# (Translation)

## Consolidated Financial Results for the Year ended December 31, 2015

February 9, 2016

**McDonald's Holdings Company (Japan), Ltd.**


Company code number: 2702 (URL http://www.mcd-holdings.co.jp/)
Shares traded: Tokyo Securities Exchange, JASDAQ
Executive position of legal representative: Sarah L Casanova
CEO and President, Representative Director
Please address all communications to: Yutaka Masuda
Senior Director, Finance Division
Phone: (03) 6911-6000


Schedule of ordinary annual shareholders' meeting: March 29, 2016
Schedule of dividends payment: March 30, 2016
Schedule of annual securities report submission: March 30, 2016
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, 2015 to December 31, 2015)

### (1) Consolidated financial results

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

| | Net sales | | Operating loss | | Ordinary loss | |
|---|---|---|---|---|---|---|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| December 31, 2015 | 189,473 | (14.8) | (25,233) | — | (27,691) | — |
| December 31, 2014 | 222,319 | (14.6) | (6,714) | — | (7,974) | — |

Note:
Comprehensive loss: Year ended December 31, 2015: (34,611) million yen < —%> Year ended December 31, 2014: (21,836) million yen < —%>

| | Net loss | | Net loss per share | Net income/(loss) per share, fully diluted | Return on shareholders' equity | Ratio of ordinary loss to total assets | Ratio of operating loss to net sales |
|---|---|---|---|---|---|---|---|
| | (Millions of yen) | % | (Yen) | (Yen) | % | % | % |
| December 31, 2015 | (34,704) | — | (261.02) | — | (27.1) | (15.1) | (13.3) |
| December 31, 2014 | (21,843) | — | (164.29) | — | (13.7) | (4.0) | (3.0) |

Note:
Equity method earnings: Year ended December 31, 2015: — Year ended December 31, 2014: —

### Consolidated financial position

| | Total assets | Shareholders' equity | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | (Millions of yen) | (Millions of yen) | % | (Yen) |
| December 31, 2015 | 178,673 | 109,086 | 60.9 | 819.04 |
| December 31, 2014 | 188,048 | 147,740 | 78.5 | 1,109.81 |

Note:
Owner's equity: As of December 31,2015 : 108,899 million yen As of December 31, 2014 : 147,559 million yen

## (2) Cash flows

| | Net cash 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, 2015 | (14,787) | (12,883) | 19,470 | 20,388 |
| December 31, 2014 | (13,652) | (12,310) | (5,532) | 28,628 |

# 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, 2014 | — | 0.00 | — | 30.00 | 30.00 | 3,988 | — | 2.7 |
| December 31, 2015 | — | 0.00 | — | 30.00 | 30.00 | 3,988 | — | 3.1 |
| December 31, 2016 (Estimated) | — | 0.00 | — | 30.00 | 30.00 | — | — | — |

# 3. Consolidated earnings forecasts for the year ending December 31,2016 (From January 1, 2016 to December 31, 2016)

| | Net sales | | Operating income/(loss) | | Ordinary income/(loss) | | Profit/(loss) attributable to owners of parent | | Net income/(loss) per share |
|---|---|---|---|---|---|---|---|---|---|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | Yen |
| Interim period | 104,000 | 21.9 | (1,800) | — | (2,500) | — | (1,800) | — | (13.54) |
| Annual | 220,000 | 16.1 | 3,300 | — | 2,200 | — | 1,000 | — | 7.52 |

# 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 2015: 132,960,000 shares December 2014: 132,960,000 shares
2. The number of treasury stock
   December 2015: 869 shares December 2014: 869 shares
3. Average number of common shares outstanding
   December 2015: 132,959,131 shares December 2014: 132,959,146 shares

(Public accountant's audit status)

At the time of disclosure of the financial results, the financial statement review 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.

## Contents

# 1. Operating results

## (1) Business strategy

During the consolidated fiscal year 2015, aiming to restore trust of our customers and all stakeholders, and in keeping with our mission of “putting customers at the center of everything we do”, we have been addressing food safety and quality issues as our top priority. Meanwhile, we developed and executed Business Revitalization Plan to build a foundation for a rapid business turnaround and future sustainable growth and to achieve medium to long-term growth.

