

Consolidated Financial Results for the Nine Months Ended September 30, 2014

November 6, 2014

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
Stock market: Tokyo Securities Exchange, JASDAQ
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Schedule of dividends payment: -
Schedule of quarterly securities report submission: November 10, 2014
Preparation of supplementary materials for quarterly financial results: None
Quarterly results briefing: None

1. Consolidated operating results (From January 1, 2014 to September 30, 2014)

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary (loss) / income		Net (loss) / income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2014	172,248	(12.7)	238	(97.8)	(576)	—	(7,543)	—
September 30, 2013	197,352	(10.6)	10,774	(39.2)	10,843	(39.1)	6,394	(36.3)

(Note) Comprehensive income:

Nine months ended September 30, 2014: (7,539) million yen (—%)

Nine months ended September 30, 2013: 6,401 million yen (-36.7%)

	Net (loss) income per share	Net income per share, Fully diluted
	(Yen)	(Yen)
September 30, 2014	(56.74)	—
September 30, 2013	48.10	—

(2) Consolidated financial position

(In millions of yen, with fractional amounts discarded)

	Total assets	Shareholders' equity	Owner's equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2014	195,924	160,367	81.8
As of December 31, 2013	213,226	171,895	80.5

(Note) Owner's equity: As of September 30, 2014: 160,187 million yen. As of December 31, 2013: 171,720 million yen

2. Dividends

	Dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of year	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
December 31, 2013	—	0.00	—	30.00	30.00
December 31, 2014	—	0.00	—	—	—
December 31, 2014 (Forecast)	—	—	—	30.00	30.00

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

**3. Consolidated earnings forecasts for the year ending December 31, 2014
(From January 1, 2014 to December 31, 2014)**

	Net sales		Operating loss		Ordinary loss		Net loss		Net loss per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	221,000	(15.1)	(9,400)	(181.6)	(10,700)	(204.5)	(17,000)	(430.9)	(127.86)

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

4. Others

(1) Changes in significant subsidiaries during the period: None

Note: Changes in specified subsidiaries with an adjustment of a scope of consolidation: None

(2) Application of simplified accounting policies for quarterly financial statements: Yes

(3) Changes in accounting policies and accounting estimates

1. Changes caused by revision of accounting standards: None
2. Changes other than (3) - 1. above: None
3. Changes in accounting estimates: None
4. Restatements: None

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding (including treasury stock)
As of September 30, 2014: 132,960,000 shares As of December 31, 2013: 132,960,000 shares
2. Number of treasury stock
As of September 30, 2014: 869 shares As of December 31, 2013: 829 shares
3. Average number of shares outstanding
As of September 30, 2014: 132,959,151 shares As of September 30, 2013: 132,959,256 shares

(Indication of quarterly review procedure implementation status)

This quarterly earnings report is not subject to quarterly review procedures based upon the Financial Instruments and Exchange Act. At the time of disclosure of this report, the quarterly financial statement review procedures based upon the Financial Instruments and Exchange Act, have not been 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.

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1. Qualitative information on financial results for the second quarter ended September 30, 2014

(1) Qualitative Information on Consolidated Operating Results

(Business strategy)

During the third quarter, we took various measures to address the Shanghai Hushi issue; restoring customers' trust in our food was the top priority for us. Special measures we have taken include: shifting the sourcing of all chicken products to Thailand, disclosing information on the origin of main ingredients and the countries of final processing for all products on our menu, and launching a new page on our website called "Mieru, McDonald's Quality". Through these measures, we enhance our quality management system and improve transparency of our product information.

We have always put customers at the center of everything we do, and from the beginning of this quarter, we have taken various actions in accordance with the principle. Moving forward, restoring customers' trust in our food safety will remain to be our top priority. Meanwhile, we continue to strive to turn around our business and further improve customer satisfaction by taking action on pricing, menu innovation and investing in our existing restaurants.

Product strategies

In the first half of the year, we implemented multiple campaigns, including "American Vintage" and "Colorful Golden Week", and launched FIFA World Cup™ official burgers.

