings :

Year ended December 31, 2023: -

Year ended December 31, 2022: -

(2) Consolidated financial position

	Total assets	Total net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2023	311,393	226,673	72.8	1,704.84
December 31, 2022	277,365	206,724	74.5	1,554.80

(Note) Owner's equity:

As of December 31, 2023: 226,673 million yen

As of December 31, 2022: 206,724 million yen

(3) Cash flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash 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, 2023	48,474	(14,178)	(5,419)	65,240
December 31, 2022	23,775	(32,222)	(5,459)	36,362

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, 2022	-	0.00	-	39.00	39.00	5,185	26.0	2.6
December 31, 2023	-	0.00	-	42.00	42.00	5,584	22.2	2.6
December 31, 2024 (Estimated)	-	0.00	-	42.00	42.00		20.7	

3. Consolidated earnings forecasts for the year ending December 31, 2024

(From January 1, 2024 to December 31, 2024)

	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
Annual	406,000	6.3	45,500	11.3	44,500	9.2	27,000	7.3	203.07

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

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

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

- The number of shares outstanding (inclusive of treasury stock)
December 2023: 132,960,000 shares December 2022: 132,960,000 shares
- The number of treasury stock
December 2023: 1,096 shares December 2022: 1,094 shares
- Average number of common shares outstanding
December 2023: 132,958,905 shares December 2022: 132,958,906 shares

(Public accountant's audit status)

Auditing procedures do not apply to the Consolidated Financial Results.

(Explanation of the appropriate use of financial forecast)

The financial forecasts and estimates in this release are based on information available at the time of disclosure and certain assumptions judged to be reasonable by the Company. Actual results may differ materially from expectations due to various factors.

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

In February 2022, McDonald's Holdings Company (Japan) Ltd. and its subsidiary (the "Group" or "we") announced its medium-term management plan (from 2022 to 2024) with the aim of sustainable growth, stronger profitability, and further enhancement of the corporate value of the Group. We are strengthening the foundation of the McDonald's business and actively invest in areas for the future to realize steady growth and meet the increasingly diverse and growing expectations of our customers. As for our financial targets for an average annual growth rate of around 5% for all store sales, 3-5% for operating income, and 10% or more for operating income ratio and ROE over the next three years, we could achieve these in this fiscal year, second year of the 3-year plan. We will continue to focus on the three strategic pillars for future growth in the areas of "Brand," "Menu & Value," and "Restaurant, Digital, and People,"

In the consolidated cumulative fourth quarter, we continued to listen to our customers, and in addition to our efforts to improve the restaurant experience for customers through store hygiene management and improved QSC and convenience, we also strengthened various menu strategies, marketing activities, and investments in hiring and training of human resources. Amid a continuously changing business environment from the previous year due to the weak yen, soaring raw material prices, and rising energy, labor, and logistics costs, we revised the over-the-counter prices of some products in order to keep our business healthy for both franchise owners, who operate around 2,100 restaurants, slightly above 70% of McDonald's restaurants in Japan, and suppliers.

As a result, sales increased on a year-over-year basis, and comparable restaurant sales increased for 33 consecutive quarters from 2015 Q4 to 2023 Q4.

Profit increased year-on-year as a result of the effects of increased sales, as well as cost management such as global-scale raw material procurement and more efficient logistics network, currency hedging and cost reduction efforts, and maximum corporate efforts such as more efficient marketing activities.

<Three Strategic Pillars for the Medium-term Management Plan>

(1) Brand

As a member of the local community, we have positioned sustainability as an essential issue to be addressed proactively and have designated "Food Quality & Sourcing," "Our Planet," "Community Connection," and "Jobs, Inclusion & Empowerment" as the four areas to be focused on. We have been publishing McDonald's concept and initiatives as Sustainability Reports on our website.