**Actions to Ensure Food Safety and Quality**

Aiming to further enhance our food safety and quality processes, we took a variety of actions including reinforcement of suppliers’ quality management systems, enhancement of supplier relationships, introduction of unannounced restaurant inspections by third party institutes, and provision of re-training to 140,000 crews across Japan. Also, we have continually rolled out activities to increase transparency and disclosure of product quality information. As part of such efforts, we launched “Mom’s Eye Project” and disclosed site visit reports written from Moms’ perspectives onto our website and through SNS.

**Business Revitalization Plan**

Aiming to regain confidence of customers and stakeholders, accelerate the business recovery, and lay foundation for future sustainable growth, we delivered against our four-point business revitalization plan: “Customer Focused Initiatives”, “Accelerate Restaurant Revitalization”, “Localize Our Business Structure”, and “Improve Cost and Resource Efficiency”. The actions we have taken during the year are as follows:

<Customer Focused Initiatives>

- Reset our value platform with the launch of Otegoro Mac: launch of three new affordable yet filling regular menus of “Egg Cheese Burger”, “BBQ Pork Burger”, and “Ham Lettuce Burger” at 200 yen for a la carte and 500 yen for an EVM
- Launch of more menu items featuring locally sourced ingredients
- More choice and more straightforward pricing with the launch of new EVM choice
- More visual and intuitive menu board layout and the introduction of hand held menus
- “Connections with customers centered on cleanliness and enhanced dining experience”, the re-introduction of ‘Smiles 0 Yen’ across Japan
- A new smartphone app “KODO” to directly listen to customer’s voice
- Revamp of official app for smartphone users

<Acceleration of Restaurant Revitalization>

| Category | Previous Year-End | Newly Opened | Closure | Ownership Change | | Current Year-End |
|---|---|---|---|---|---|---|
| | | | | Increase | Decrease | |
| Company-owned Restaurant | 1,009 | 10 | (96) | 42 | (11) | 954 |
| Franchise Restaurant | 2,084 | 6 | (57) | 11 | (42) | 2,002 |
| Total | 3,093 | 16 | (153) | 53 | (53) | 2,956 |

In order to offer the best possible dining experience and bring about visible points of change to customers, we narrowed our focus and concentrated our resources to remodeling of existing restaurants. Our plan is to remodel approximately 90% of all restaurants by 2018. 401 remodels and 7 rebuilds have been completed, including the ones located in food courts and shopping malls in 2015. Meanwhile, we made a decision to strategically close 131 restaurants (101 restaurants have closed in 2015) with little long-term growth potential, and reallocate resources resulting from the strategic closures to invest in the remodels of restaurants with greater growth potential.

<Localization of Business Structure>

To promote activities rooted in restaurants and/or local communities, the regional HQ system was introduced in June, under which McDonald’s Japan was reorganized into three regions (East Japan, Central Japan and West Japan). With these changes, we are realizing closer ties with local communities as a “modern burger restaurant that connects with customers”.

<Improvement in Cost and Resource Efficiency>

To concentrate our resources into investments for long-term growth, we have been working on optimization of resources and taking a fundamental review of our cost structure. Non-recurring investment and special charges recognized during the year are as follows:

(Unit: Billion Yen)

| | Full-Year Plan (Announced on Apr. 16) | Full-Year Actual | | |
|---|---|---|---|---|
| | | Impact on Ordinary loss | Special Loss | Total |
| Acceleration of restaurant revitalization | 5.8 | 1.3 | 3.1 | 4.4 |
| Voluntary early retirement program | 0.8 | - | 0.6 | 0.6 |
| Financial measures for franchisees | 12.6 | 13.5 | - | 13.5 |
| Impairment loss | 4.9 | - | 3.5 | 3.5 |
| Marketing spend & other | 1.4 | 0.7 | 0.1 | 0.8 |
| Total | 25.5 | 15.5 | 7.3 | 22.8 |

## (2) Analysis of operating results

<System-wide Sales and Revenue>

During this consolidated fiscal year, same-store sales decreased 15.2%, system-wide sales were 376,552 million yen (down 69,755 million yen from previous year), and revenue was 189,473 million yen (down 32,846 million yen from previous year), reflecting a continuously challenging business environment.