In the third quarter, we ran a summer campaign called "Summer McFes!"; we launched "Habanero Tomato Quarter Pounder", "Habanero Tomato Chicken Fillet-O", and "BLT Mozzarella & Basil" for the first round of the campaign, and then launched "Chicken Tatsuta" and "Chicken Tatsuta Wafu-Oroshi" for the second round. In addition, we offered our popular regular menu items, "Big Mac" and "Ebi Fillet-O", at a special value set price and launched fall limited time offering, "Tsukimi Burgers", all of which were very well received by customers.

Restaurant development

We accelerated the optimization of our restaurant portfolio through opening highly profitable, large-scale drive-thru restaurants in the suburbs and remodeling and relocating existing restaurants.

Transition and current status of our restaurant portfolio are as follows:

Classification	Previous year end	Newly opened	Closed	Classification change		Current reporting period
				Increase	Decrease	
Company - operated	1,013	14	(36)	14	(2)	1,003
Franchised	2,151	10	(52)	2	(14)	2,097
Total	3,164	24	(88)	16	(16)	3,100

Brand extension

We converted all of our restaurants to non-smoking to provide a healthier environment with cleaner air for all our customers to enjoy their meals, including young families with small children.

We are steadily rolling out McDelivery Service (MDS). At the end of the third quarter, the number of MDS hubs reached 182. On the other hand, as of the end of the quarter, 95 restaurants were equipped with "McCafé by Barista", where dedicated baristas offer good-quality coffee as served in an authentic café.

(Business results)

For the current quarter, sales were significantly impacted by the Shanghai Hushi incident; same-store sales decreased by 9.3%, all-store sales totaled ¥344,016 million (down by 9.7% from the same quarter last year), and consolidated sales decreased to ¥172,248 million (down by ¥ 25,104 million from the same quarter last year). The impact from the sales decline, combined with the direct/indirect costs and required investments associated with the Shanghai Hushi incident, resulted in the decline of profit. Specifically, such costs and investments include: write-off costs for inventories, impairment loss

reflecting the sales decline after the incident, financial support to franchise owners which will enable continuous provision of the best dining experience for customers, and investment to restore customers' trust in our products, such as investments for enhancing our quality management system and improve transparency in information disclosure. As a result, ordinary loss was ¥576 million (down by ¥11,419 million from the same quarter last year) and net loss was ¥7,543 million (down by ¥13,938 million from the same quarter last year).

(*) System-wide sales are the combined net sales of company operated and franchised restaurants; the amount does not equal to net sales presented in Quarterly consolidated statements of income.

(*) Existing restaurant sales are the total sales of restaurants operating for 13 months or longer.

(2) Qualitative Information on Consolidated Financial Position

At the end of the third quarter, current assets totaled ¥53,358 million, decreased ¥25,249 million from the end of the previous year. This is mainly due to the decrease in cash and deposits because of payments of dividends and royalties as well as the transfer of payables to investments and other assets because of the provision of financial support for franchise owners.

Non-current assets totaled ¥142,565 million, ¥7,948 million increased from the end of the previous year. Property and equipment decreased for ¥1,492 mil due to ¥5,872 mil of impairment loss by offsetting against ¥4,379 mil of acquisition for new restaurants and remodeling of existing restaurants.

Current liabilities were ¥23,484 million, ¥4,860 million decreased from the end of the previous year. This is mainly due to the decrease in payables resulted from the payments of royalties.

Non-current liabilities totaled ¥12,073 million, ¥913 million decreased from the end of the previous year, due mainly to the decrease of provisions for bonuses.

(3) Qualitative Information regarding Consolidated Business Forecasts

No change has been made to the consolidated earnings forecasts for this fiscal year ending December 31, 2014, announced on October 7, 2014.

