

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between the translated document and the Japanese original, the Japanese original shall prevail.

McDonald's Holdings Company (Japan), Ltd. assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

INTERNET DISCLOSURE INFORMATION IN CONNECTION WITH THE NOTICE OF CONVOCAION OF THE 51ST ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notes to Consolidated Financial Statements

Notes to Non-consolidated Financial Statements

The 51st (from January 1, 2021 to December 31, 2021)

McDonald's Holdings Company (Japan), Ltd.

The contents above are provided to our shareholders by posting on our website pursuant to the provisions of laws and regulations, and Articles of Incorporation of the Company.

(https://www.mcd-holdings.co.jp/ir/individual/shareholder_meeting/)

Explanatory Notes to Consolidated Financial Statements

1. Assumptions underlying preparation of consolidated financial statements

(1) Item relating to scope of consolidation

Consolidated subsidiaries

Number of consolidated subsidiaries: 1

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

(2) Item relating to the fiscal years etc. of consolidated subsidiaries

All consolidated subsidiaries end their fiscal years on the same day as the date of closing of consolidated accounts.

(3) Items related to accounting standards

(a) Standards and methods of valuation for significant assets

Marketable and investment securities

Other securities:

Unquoted securities: Valued at cost using the periodic average method

Inventories

Raw materials and supplies

Inventories are measured principally at the lower cost or market, determined by the total average method (carrying amount of inventories is determined by write-down method base on decreased profitability)

(b) Major depreciable assets and methods of depreciation

Property and equipment:
(excluding lease asset)

Straight-line method

Intangible assets:
(excluding lease assets)

Straight-line method
(For software used internally, the straight-line method is applied based on the period of expected use by the Company (5 -10 years))

Lease assets:

Lease assets related to finance lease transactions where there is no transfer of ownership:
Straight-line method with estimated useful lives equal to lease terms, and zero residual values.

(c) Allowances and provisions

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.

Provision for bonuses:

Allowance for bonuses amount 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 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.

Provision for directors' bonuses: As some employees are entitled to stock-price-linked bonus, such 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.

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.

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.

(d) Accounting treatment for retirement benefit obligations

The attribution method for projected retirement benefits:

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.

Amortization method of actuarial gain and loss:

Actuarial gain and loss is expensed 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.

(e) Goodwill

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

(f) Other policies:

Accounting for consumption taxes and local consumption taxes

Amounts shown are exclusive of consumption taxes.

2. Notes to changes in presentation

Application of "Accounting Standard for Disclosure of Accounting Estimates"

The Company has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) to consolidated financial statements relevant to the end of the fiscal year under review.

3. Note to accounting estimates

(1) Impairment of non-current assets

A. Amount recorded in the consolidated financial statements for the current fiscal year

Impairment loss 319 million yen

B. Information of significant accounting estimates for identified items

For groups of assets that are on the verge of impairment, the Group assess whether an impairment loss should be recognized. In the event that the total amount of undiscounted future cash flow is less than the book value of the assets, the carrying value of each asset group is reduced to its respective recoverable amount, and the amount of the reduction is recognized as an impairment loss. The undiscounted future cash flow is estimated based on the past sales, cost of sales and expenses of head office, and so on, and we take into account the expected sales growth rate after the following fiscal year. The key assumption used in the estimates is the sales growth rate in groups after the following fiscal year. Since there are many uncertainties over the key assumptions, actual cash flows may deviate from the estimated amount. If prolonged COVID-19 infection and other incidents cause the deterioration in profits of asset groups, the company may recognize an indication of impairment of its asset groups and may record an impairment loss in the following fiscal year.

- (2) Deferred tax assets
A. Amount recorded in the consolidated financial statements for the current fiscal year
Deferred tax assets 7,558 million yen

B. Information of significant accounting estimates for identified items

The recoverability of deferred tax assets is determined based on whether it has the effect of reducing future tax liabilities based on the estimates of future taxable income in the company's business plan. The company's business plan is formulated by taking into account the past result in sales, cost of sales, estimated sales growth rate after the following fiscal year, and investment plan. The key assumption in the business plan is the sales growth rate after the following fiscal year. Since there are many uncertainties over the key assumptions, the actual taxable income may deviate from the estimated amount. If the important assumption changes after the following fiscal year, deferred tax assets may be reduced, and tax expenses may be recorded since the recoverability of deferred tax assets depends on the estimates of future taxable income.

4. Notes to consolidated balance sheets

- (1) Accumulated depreciation on property and equipment 77,619 million yen.
- (2) Due to selling of restaurant business to franchisee by entering franchise contracts, the amount of non-current assets transferred to other accounts was 660 million yen in book value (Buildings and Structures 379 million yen, Machinery and Equipment 150 million yen, Tools, Furniture and Fixtures 126 million yen and Lease Assets 4 million yen.)