<Cost of Sales>
Cost of sales margin for company-operated restaurants increased by 4.3% points over the prior year due to a decrease in revenue, an increase in raw material costs, remodels of existing restaurants conducted in accordance with the business revitalization plan and other restaurant maintenance costs. Also, the franchise cost of sales ratio increased by 20.2% points due to the decrease in revenue resulting in a decrease in franchise revenue as well as the financial measures provided for franchisees.

(Breakdown of Cost of Sales)

(Unit: Million Yen)

| | | Year ended December 31, 2014 | | Year ended December 31, 2015 | | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | Amount | % | Amount | % | Amount | % |
| Company-operated restaurant’s cost of sales | | 153,572 | 96.1% | 143,138 | 100.4% | (10,433) | +4.3% |
| (Breakdown) | Raw material | 57,396 | 35.9% | 53,326 | 37.4% | (4,070) | +1.5% |
| | Labor | 51,766 | 32.4% | 46,548 | 32.7% | (5,217) | +0.3% |
| | Other | 44,409 | 27.8% | 43,263 | 30.4% | (1,145) | +2.6% |
| Franchise restaurants -occupancy expenses | | 48,856 | 78.2% | 46,186 | 98.4% | (2,669) | +20.2% |
| Other | | 55 | 85.4% | 0 | 83.4% | (55) | (2.1)% |
| Total | | 202,484 | 91.1% | 189,325 | 99.9% | (13,158) | +8.8% |

<Selling, General and Administrative Expenses>
Selling and general and administrative expenses decreased 1,168 million yen from the previous year due to decreases in advertisement expenses, sales promotion expenses, and depreciation/amortization expenses, as well as the company’s cost reduction efforts.

(Breakdown of Selling, General and Administrative Expenses)

(Unit: Million Yen)

| | | Year ended December 31, 2014 | | Year ended December 31, 2015 | | Year-on-year change | |
|---|---|---|---|---|---|---|---|
| | | Amount | % | Amount | Amount | % | Amount |
| Selling, general & administrative expenses | | 26,548 | 11.9% | 25,380 | 13.4% | (1,168) | ＋1.5% |
| (Breakdown) | Advertising & selling | 6,966 | 3.1% | 5,978 | 3.2% | (988) | ＋0.1% |
| | Other | 19,582 | 8.8% | 19,402 | 10.2% | (180) | ＋1.4% |

<Ordinary Loss>
Ordinary loss was 27,691 million yen (down 7,974 million yen from previous year) due to the decrease in system-wide sales and non-recurring investment and expenses associated with the business revitalization plan.

<Net Loss>
Net loss was 34,704 million yen (down 12,861million yen from previous year) due mainly to a 19, 717million yen decrease in ordinary loss, the recognition of impairment loss of 3,542 million yen, as well as loss on restaurant closures and provision for restaurant closures totaling 2,609 million yen.
.
Notes:
Same-store sales are total sales achieved in the fiscal year by McDonald’s restaurants that have been in business for 13 months or longer compared to total sales achieved by such restaurants in the previous year.
System-wide sales are sales of company-owned restaurants and franchised restaurants and are not equal to the total sales reported in the consolidated statements of loss.

## (3) Analysis of financial position

1. Summary of Group’s Assets, Liabilities and Net Assets
Current assets at the end of current fiscal year were 34 billion 322 million yen, a decrease of 14 billion 182 million yen from the previous fiscal year. Operating cash outflows of 14 billion 787 million yen, investing cash outflows of 12 billion 883 million yen, and financing cash outflows of 19 billion 470 million yen resulted in a decrease of total cash and cash equivalent by 8 billion 239 million yen.
Noncurrent assets were increased by 4 billion 807 million yen from the previous fiscal year to 144 billion 351 million yen; increase in purchase software is the main contributor for the above.
Current liabilities were 41billion 071 million yen and decreased by 136 million yen from previous fiscal year. Increases in short-term loans payable by 5 billion, account payables other by 6 billion 663 million yen and provision for loss on store closing by 1 billion 661 million yen are the main reasons for the above.
Noncurrent liabilities were 28 billion 516 million yen, decreased by15 billion 679 million yen from previous fiscal year, due mainly to an increase of long-term loans payable.