"Food Quality & Sourcing": As a company that provides food, we prioritize ensuring "food safety" and are committed to the accurate operation of its food management system so that customers can enjoy safe meals. In addition to complying with relevant laws and regulations, we have established a strict quality control system that is compliant with the Global Food Safety Initiative (GFSI) and consists of McDonald's own standards. In addition, to enhance customer trust in our products, we are building and strengthening a thorough quality control system by disclosing information on the country of final processing and the main country of origin of major raw materials, as well as conducting audits of targeted suppliers.

"Our Planet": With de-plasticization, we plan to switch 100% of customer packaging to renewable, recycled, or certified materials by the end of 2025. To achieve net zero emissions by 2050, we will implement various initiatives, including energy conservation, improved logistics efficiency, and the introduction of environmentally friendly electricity.

“Community Connection”: We will strive to contribute to the local community through support to the Ronald McDonald House Charities Japan, sports support, education support, and the provision of safety whistles.

“Jobs, Inclusion & Empowerment”: As an employer of around 200,000 crew members nationwide, we are going to create a work environment in which a diverse range of people with different personalities and backgrounds, including gender, age, and nationality, can leverage their strengths and feel motivated to work.

In the consolidated cumulative fourth quarter, in addition to continued brand communication through TV commercials, websites, and social media, we have further enhanced the store experience through QSC improvements, which has further increased customers’ favorable impression of the trust in our brand. We will continue to strengthen our ties with customers by continuing and reinforcing our current efforts.

(2) “Menu and Value”

To meet our customers’ expectations, we have strengthened our menu lineup for each time zone and implemented various initiatives to provide customers with a sense of value for their money which is in line with the “value-for-money” strategy. As for limited products, we launched “Teritama,” “Tsukimi Burger,” and “Gracoro®,” etc., which were well received by many customers as a seasonal tradition. In addition, the popular regular items “Oreo Cookie Choco Frappe” and “Mango Smoothie,” and three types of French macarons, which have been sold exclusively at “McCafé by Barista®,” a café corner attached to McDonald’s, are now available at over 2,000 McDonald’s restaurants, or approximately 70% of all restaurants nationwide, and well received by our customers. We also continue to offer “Hiru-Mac,” a weekday lunch set menu, and value sets starting from 500 yen which allow customers to easily choose from a variety of items, to deliver products that allow customers to experience the value of McDonald’s through “taste,” “value” and “convenience.”

(3) “Restaurant, Digital and People”

Restaurant development: For future growth, we will actively invest in new restaurant openings, including relocations, reimages, and rebuilds to evolve our restaurant portfolio to better meet the needs of our customers and local communities. We will provide a more convenient and comfortable environment for our customers by increasing the preparation capacity of our kitchens, adding drive-through lanes, and optimizing our delivery services.

In the cumulative fourth quarter of the current consolidated accounting period, we opened 86 and closed 71 restaurants, and the total number of restaurants at the end of this period is 2,982. With regards to capacity expansion, we are gradually introducing kitchen systems with enhanced preparation capacity and stores with increased product delivery outlets. In order to effectively utilize management resources, we will optimize our restaurant portfolio to improve customer satisfaction and business performance by flexibly allocating investments to new store openings, reimages and rebuilds.

Classification	Previous Year-End	Newly Opened	Closed	Classification change		Current reporting period
				Increase	Decrease	
Company-operated	859	43	(25)	5	(4)	878
Franchised	2,108	43	(46)	4	(5)	2,104
Total	2,967	86	(71)	9	(9)	2,982

Digital: We have introduced “Mobile Order & Pay” as a measure to provide better services through the fusion of digital and people. By integrating our mobile ordering and delivery apps into our official app, we aim to provide our customers with seamless service and further convenience to continue to meet their needs and increase the number of users. In addition, we installed devices near the front counter which allow customers to place orders without the help of staff at our restaurants. In addition, with the installment of barcode payment system, customers can choose conveniently from a variety of e-money. We will continue to provide convenient services to our customers by utilizing digital.