- (3) Revaluation of land

As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity

Revaluation method:

As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax

Date of revaluation: December 31, 2001

Difference between book value and post-revaluation market value of revalued land at end of term: (630) million yen

- (4) Reductions of Property and Equipment from gains on insurance claims were 22 million yen.
- (5) "Other" asset in investments and other assets in the amount of 2,000 million yen is provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. Liabilities collateralized by these guarantee deposits are advance receipts from customers in the amount of 3,254 million yen. (Balance presented in the consolidated balance sheets is 1,748 million yen by deducting unredeemed McCards that are expected to end up remaining unused ultimately.)

5. Notes to consolidated statement of income

- (1) 331 million yen of gain on sales of restaurant businesses from entering franchising contracts is included in sales. The determination of the value of restaurant businesses is based on the expected stream of future cash flows and is agreed by franchisee (buyer).

6. Notes to consolidated statement of changes in net assets

(1) Number of outstanding shares

	Beginning of term	Increase	Decrease	End of term
Common Stock	132,960,000	—	—	132,960,000

(2) Dividend

Amount of dividend paid

Resolution: The 50th annual general shareholders' meeting held on March 26, 2021

Total amount of dividend 4,786 million yen

Dividend per share 36 yen

Reference date 2020/12/31

Effective date 2021/3/29

Amount which reference date is in the current year but effective date is in the following year

Resolution (estimate) : The 51st annual general shareholders' meeting scheduled on March 29, 2022

Total amount of dividend 5,185 million yen

Dividend per share 39 yen

Reference date 2021/12/31

Effective date 2022/3/30

Dividend resource Retained earnings

7. Notes to financial instruments

(1) Status of financial instruments

A. Policies for financial instruments

The Company considers excess cash as standby fund for the business investment therefore it is invested only to short-term financial instruments with relatively low risk.

B. Contents and risks of financial instruments and risk management structure

Receivables are exposed to credit risks of our business partners. Major business partners' credit information is captured, and due dates and balances is controlled for each business partner, based on our Franchisees Credit Control Policy and Real Estate Receivables Rules.

Investment securities are mainly for the companies with which we have business relationships, and there is no market price for them. Therefore, there is minimum risk due to the fluctuation of market price.

Lease and guarantee deposits mainly consist of security deposits for lease contracts of the restaurants, and is exposed to credit risk of landlord. This risk is managed through monitoring balance by landlord as well as capturing credit information, based on our Franchisees Credit Control Policy and Real Estate Receivables Rules.

Due dates of majority of account payables and accrued liabilities are within one year.

Lease obligations for finance lease transaction is mainly for capital investment, and latest redemption date is 6 years from the consolidated balance sheets date.

C. Additional note to fair market value of financial instruments

Fair market price of financial instruments includes reasonably estimated value when market price does not exist. As this estimation includes variables, it is subject to change as the assumptions of the calculation change.

(2) Fair market value of financial instruments

Amount recorded on consolidated balance sheet as of December 31, 2021, fair market value, and differences are as follows. Items with extremely difficult to capture fair market value are not included in the following chart. There are no derivatives as of the end of this fiscal year, therefore, there is no fair market value to be disclosed for derivatives.

Millions of yen	Amount recorded on consolidated balance sheet	Fair market value	Difference
(1) Cash and deposits	75,267	75,267	—
(2) Accounts receivable-trade Allowance for doubtful accounts(*1)	20,557 (9)		
	20,548	20,548	—
(3) Lease and guarantee deposits Allowance for doubtful accounts(*2)	34,240 (465)		
	33,774	33,868	93
Total assets	129,590	129,683	93
(4) Accounts payable-other	29,169	29,169	—
Total liabilities	29,169	29,169	—

*1. Allowance for doubtful for receivable-trade is deducted.

*2. Allowance for doubtful accounts for lease and guarantee deposits is deducted.

Notes: Calculation method for fair market value of financial instruments and securities

Assets

(1) Cash and deposits and (2) accounts receivable-trade

As this account is settled in a short-term and fair market value is close to the book value, book value is employed.

(3) Lease and guarantee deposits

This is categorized by period, and present value is calculated by discounting future cash flow with appropriate discount rate, which is based on the yield of government bonds.

Liability

(4) Accounts payable-other

As this account is settled in a short-term and fair market value is close to book value, book value is employed.

8. Notes to real estate for rent

(1) Status of real estates for rent

The Group has facilities for restaurants, including land, in Chiba, Saitama and other areas.

(2) Fair market value of real estates for rent

	Millions of yen
Amount recorded on consolidated balance sheet	Fair market value
38,691	34,251

Notes:

1. The amount recorded on consolidated balance sheet is the acquisition costs less the accumulated depreciation.

2. Calculation method for fair market value

The fair market value for land is calculated internally based on the “assessed valuation for property tax”.

The fair market value for buildings is based on the applicable book value.