2. Cash Flow Summary
Cash flow for the current fiscal year is as follows:
Cash and cash equivalent at the end of current year was 20 billion 388 million yen, down by 8 billion 239 million yen from previous fiscal year.

(Cash flows in operating activities)
Cash used in operations totaled 14 billion 787 million yen (increase of 1 billion 135 million yen in previous fiscal year). This is primarily due to loss before income taxes of 34 billion 989 million yen and increase in accounts receivable-trade 3 billion 109 million yen.

(Cash flows in investing activities)
A total of 12 billion 883 million yen (increase of 573 million yen from previous fiscal year) was allotted for investing activities. This is primarily due to purchases of property and equipment for restaurant development for 11 billion 964 million yen and collection of lease and guarantee deposits for 3 billion 95 million yen.

(Cash flows in financing activities)
A total of 19 billion 470 million yen (it was cash out flow of 5 billion 532 million yen in previous fiscal year) was used in financing activities. This includes short-term loan payable of 5 billion and long-term loan payable of 22 billion yen.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Equity ratio | 72.8% | 75.4% | 80.5% | 78.5% | 60.9% |
| Equity ratio based on market prices | 124.4% | 135.2% | 167.6% | 189.3% | 195.0% |
| Years required to redeem liabilities | 0.2 years | 0.5 years | 1.2 years | — | — |
| Interest-coverage ratio | 478.2 times | 218.6 times | 86.3 times | — | — |

Equity ratio: Equity / total assets
Equity ratio based on market prices: Market capitalization/total assets
Years required redeeming liabilities: Interest-bearing liabilities/operating cash flow
Interest-coverage ratio: Operating cash flow/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 debt refers to all liabilities on the consolidated balance sheets on which interest is paid.
*Operating cash flow and debt-service payments are calculated using the respective figures for cash flow from operating activities and interest expenses paid, as listed on the consolidated statements of cash flows.
*“Years required to redeem liabilities” and “interest-coverage ratio” are not provided herein 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 Company's 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, 2015.

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 examination by independent third party auditors, checks restaurants follow required procedures, and conducts inspection on five major items inspection by government-designated inspectors upon arrivals in Japan.

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" (kensetsukyouryokukin)] is returned as separate sums over several years up to a maximum 20 years. The current balance of lease and guarantee deposits is 414 billion 93 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.

④Fluctuations 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.

⑤Currency risk
Since most 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.

⑥Risks 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.

⑦Legal 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.

⑧Competition
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.

⑨Personal 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, McDonald's 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 ROTA* and ordinary income ratio as major performance indicators.
* ROTA（Return on Total Assets）: Ordinary Income ÷（Total Assets －Cash & Deposits）

### (3) Mid-term management strategy

Aiming to be a Modern Burger Restaurant that connects with customers, we strive to execute and evolve our Business Revitalization Plan with four pillars: "Customer Focused Initiatives", "Accelerate Restaurant Revitalization", "Localize Our Business Structure", and "Improve Cost and Resource Efficiency". Through these, we will ensure the quality and safety of our food, provide uniquely McDonald's hospitality, and offer even better restaurant experience to grow our business even further.

Our key strategies for 2016 are as follows:

- Customer focused initiatives
  - Menu

    A stronger focus will be on menu, the foundation of restaurant business. We will keep developing new menu, and creating and communicating food news. We intend to continue to offer our customers fun, exciting and uniquely McDonald's products, including limited time offer menu items and products featuring local specialties.
  - Value

    Otegoro Mac, introduced in October, 2015 offers great value to customers and is available at any time after breakfast every day. A lot of customers have given a positive response to it. Moving forward, we will continue to offer customers new value that meets and exceeds their expectations.

- Acceleration of restaurant investments

  We reviewed our investment strategy in 2015 and narrowed our investment focus on existing restaurants rather than new restaurant openings. We actively worked on remodels and modernized 47% of our restaurants by the end of 2015. We plan to complete another 500 to 600 remodels over the course of the year and aim to achieve our target of having 90% of our restaurants modernized by the end of 2018.