Delivery is a marketable area with great potential for growth moving forward. We offer delivery services through McDelivery Service (MDS) by McDonald’s crew and external delivery partners such as UberEats, Demaacan, and others. As of December 2023, MDS is available in 998 restaurants, UberEats in 1,973, Demaacan in 1,961, making the total number of restaurants that offer delivery service to 2,239. We will continue to expand the number of stores that can offer delivery services to improve customer convenience. With drive-thru, we are increasing its capacity and introducing “Park & Go” to even more restaurants, allowing customers to receive items at their parking spot using “Mobile Order & Pay,” which is available at 1,153 restaurants as of December 2023. In addition, the “Drive-Thru Mobile Order” function, which enables drive-thru pickup, has been added to the mobile ordering function of the official McDonald’s app, and is now available at drive-thru restaurants nationwide (excluding some restaurants).

People: We believe that we have been able to meet our customers’ expectations despite the rapidly changing business environment because of our people, or human resources, including approximately 200,000 crew members and restaurant employees. As such, we believe that hiring and training excellent human resources is the most important factor for business development, and we will continue to expand our investment in human resources. In order to recruit talented people, we organized campaigns such as the “Crew Experience” event, which was the first time in four years that the store held such an event. Digital CDP, training material that leverages digital devices, is available in 5 languages in addition to Japanese, contributing to improved understanding and reduced training hours of our crew. Hamburger University offers online and in-person training. In addition, we have introduced a regional employee system to provide a flexible career path for our diverse workforce as employees to suit their various lifestyles. We will continue to provide an environment where people with diverse personalities and backgrounds, regardless of gender, nationality, age, or other attributes, can work and grow in their own way by utilizing their strengths, leading to human resource development and retention.

We will continue to evolve so that we can always be close to our customers and flexibly respond to changing society and customer needs, while placing the highest priority on the safety and health of our customers, employees, and all other people. We are committed to providing delicious menu items, value for money, convincing value, and a convenient and comfortable restaurant experience on a daily basis, while working toward the realization of a sustainable society and providing “Feed and Foster Communities”.

(2) Analysis of Operating Results

<System-wide Sales and Revenue>

During the twelve months ended December 31, 2023, same store sales increased by +7.0% and average monthly sales per restaurant hit a record high in our history as a listed company as a result of synergy effects from various initiatives that put customer first and based on our medium-term management plan. System-wide sales were 777,752 million yen (a 60,163 million yen increase from the same period last year) and revenue was 381,989 million yen (a 29,688 million yen increase from the same period last year).

<Cost of Sales>

The cost-of-sales ratio for company-operated restaurants dropped 1.4 percentage points, mainly due to higher sales and improved store profitability with continuing soaring raw material prices, etc. Also, occupancy expenses for franchised restaurants increased 0.4 percentage points mainly due to larger depreciation expenses and a decrease in gains on the sale of restaurant operations business.

(Breakdown of Cost of Sales)

(Unit: Million Yen)

	Year ended December 31, 2022		Year ended December 31, 2023		Year-on-year change	
	Amount	%	Amount	%	Amount	%
Company-operated restaurants' cost of sales	217,887	91.6%	234,367	90.2%	16,480	△1.4%
(Breakdown)						
Raw material	94,130	39.6%	98,877	38.1%	4,746	△1.5%
Labor	63,862	26.9%	68,884	26.5%	5,021	△0.3%
Other	59,894	25.2%	66,606	25.6%	6,712	0.5%
Franchised restaurants -occupancy expenses	70,082	61.2%	75,330	61.6%	5,247	0.4%
Total	287,969	81.7%	309,698	81.1%	21,728	△0.7%

<Selling, General and Administrative Expenses>

Regarding selling, general and administrative expenses, we made investments for further growth. Net sales ratio dropped 0.4 percentage points due to an increase in net sales and optimization of general and administrative expenses.