9. Per share information

Net assets per share 1,460.77 yen

Net income per share 180.10 yen

Explanatory Notes to Nonconsolidated Financial Statements

1. Summary of Significant Accounting Policies

(1) Standards and methods of valuation for marketable and investment securities

Shares in subsidiaries and affiliated companies:

Valued at cost using the periodic average method

Other securities:

Unquoted securities:

Valued at cost using the periodic average method

(2) Major depreciable assets and methods of depreciation

Property and equipment:

Straight-line method

Intangible assets:

Straight-line method

(For software used internally, the straight-line method is applied based on the period of expected use by the Company (5 to 10 years).

(3) Allowances and provisions

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.

Provision for bonuses:

Allowance for bonuses amount 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 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

Provision for directors' bonuses:

Allowance for bonuses amount 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 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.

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.

(4) Other policies:

Accounting for consumption taxes and local consumption taxes:

Amounts shown are exclusive of consumption taxes.

2. Notes to balance sheets

(1) Accumulated depreciation on property and equipment: 13,975 million yen

(2) Receivables from and payables to affiliates

Short-term receivables: 4,975 million yen

Long-term receivables: 36,758 million yen

Short-term payables: 3,616 million yen

- (3) A revaluation of land As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity.
 Method of revaluation
 As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax.
 Date of revaluation: December 31, 2001
 Difference between book value and post-revaluation market value of revalued land at end of term: (692) million yen
- (4) Reductions of property and equipment from gains on insurance claims were 22 million yen.
- (5) "Other" asset in investments and other assets in the amount of 2,000 million yen is provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. Liabilities collateralized by these guarantee deposits are advance receipts from customers in the amount of 3,254 million yen. (Balance presented in the consolidated balance sheets is 1,748 million yen by deducting unredeemed McCards that are expected to end up remaining unused ultimately.)

3. Notes to statement of income

Transactions between the Company and its affiliates

Transactions related to operation

Revenue	48,805 million yen
Dividend from affiliated company	5,000 million yen
Other	569 million yen
Transactions not related to operation	486 million yen

4. Notes to statement of changes in net assets

Treasury stock

	Beginning of term	Increase	Decrease	End of term
Common stock	1,019	1	—	1,020

Note: Increase in 1 treasury stocks is due to the acquisition of fractional shares.

5. Deferred taxes

Deferred tax assets	(Millions of yen)
Allowance for doubtful accounts	152
Asset retirement obligations	352
Loss from write down of investments in affiliated companies	220
Construction assistance fund	29
Loss carried forward	288
Business taxes payable	52
Depreciation expenses	8
Provision for directors' retirement benefits	45
Other	<u>185</u>
Subtotal	1,335
Valuation allowance	<u>(1,289)</u>
Total deferred tax assets	45
Deferred tax liabilities	
Long-term prepaid expenses	(36)
Asset retirement obligations	<u>(10)</u>
Total deferred tax liabilities	<u>(46)</u>
Total deferred tax assets – net	<u>(0)</u>

In addition to the above, there are deferred tax assets and liabilities for “revaluation for land” as follows:

Deferred tax assets	
Deferred tax assets for revaluation for land	1,627
Valuation allowance	<u>(1,627)</u>
Total deferred tax assets	–
Deferred tax liabilities	
Deferred tax liabilities for revaluation for land	<u>(314)</u>
Total deferred tax liabilities	<u>(314)</u>
Total deferred tax liabilities – net	<u>(314)</u>

6. Related party transactions

(1) Parent company and primary institutional shareholders

(Millions of yen)

Relationship	Name	Capital	Type of business	% of voting rights held (held by others)	Nature/Scope	Type of transaction	Transaction amount	Account	Ending balance
Parent company of other related company	McDonald's Restaurant Operations, Inc.	US\$ 3,000	Holding company	Owned indirect 35.33	Interlocking directorates	repayment	500	Long-term loans payable	-
						Interest expense (Note 2)	2	Other long-term liabilities	-

(2) Subsidiaries

Relationship	Name	Capital	Type of business	% of voting rights held (held by others)	Nature/Scope	Type of transaction	Transaction amount	Account	Ending balance
Subsidiary	McDonald's Company (Japan), Ltd.	100	Hamburger restaurant chain	Owned direct 100.0	Interlocking directorates Leasing restaurants and offices	Real estate rental income (Note 3)	48,805	Accounts receivable to affiliated companies	4,833
						Management service fee income (Note 4)	343	-	-
						Collection of loan	7,739	Long-term loan receivable	36,758
						Interest income (Note 5)	142	Accrued interest	142
						Dividend from affiliated company	5,000	-	-

Notes:

- Consumption tax is included in the year-end balances but not in the transaction amounts listed in (1) and (2) above.
- The interest rate applied in the borrowing from McDonald's Restaurants Operations, Inc. is based on the market interest rates.
- The interest rate applied in the loan receivable to McDonald's Company (Japan), Ltd. is based on the market interest rates. The amount of loan receivable is recorded at a net amount because the borrowing transaction is short-term.
- Amount of fees and condition of business are decided based on the market trades.
- Management service fee income is determined based on the nature of such services.

7. Per share information

Net assets per share	1,053.29 yen
Net income per share	34.77 yen