- Localized business structure

  Moving to a localized business structure enabled us to be more responsive to the unique needs of our customers in the respective region; as a result, we are seeing more and more local programs and exciting activities in each region/restaurant. Going forward we will continue to accelerate this momentum, leverage local programs/activities to further improve customer restaurant experience, and aim to be our customers' first choice in each locality.

- Improve cost and resource efficiency

  We continue to ensure an appropriate resource allocation and the optimization of cost structures. By effectively allocating resources to the areas that can drive future growth, we aim to establish a strong business foundation.

## (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. Consolidated financial statements
## (1) Consolidated balance sheets

| Millions of yen | December 31, 2014 | December 31, 2015 |
|---|---|---|
| **(Assets)** | | |
| **Current assets** | | |
| Cash and deposits | 28,628 | 20,388 |
| Accounts receivable - trade | 5,010 | 8,119 |
| Raw materials and supplies | 1,011 | 862 |
| Deferred tax assets | 23 | 448 |
| Income taxes receivable | 2,707 | - |
| Other | 11,257 | 4,538 |
| Allowance for doubtful accounts | (134) | (35) |
| Total current assets | 48,504 | 34,322 |
| **Noncurrent assets** | | |
| **Property and equipment** | | |
| Buildings and structures | 82,015 | 81,381 |
| Accumulated depreciation | (38,427) | (36,883) |
| Buildings and structures, net | 43,587 | 44,497 |
| Machinery and equipment | 14,851 | 14,312 |
| Accumulated depreciation | (10,501) | (10,351) |
| Machinery and equipment, net | 4,350 | 3,960 |
| Tools, furniture and fixtures | 13,560 | 13,205 |
| Accumulated depreciation | (10,121) | (9,950) |
| Tools, furniture and fixtures, net | 3,439 | 3,254 |
| Land | 17,442 | 17,322 |
| Lease assets | 7,960 | 8,015 |
| Accumulated depreciation | (4,094) | (5,036) |
| Lease assets, net | 3,865 | 2,979 |
| Construction in progress | 710 | 405 |
| Total property and equipment | 73,394 | 72,420 |
| **Intangible assets** | | |
| Goodwill | 497 | 1,199 |
| Software | 3,070 | 6,675 |
| Other | 692 | 693 |
| Total intangible assets | 4,260 | 8,568 |
| **Investments and other assets** | | |
| Investment securities | 56 | 56 |
| Long-term loans receivable | 9 | 9 |
| Deferred tax assets | 160 | 305 |
| Lease and guarantee deposits | 44,212 | 41,493 |
| Pension assets | 6,078 | 6,773 |
| Long-term accounts receivable | 6,011 | 10,116 |
| Other | 6,118 | 8,595 |
| Allowance for doubtful accounts | (757) | (3,988) |
| Total investments and other assets | 61,889 | 63,362 |
| Total noncurrent assets | 139,544 | 144,351 |
| **Total assets** | 188,048 | 178,673 |

| Millions of yen | December 31, 2014 | December 31, 2015 |
|---|---|---|
| **(Liabilities)** | | |
| **Current liabilities** | | |
| Accounts payable-trade | 545 | 303 |
| Short-term loans payable | - | 5,000 |
| Current portion of long-term loans payable | - | 2,500 |
| Lease obligations | 1,548 | 1,428 |
| Accounts payable-other | 13,902 | 20,565 |
| Accrued expenses | 4,857 | 4,636 |
| Income taxes payable | 505 | 11 |
| Provision for bonuses | 276 | 428 |
| Provision for loss on store closing | 20 | 1,681 |
| Other | 5,814 | 4,514 |
| Total current liabilities | 27,471 | 41,071 |
| **Noncurrent liabilities** | | |
| Long-term loans payable | 500 | 18,125 |
| Lease obligations | 3,292 | 2,428 |
| Deferred tax liabilities due to land revaluation | 390 | 311 |
| Provision for bonuses | 574 | 315 |
| Provision for directors' bonuses | 91 | 8 |
| Liabilities for retirement benefits | 1,696 | 1,495 |
| Deferred tax liabilities | 994 | 1,316 |
| Provision for directors' retirement benefits | 420 | 54 |
| Asset retirement obligations | 4,565 | 4,149 |
| Other | 311 | 312 |
| Total noncurrent liabilities | 12,836 | 28,516 |
| **Total liabilities** | 40,307 | 69,587 |
| **(Net assets)** | | |
| **Shareholders' equity** | | |
| Common stock | 24,113 | 24,113 |
| Capital surplus | 42,124 | 42,124 |
| Retained earnings | 84,319 | 45,202 |
| Treasury stock | (1) | (1) |
| Total shareholders’ equity | 150,555 | 111,438 |
| **Accumulated other comprehensive loss** | | |
| Revaluation reserve for land | (4,667) | (4,261) |
| Remeasurements of retirement benefits | 1,671 | 1,722 |
| Total accumulated other comprehensive loss | (2,996) | (2,539) |
| **Minority interests** | 181 | 187 |
| Total net assets | 147,740 | 109,086 |
| **Total liabilities and net assets** | 188,048 | 178,673 |