(Breakdown of Selling, General and Administrative Expenses)

(Unit: Million Yen)

	Year ended December 31, 2022		Year ended December 31, 2023		Year-on-year change	
	Amount	%	Amount	%	Amount	%
Selling, general & administrative expenses	30,523	8.7%	31,413	8.2%	890	△0.4%
(Breakdown)						
Advertising & selling	7,723	2.2%	8,385	2.2%	662	0.0%
Other	22,799	6.5%	23,028	6.0%	228	△0.4%

<Operating Income and Ordinary Income >

Operating income was 40,877 million yen (a 7,069 million yen increase from the same period last year), Ordinary income was 40,734 million yen (a 7,921 million yen increase from the same period last year), reflecting sales increase.

<Net Income Attributable to Owners of the Parent>

Net income attributable to owners of the parent was 25,163 million yen (a 5,225 million yen increase from the same period last year) after 13,605 million yen of tax provision due to 40,734 million yen of ordinary income, plus special loss of 2,042 million yen for impairment loss, loss on disposals of non-current assets and loss on sales of non-current 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

At the end of the current consolidated fiscal year, current assets totaled 106,913 million yen, a 16,145 million yen increase from end of the previous fiscal year. This was mainly due to a 7,364 million yen increase in Accounts receivable - trade, a 5,612 million yen increase in Current portion of long-term deferred accounts receivable and a 3,878 million yen increase in cash and deposits.

Non-current assets totaled 204,480 million yen, a 17,882 million yen increase from the end of the previous fiscal year. This was primarily due to a 16,873 million yen increase in property and equipment.

Current liabilities were 77,024 million yen, a 13,197 million yen increase from the end of the previous fiscal year. This was mainly due to a 4,353 million yen increase in Income taxes payable, a 2,486 million yen increase in Consumption taxes payable and a 1,650 million yen increase in Accounts payable-other.

Non-current liabilities totaled 7,695 million yen, a 881 million yen increase from the end of the previous fiscal year. This was primarily due to a 936 million yen increase in Asset retirement obligations.

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 65,240 million yen, a 28,878 million yen increase from the previous fiscal year.

(Cash flow from operating activities)

The net cash flow from operating activities was 48,474 million yen. (a 24,699 million yen increase from the previous fiscal year) This was mainly due to income before income taxes of 38,768 million yen, depreciation and amortization expenses of 15,701 million yen and income taxes paid of 11,821 million yen.

(Cash flow from investing activities)

Cash used in investing activities totaled 14,178 million yen (a 18,044 million yen decrease from the previous fiscal year). This was mainly due to payment of 29,557 million yen for purchase of property, payment of 5,339 million yen for Payments for lease and guarantee deposits and proceeds from withdrawal of time deposits for 25,000 million yen.

(Cash flow from financing activities)

A total of 5,419 million yen was used in financing activities. (a 40 million yen decrease from the previous fiscal year) This was primarily as a result of the dividend payments of 5,185 million yen.

(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 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 42 yen per share based on the above policy.

2. 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.

3. Consolidated financial statements

(1) Consolidated balance sheets

Millions of yen	December 31, 2022	December 31, 2023
(Assets)		
Current assets		
Cash and deposits	61,362	65,240
Accounts receivable - trade	19,997	27,362
Current portion of long-term deferred accounts receivable	693	6,305
Raw materials and supplies	1,428	1,581
Other	7,297	6,429
Allowance for doubtful accounts	(11)	(6)
Total current assets	90,768	106,913
Non-current assets		
Property and equipment		
Buildings and structures	127,341	140,317
Accumulated depreciation	(56,721)	(59,376)
Buildings and structures, net	70,620	80,940
Machinery and equipment	22,951	27,477
Accumulated depreciation	(10,478)	(11,538)
Machinery and equipment, net	12,472	15,938
Tools, furniture and fixtures	19,534	20,900
Accumulated depreciation	(11,848)	(12,724)
Tools, furniture and fixtures, net	7,685	8,176
Land	21,498	23,909
Lease assets	4,283	3,792
Accumulated depreciation	(3,897)	(3,487)
Lease assets, net	386	304
Construction in progress	571	838
Total property and equipment	113,234	130,108
Intangible assets		
Goodwill	596	435
Software	10,023	10,045
Other	694	694
Total intangible assets	11,314	11,175
Investments and other assets		
Investment securities	4,056	8,056
Long-term loans receivable	9	9
Long-term deferred accounts receivable	11,632	5,497
Deferred tax assets	8,449	7,762
Lease and guarantee deposits	35,921	39,630
Other	3,180	3,456
Allowance for doubtful accounts	(1,202)	(1,216)
Total investments and other assets	62,048	63,196
Total non-current assets	186,597	204,480
Total assets	277,365	311,393