2. Others

(1) Changes in significant subsidiaries

None

(2) Application of simplified accounting policies for quarterly financial statements

Income taxes:

Income taxes are determined based on the effective tax rate, multiplied by the estimated annual pre-tax income.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

Millions of yen	December 31, 2013	September 30, 2014
(Assets)		
Current assets		
Cash and deposits	45,041	34,432
Accounts receivable - trade	8,488	4,644
Short term investment securities	15,098	-
Raw materials and supplies	1,203	976
Deferred tax assets	797	1,580
Income taxes receivable	3,830	2,662
Other	4,259	9,172
Allowance for doubtful accounts	(110)	(110)
Total current assets	78,608	53,358
Noncurrent assets		
Property and equipment		
Buildings and structures, net	43,923	42,235
Machinery and equipment, net	5,556	3,956
Tools, furniture and fixtures, net	3,924	3,238
Land	17,069	17,527
Lease assets, net	4,199	4,582
Construction in progress	959	2,601
Total property and equipment	75,633	74,141
Intangible assets		
Goodwill	376	525
Software	2,579	2,335
Other	755	755
Total intangible assets	3,711	3,617
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Deferred tax assets	1,910	3,004
Lease and guarantee deposits	46,368	44,875
Other	7,246	17,358
Allowance for doubtful accounts	(318)	(496)
Total investments and other assets	55,271	64,806
Total noncurrent assets	134,617	142,565
Total assets	213,226	195,924

Millions of yen	December 31, 2013	September 30, 2014
(Liabilities)		
Current liabilities		
Accounts payable - trade	638	223
Lease obligations	1,239	1,529
Accounts payable - other	17,025	11,295
Accrued expenses	5,020	4,268
Income taxes payable	131	92
Provision for bonuses	-	300
Provision for loss on store closing	159	41
Provision for loss on natural disaster	23	23
Other	4,107	5,709
Total current liabilities	28,344	23,484
Noncurrent liabilities		
Long-term loans payable	500	500
Lease obligations	3,363	3,475
Deferred tax liabilities due to land devaluation	413	390
Provision for bonuses	1,517	618
Provision for directors' bonuses	405	94
Allowance for retirement benefits	1,805	1,689
Allowance for directors' retirement benefits	237	260
Asset retirement obligations	4,439	4,733
Other	303	310
Total noncurrent liabilities	12,986	12,073
Total liabilities	41,331	35,557
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	110,110	98,619
Treasury stock	(1)	(1)
Total shareholders' equity	176,347	164,855
Accumulated other comprehensive income		
Revaluation reserve for land	(4,626)	(4,667)
Total accumulated other comprehensive income	(4,626)	(4,667)
Minority interests		
Total net assets	171,895	160,367
Total liabilities and net assets	213,226	195,924

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

Quarterly consolidated statements of income for the nine months ended September 30, 2013 and 2014

Millions of yen	Nine months ended September 30, 2013	Nine months ended September 30, 2014
Net sales	197,352	172,248
Cost of sales	166,718	152,852
Gross profit	30,634	19,395
Selling, general and administrative expenses	19,859	19,156
Operating income	10,774	238
Non-operating income		
Interest income	192	112
Compensation income	369	90
Insurance income	55	62
Reversal of allowance for doubtful accounts	26	-
Other	139	124
Total non-operating income	784	390
Non-operating expenses		
Interest expenses	75	72
Provision of allowance for doubtful accounts	-	242
Loss on disposals of company-operated restaurants	274	777
Loss on cancellation of leasehold contracts	178	26
Other	186	87
Total non-operating expenses	715	1,206
Ordinary income (loss)	10,843	(576)
Special income		
Gain on sales of noncurrent assets	74	-
Total special income	74	-
Special loss		
Loss on disposals of noncurrent assets	62	8
Impairment loss	-	5,872
Loss on sales of noncurrent assets	238	-
Shanghai Husi related expenses	-	2,514
Total special loss	300	8,396
Income (loss) before income taxes	10,617	(8,972)
Income taxes	4,215	(1,433)
Income (loss) before minority interests	6,401	(7,539)
Minority interests in income	6	4
Net income (loss)	6,394	(7,543)

Quarterly consolidated statements of comprehensive income

For the nine months ended September 30, 2013 and 2014

Millions of yen	Nine months ended September 30, 2013	Nine months ended September 30, 2014
Income (loss) before minority interests	6,401	(7,539)
Comprehensive income	6,401	(7,539)
Comprehensive income attributable to:		
Shareholders of McDonald's Holdings Company (Japan)	6,394	(7,543)
Minority interests	6	4

(3) Note

Notes for assumption of going concern

None

Notes for significant changes in the amount of shareholders' equity

None