## (2) Consolidated statements of loss and consolidated statements of comprehensive loss

| Millions of yen | Year ended December 31, 2014 | Year ended December 31, 2015 |
|---|---|---|
| **Net sales** | | |
| Sales by Company-operated restaurants | 159,749 | 142,539 |
| Revenue from franchised restaurants | 62,505 | 46,933 |
| Others | 65 | 0 |
| Total net sales | 222,319 | 189,473 |
| **Cost of sales** | | |
| Product cost | 153,572 | 143,138 |
| Franchised restaurants occupancy expenses | 48,856 | 46,186 |
| Others | 55 | 0 |
| Total cost of sales | 202,484 | 189,325 |
| **Gross profit** | 19,834 | 147 |
| **Selling, general and administrative expenses** | 26,548 | 25,380 |
| **Operating loss** | (6,714) | (25,233) |
| **Non-operating income** | | |
| Interest income | 149 | 108 |
| Compensation income | 119 | 98 |
| Insurance income | 77 | 34 |
| Other | 167 | 193 |
| Total non-operating income | 515 | 434 |
| **Non-operating expenses** | | |
| Interest expenses | 94 | 190 |
| Provision of allowance for doubtful accounts | 279 | 1,009 |
| Loss on disposal of Company-operated restaurants | 1,200 | 1,312 |
| Loss on cancellation of leasehold contracts | 36 | 1 |
| Other | 166 | 379 |
| Total non-operating expenses | 1,776 | 2,893 |
| **Ordinary loss** | (7,974) | (27,691) |
| **Special loss** | | |
| Loss on disposals of noncurrent assets | 339 | 506 |
| Impairment loss | 7,761 | 3,542 |
| Shanghai Husi related expenses | 2,294 | - |
| Loss on sales of noncurrent assets | 99 | 89 |
| Loss on store closing | - | 927 |
| Provision for loss on store closing | - | 1,681 |
| Early retirement program expenses | - | 550 |
| Total special loss | 10,495 | 7,297 |
| **Loss before income taxes** | (18,469) | (34,989) |
| Current taxes | 802 | (19) |
| Deferred taxes | 2,564 | (271) |
| Total provision for income taxes | 3,366 | (290) |
| **Loss before minority interests** | (21,836) | (34,699) |
| Minority interests | 6 | 5 |
| **Net loss** | (21,843) | (34,704) |

## Consolidated statements of comprehensive loss

| Millions of yen | Year ended December 31, 2014 | Year ended December 31, 2015 |
|---|---|---|
| **Loss before minority interests** | (21,836) | (34,699) |
| **Other comprehensive income/(loss)** | | |
| Revaluation reserve for land | - | 36 |
| Remeasurements of retirement benefits | - | 51 |
| **Total other comprehensive income** | - | 87 |
| **Comprehensive loss** | (21,836) | (34,611) |
| | | |
| **Comprehensive loss attributed to:** | | |
| Shareholders of McDonald's Holdings Company | (21,843) | (34,617) |
| Minority interests | 6 | 5 |