Millions of yen	December 31, 2022	December 31, 2023
(Liabilities)		
Current liabilities		
Accounts payable-trade	1,080	1,694
Lease obligations	218	224
Accounts payable-other	32,919	34,570
Accrued expenses	8,266	9,230
Income taxes payable	5,277	9,630
Consumption taxes payable	1,274	3,760
Contract liabilities	5,216	5,021
Provision for bonuses	2,257	2,796
Provision for loss on disposal of inventories	8	4
Asset retirement obligations	-	252
Other	7,307	9,838
Total current liabilities	63,826	77,024
Non-current liabilities		
Lease obligations	262	168
Provision for bonuses	258	205
Provision for directors' bonuses	173	243
Provision for directors' retirement benefits	261	262
Liabilities for retirement benefits	1,268	1,300
Asset retirement obligations	4,050	4,987
Deferred tax liabilities	44	33
Deferred tax liabilities due to land revaluation	289	289
Other	204	204
Total non-current liabilities	6,814	7,695
Total liabilities	70,641	84,720
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	144,580	164,558
Treasury stock	(3)	(3)
Total shareholders' equity	210,815	230,794
Accumulated other comprehensive loss		
Revaluation reserve for land	(4,202)	(4,202)
Remeasurements of retirement benefits	111	81
Total accumulated other comprehensive loss	(4,091)	(4,120)
Total net assets	206,724	226,673
Total liabilities and net assets	277,365	311,393

(2) Consolidated statements of income and comprehensive income

Millions of yen	Year ended December 31, 2022	Year ended December 31, 2023
Net sales		
Sales by Company-operated restaurants	237,757	259,692
Revenue from franchised restaurants	114,543	122,297
Total net sales	352,300	381,989
Cost of sales		
Product cost	217,887	234,367
Franchised restaurants occupancy expenses	70,082	75,330
Total cost of sales	287,969	309,698
Gross profit	64,330	72,291
Selling, general and administrative expenses	30,523	31,413
Operating income	33,807	40,877
Non-operating income		
Interest income	93	144
Compensation income	140	344
Insurance income	86	133
Subsidy income	-	163
Received incentive	88	250
Other	348	595
Total non-operating income	757	1,631
Non-operating expenses		
Interest expenses	5	8
Provision of allowance for doubtful accounts	1	14
Loss on disposal of Company-operated restaurants	1,307	1,349
Loss on cancellation of leasehold contracts	289	193
Other	148	208
Total non-operating expenses	1,752	1,774
Ordinary income	32,813	40,734
Special income		
Gain on sales of non-current assets	41	76
Total special income	41	76
Special loss		
Loss on sale of non-current assets	-	1
Loss on disposal of non-current assets	813	696
Impairment loss	863	1,344
Total special loss	1,676	2,042
Income before income taxes	31,177	38,768
Current taxes	10,899	12,683
Deferred taxes	340	2,928
Income taxes refund	-	(2,006)
Total provision for income taxes	11,239	13,605
Net income	19,937	25,163
Net income attributable to owners of parent	19,937	25,163

Consolidated statements of comprehensive income

Millions of yen	Year ended December 31, 2022	Year ended December 31, 2023
Net income	19,937	25,163
Other comprehensive income		
Remeasurements of retirement benefits	57	(29)
Total other comprehensive loss/income	57	(29)
Comprehensive income	19,995	25,134
Comprehensive income attributable to:		
Owners of parent	19,995	25,134

(3) Consolidated statements of changes in net assets

Year ended December 31, 2022

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	24,113	42,124	132,179	(2)	198,414
Cumulative effects of changes in accounting policies			(2,307)		(2,307)
Restated balance	24,113	42,124	129,872	(2)	196,107
Changes during the year					
Dividends			(5,185)		(5,185)
Net income			19,937		19,937
Purchase of treasury shares				(0)	(0)
Difference for revaluation reserve for land			(44)		(44)
Changes in items other than shareholders' equity (net)					
Total changes	-	-	14,708	(0)	14,708
Ending balance	24,113	42,124	144,580	(3)	210,815

	Other Cumulative Comprehensive Income / (Loss)			Total net assets
	Revaluation reserve for land	Remeasurements of retirement benefits	Total accumulated other comprehensive loss	
Beginning balance	(4,246)	53	(4,192)	194,222
Cumulative effects of changes in accounting policies				(2,307)
Restated balance	(4,246)	53	(4,192)	191,915
Changes during the year				
Dividends				(5,185)
Net income				19,937
Purchase of treasury shares				(0)
Difference for revaluation reserve for land	44		44	-
Changes in items other than shareholders' equity (net)		57	57	57
Total changes	44	57	101	14,809
Ending balance	(4,202)	111	(4,091)	206,724

Year ended December 31, 2023

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	24,113	42,124	144,580	(3)	210,815
Changes during the year					
Dividends			(5,185)		(5,185)
Net income			25,163		25,163
Purchase of treasury shares				(0)	(0)
Changes in items other than shareholders' equity (net)					
Total changes	-	-	19,978	(0)	19,978
Ending balance	24,113	42,124	164,558	(3)	230,794

	Other Cumulative Comprehensive Income / (Loss)			Total net assets
	Revaluation reserve for land	Remeasurements of retirement benefits	Total accumulated other comprehensive loss	
Beginning balance	(4,202)	111	(4,091)	206,724
Changes during the year				
Dividends				(5,185)
Net income				25,163
Purchase of treasury shares				(0)
Changes in items other than shareholders' equity (net)		(29)	(29)	(29)
Total changes	-	(29)	(29)	19,948
Ending balance	(4,202)	81	(4,120)	226,673

(4) Consolidated statements of cash flows

Millions of yen	Year ended December 31, 2022	Year ended December 31, 2023
Net cash provided by operating activities		
Income before income taxes and non-controlling interests	31,177	38,768
Depreciation and amortization	13,895	15,701
Impairment loss	863	1,344
Increase (decrease) in allowance for doubtful accounts	1	8
Increase (decrease) in other provisions	(281)	553
Increase (decrease) in liabilities for retirement benefits	(120)	32
Interest income	(93)	(144)
Interest expenses	5	8
Gain on sales of non-current assets	(41)	(76)
Loss on disposal of non-current assets	1,100	1,122
Decrease (increase) in accounts receivable - trade	560	(7,364)
Decrease (increase) in raw materials and supplies	(184)	(153)
Increase in goodwill from acquisition of franchised restaurants	(316)	(495)
Increase in Long-term deferred accounts receivable	(12,326)	523
Decrease (increase) in other assets	(2,218)	318
Increase (decrease) in accounts payable-trade	96	614
Increase (decrease) in accounts payable-other	3,192	1,484
Increase (decrease) in accrued expenses	812	964
Increase (decrease) in other current liabilities	(1,066)	2,653
Other, net	18	236
Subtotal	35,075	56,100
Interest income received	30	59
Interest expenses paid	(5)	(8)
Proceeds from commercial agreement fund	390	690
Income taxes paid	(12,879)	(11,821)
Income taxes refunded	1,164	3,453
Net cash provided by operating activities	23,775	48,474