## (3) Consolidated statements of changes in net assets

Year ended December 31, 2014

| | Shareholders' Equity | | | | |
|---|---|---|---|---|---|
| | **Common stock** | **Capital surplus** | **Retained earnings** | **Treasury stock** | **Total shareholders' equity** |
| Beginning balance | 24,113 | 42,124 | 110,110 | (1) | 176,347 |
| Cumulative effects of changes in accounting policies | | | | | |
| Restated Balance | 24,113 | 42,124 | 110,110 | (1) | 176,347 |
| Changes during the year | | | | | |
| Dividends | | | (3,988) | | (3,988) |
| Net loss | | | (21,843) | | (21,843) |
| Revaluation reserve for land | | | 41 | | 41 |
| Changes in items other than shareholders' equity (net) | | | | | — |
| Total changes | — | — | (25,791) | (0) | (25,791) |
| Ending balance | 24,113 | 42,124 | 84,319 | (1) | 150,555 |

| | Other Cumulative Comprehensive Income/(loss) | | | **Minority interest** | **Total net assets** |
|---|---|---|---|---|---|
| | Revaluation reserve for land | Remeasurements of retirement benefits | Total accumulated other comprehensive income/(loss) | | |
| Beginning balance | (4,626) | — | (4,626) | 174 | 171,895 |
| Cumulative effects of changes in accounting policies | | | | | |
| Restated Balance | (4,626) | — | (4,626) | 174 | 171,895 |
| Changes during the year | | | | | |
| Dividends | | | | | (3,988) |
| Net loss | | | | | (21,843) |
| Revaluation reserve for land | (41) | | (41) | | — |
| Changes in items other than shareholders' equity (net) | - | 1,671 | 1,671 | 6 | 1,677 |
| Total changes | (41) | 1,671 | 1,630 | 6 | (24,154) |
| Ending balance | (4,667) | 1,671 | (2,996) | 181 | 147,740 |

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 | | | (34,704) | | (34,704) |
| Revaluation reserve for land | | | (369) | | (369) |
| Changes in items other than shareholders’ equity (net) | | | | | — |
| Total changes | — | — | (39,063) | — | (39,063) |
| Ending balance | 24,113 | 42,124 | 45,202 | (1) | 111,438 |

| | **Other Cumulative Comprehensive Income/(loss)** | | | **Minority 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 | | | | | (34,704) |
| Revaluation reserve for land | 405 | | 405 | | 36 |
| Changes in items other than shareholders’ equity (net) | | 51 | 51 | 5 | 57 |
| Total changes | 405 | 51 | 457 | 5 | (38,600) |
| Ending balance | (4,261) | 1,722 | (2,539) | 187 | 109,086 |

## (4) Consolidated statements of cash flows

| Millions of yen | Year ended December 31, 2014 | Year ended December 31, 2015 |
|---|---|---|
| **Net cash used in operating activities** | | |
| Loss before income taxes and minority interests | (18,469) | (34,989) |
| Depreciation and amortization | 10,388 | 7,541 |
| Impairment loss | 7,761 | 3,542 |
| (Decrease) increase in provision for loss on store closing | (138) | 1,661 |
| Decrease in provision for retirement benefits | (1,805) | — |
| Early retirement program expenses | — | 550 |
| Loss on store closing | — | 927 |
| (Decrease) increase in liabilities for retirement benefits | 1,696 | (217) |
| Increase in pension assets | (6,078) | (200) |
| (Decrease) increase in other provisions | (357) | 2,575 |
| Interest income | (149) | (108) |
| Interest expenses | 94 | 190 |
| Loss on sales of noncurrent assets | 99 | 89 |
| Loss on disposals of noncurrent assets | 1,068 | 1,818 |
| Decrease (increase) in accounts receivable - trade | 3,479 | (3,109) |
| Decrease in raw materials and supplies | 191 | 149 |
| Increase in goodwill from acquisition of franchised restaurants | (470) | (1,058) |
| Decrease (increase) in other assets | (10,942) | 109 |
| Decrease in accounts payable-trade | (92) | (242) |
| (Decrease) increase in accounts payable-other | (3,112) | 6,149 |
| Decrease in accrued expenses | (171) | (231) |
| (Decrease) increase in other current liabilities | 1,714 | (1,287) |
| Other, net | 188 | (677) |
| Subtotal | (15,107) | (16,818) |
| Interest income received | 42 | 5 |
| Interest expenses paid | (86) | (171) |
| Income taxes paid | (1,997) | (542) |
| Income taxes refunded | 3,496 | 2,739 |
| Net cash used in operating activities | (13,652) | (14,787) |
| **Net cash used in investing activities** | | |
| Purchase of property and equipment | (12,387) | (11,964) |
| Proceeds from sales of property and equipment | 372 | 1,191 |
| Payments for lease and guarantee deposits | (1,007) | (332) |
| Refunds from collection of lease and guarantee deposits | 3,110 | 3,095 |
| Purchases of software | (1,761) | (4,085) |
| Payments for assets retirement obligations | (246) | (807) |
| Payments for deposit provided for gift certificates | (400) | — |
| Other, net | 10 | 17 |
| Net cash (used in) provided by investing activities | (12,310) | (12,883) |
| **Net cash (used in) provided in financing activities** | | |
| Short-term loan payable | — | 5,000 |
| Long-term loan payable | — | 22,000 |
| Repayment of long-term payable | — | (1,875) |
| Repayment of lease obligations | (1,533) | (1,666) |
| Repurchase of treasury stock | (0) | — |
| Dividends paid | (3,999) | (3,988) |
| Net cash (used in) provided by financing activities | (5,532) | 19,470 |
| **Effect of exchange rate changes on cash and cash equivalents** | (15) | (38) |
| **Net decrease in cash and cash equivalents** | (31,511) | (8,239) |
| **Cash and cash equivalents at beginning of period** | 60,139 | 28,628 |
| **Cash and cash equivalents at end of period** | 28,628 | 20,388 |

## (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 Inc.

**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) Bonds held to maturity: 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 Company (5 -10years).

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.
For finance lease transactions with no transfer of ownership entered into on or before December 31, 2008, the Company continues to use an accounting method that is based on the method used for operating lease transactions.

**(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

Allowance 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 for this fiscal year.

iv. Provision for loss on natural disaster

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

v. 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.

vi. 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.

**(3) 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.

**(4) Goodwill**

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

**(5) 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)

(Adoption of Accounting Standard for Retirement Benefits)
The Company has adopted the "Accounting Standard for Retirement Benefits (ASBJ Statement No. 26 issued on May 17, 2012, hereafter "Retirement Benefits Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015, hereafter "Retirement Benefits Guidance") from the end of the fiscal year ended December 31, 2015 (with

the exception of the main clause of Articles 67 of the Retirement Benefits Guidance), thus changing to a method of recording the difference between retirement benefit obligations and plan assets as net defined benefit asset or net defined benefit liability, and has recorded actuarial gains and losses and past service costs that are yet to be recognized and the difference at the time of the change in accounting standard as net defined benefit asset or net defined benefit liability. The Retirement Benefits Accounting Standard and Retirement Benefits Guidance have been applied in accordance with the transitional handling set forth in Articles 37 of the Retirement Benefits Accounting Standard, and the impact of the change was an adjustment to remeasurements of defined benefit plans under accumulated other comprehensive inform as of December 31, 2015.

As a result, as of December 31, 2015, the Company recorded net defined benefit asset of 6 billion 78 million yen and net defined benefit liability of 1 billion 696 million yen. In addition, accumulated other comprehensive income increased by 1 billion 671 million yen.

## (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, 2014 (January 1, 2014 to December 31, 2014)

1.Information by Products and Service
Sales by Company-operated restaurants was 159 billion 749 million yen, franchise revenue was 62 billion 505 million yen, and other sales was 65 million yen. Franchise revenue includes 131 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, 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, franchise revenue was 46 billion 933 million yen, and other sales was 0 million yen. Franchise revenue 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.

### (Per share-related financial information)

Yen

| December 31, 2014 | | December 31, 2015 | |
|---|---|---|---|
| Net assets per share | 1,109.81 | Net assets per share | 819.04 |
| Net loss per share | (164.29) | Net loss per share | (261.02) |

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, 2014 | December 31, 2015 |
|---|---|---|
| Net loss | (21,843) | (34,704) |
| Income (loss) not available to common shareholders | - | - |
| Loss available to common shareholders | (21,843) | (34,704) |
| Average number of common stock outstanding (thousands shares) | 132,959 | 132,959 |

### (Subsequent events)

Not applicable.