Millions of yen	Year ended December 31, 2022	Year ended December 31, 2023
Net cash used in investing activities		
Proceeds from withdrawal of time deposits	-	25,000
Purchase of investment securities	(4,000)	(4,000)
Purchase of property and equipment	(23,776)	(29,557)
Proceeds from sales of property and equipment	1,453	1,587
Payments for lease and guarantee deposits	(3,137)	(5,339)
Refunds from collection of lease and guarantee deposits	1,299	1,327
Purchases of software	(3,953)	(2,853)
Payments for assets retirement obligations	(114)	(352)
Other, net	7	9
Net cash used in investing activities	<u>(32,222)</u>	<u>(14,178)</u>
Net cash used in financing activities		
Repayment of lease obligations	(273)	(233)
Purchase of treasury shares	(0)	(0)
Dividends paid	(5,185)	(5,185)
Net cash used in financing activities	<u>(5,459)</u>	<u>(5,419)</u>
Effect of exchange rate changes on cash and cash equivalents	1	1
Net increase (decrease) in cash and cash equivalents	<u>(13,904)</u>	<u>28,878</u>
Cash and cash equivalents at beginning of period	<u>50,266</u>	<u>36,362</u>
Cash and cash equivalents at end of period	<u>36,362</u>	<u>65,240</u>

(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: 1

Name of consolidated subsidiaries: McDonald's Company (Japan), 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: valued at cost.

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 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.

iv. 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.

v. Provision for loss on disposal of inventories:

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

(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) Standards for recognition of significant revenues and expenses

Revenue recognition related to hamburger restaurant business

In store operations, sales transactions occur daily based on orders from customers, including sales transactions for orders received in stores, sales transactions for orders received via mobile ordering, and sales transactions through delivery services by company's own and using outside contractors. For mobile order and delivery services, order data from the customer is transferred to the POS system via the order receipt server and converted into sales transaction data.

i. Company operated store sales

For sales at company-operated stores, the performance obligation is satisfied when the goods are provided to customers, and therefore, revenue is recognized at that point. Company-operated store sales are recorded

when sales transactions at company-operated stores are recorded in the POS system and automatically transferred to the accounting system via the sales management system.

ii. Franchise revenue

Royalty income received from franchise corporations based on franchise agreements, is calculated based on the net sales of the franchise corporations, as they are promises to grant licenses to the franchise corporations, and revenue is recognized when such net sales are generated. Sales transactions at franchised stores are recorded in the POS system, automatically transferred to the accounting system via the sales management system, calculated based on the recorded sales transaction data and the rate stipulated in the franchise agreement, and recorded in the accounting system. For initial franchise fees received from franchise corporations based on franchise agreements, the Company recognizes the consideration as a contract liability when the franchise agreement is entered into and then recognizes it as revenue over some time in accordance with the satisfaction of performance obligations.

(6) Goodwill

Amortization of goodwill is computed by using the straight-line method over 5 years.

(7) 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.

(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, 2022 (January 1, 2022 to December 31, 2022)

1. Information by Products and Service

Sales by Company - operated restaurants was 237,757 million yen, Revenue from franchised restaurants was 114,543 million yen. Revenue from franchised restaurants includes 617 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.

Fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

1. Information by Products and Service

Sales by Company - operated restaurants was 259,692 million yen, Revenue from franchised restaurants was 122,297 million yen. Revenue from franchised restaurants includes 168 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.

(Disclosure of impairment loss on non-current assets for each reportable segment)

Descriptions are omitted as the Group operates as a single segment.

(Amortization and unamortized balance of goodwill for each reportable segment)

Descriptions are omitted as the Group operates as a single segment.

(Information about gain on bargain purchase for each reportable segment)

Descriptions are omitted as the Group operates as a single segment.

(Per share-related financial information)

Yen

December 31, 2022		December 31, 2023	
Net assets per share	1,554.80	Net assets per share	1,704.84
Net income per share	149.96	Net income per share	189.26

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 income per share is calculated based on the following information.

(Unit: Million Yen)

	December 31, 2022	December 31, 2023
Net income	19,937	25,163
Income not available to common shareholders	-	-
Income available to common shareholders	19,937	25,163
Average number of common stock outstanding (thousands shares)	132,958	132,958

(Significant Subsequent Events)

Not applicable.