

Consolidated Financial Results Report for the Nine Months ended September 30, 2010 [Japanese Standards]

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp>)
 Shares traded: Osaka Securities Exchange
 Executive position of legal representative: Eikoh Harada
 Chairman and CEO, President, Representative Director
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Schedule of quarterly securities report submission: November 2, 2010

Schedule of dividends payment: -

Preparation of supplementary materials for quarterly financial results: None

Information meeting for quarterly financial results to be held: None

1. Consolidated operating results (From January 1, 2010 to September 30, 2010)

(1) Consolidated financial results

(The number with parenthesis shows negative figure)

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2010	246,107	(11.1)	22,216	25.8	21,752	28.3	6,246	(34.5)
September 30, 2009	276,861	—	17,663	—	16,953	—	9,539	—

	Net income per share	Net income per share, fully diluted
	(Yen)	(Yen)
September 30, 2010	46.98	—
September 30, 2009	71.75	—

(2) Consolidated financial position

(In millions of yen, with fractional amounts discarded)

	Total assets	Net assets	Total equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2010	194,480	150,840	77.5	1,133.46
December 31, 2009	200,798	148,502	73.9	1,115.95

(Reference) Total equity September 30, 2010 150,703 mil December 31, 2009 148,375 mil

2. Dividends

(Date of record)	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, 2009	—	0.00	—	30.00	30.00
December 31, 2010	—	0.00	—	—	—
December 31, 2010 (Forecast)	—	—	—	30.00	30.00

(Note) Changes to our forecast for year-end dividends: None

3. Consolidated forecasts for December 2010 term (From January 1, 2010 to December 31, 2010)

(%: year-on-year change)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Annual	313,000	(13.6)	26,000	7.3	24,400	4.9

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
Annual	5,800	(54.7)	43.62

(Note) Revision of the forecast for consolidated results: None

4. Others (For details, please refer to page 4 of this report.)

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

Note: Changes in specific subsidiaries with an adjustment of a scope of consolidation.

(2) Simplified accounting procedures or special accounting procedures: Yes

Note: Simplified accounting procedures specified to quarterly consolidated financial statements.

(3) Changes in accounting principles, procedures and descriptions.

a. Changes caused by revision of accounting standard: None

b. Changes other than (3) - a. above: None

Note: Changes of significant accounting principles, procedures and descriptions for quarterly consolidated financial statements (Described in "Changes in the accounting method" in "Important accounting policies")

(4) Number of shares issued and outstanding (Common stock)

a. Number of shares issued and outstanding at the end of each period (including treasury stock):

b. Number of treasury stock at the end of each period:

c. Average number of shares issued and outstanding in each period:

a	September 30, 2010	132,960,000 units	December 31, 2009	132,960,000 units
b	September 30, 2010	652 units	December 31, 2009	473 units
c	September 30, 2010	132,959,448 units	September 30, 2009	132,959,704 units

(Implementation status of quarterly review procedures)

This quarterly financial results report is not subject to quarterly review procedures under Japan's Financial Instruments and Exchange Law. At the time of this report's release, however, the quarterly review procedures under the Financial Instruments and Exchange Law had been almost completed.

(Information regarding appropriate use of the forecasts)

The forecasts shown above are predicated upon information that is available as of the day of the announcement of this report and certain reasonable assumptions, therefore, actual financial performances may differ considerably from these forecasts due to a variety of factors hereafter.

Contents

1. Qualitative information on financial statement etc.	4
(1) Qualitative information on the progress of consolidated operating results.....	4
(2) Qualitative information on the fluctuation in consolidated financial position.....	6
(3) Qualitative information on the financial forecast.....	6
2. Others	6
(1) Important changes in subsidiaries.....	6
(2) Application of simplified accounting procedures or special accounting procedures.....	6
(3) Changes in accounting principles, procedures and descriptions.....	6
3. Consolidated quarterly financial statements	7
(1) Consolidated quarterly balance sheet.....	7
(2) Consolidated quarterly statements of income.....	8
(3) Consolidated quarterly statements of cash flows.....	9
(4) Notes for assumption of going concern.....	10
(5) Segment information.....	10
(6) Notes for significant changes of shareholders' equity.....	10

1. Qualitative information on financial statement etc.

(1) Qualitative information on the progress of consolidated operating results

Japan's economy during this consolidated cumulative third quarter period (January 1, 2010 to September 30, 2010) showed signs that deteriorating corporate performance and economy is bottoming out; however, an uncertain outlook keeps personal consumption at a low level and the situation remains severe.

Our Group has generally performed well in the midst of this economic environment. We continued to implement measures to allocate our management resources to the hamburger restaurant business and relentlessly executed consistent customer expansion strategy and other activities, which are stated below. As a result, existing restaurant sales grew by 4.3% compared with last year and systemwide sales increased by 11.441 billion yen (2.9% growth from same period last year) compared with same period last year, to 408.843 billion yen during the consolidated third quarter period. Net sales during the period was 246.107 billion yen (decreased by 30.754 billion yen from same period last year), operating income was 22.216 billion yen (increased by 4.553 billion yen from same period last year), ordinary income was 21.752 billion yen (increased by 4.798 billion yen from same period last year), and net income for the nine month was 6.246 billion yen (decreased by 3.292 billion yen from the same period last year).

Regarding the decision made in the consolidated first quarter of FY2010 to strategically close 433 restaurants, 329 restaurants were closed in the FY2010 consolidated third quarter period with 7.846 billion yen of extraordinary loss posted from restaurant closure. In addition, allowance (reserve) of 2.508 billion yen for extraordinary loss (rational estimate amount of closure negotiation results) from restaurant closure is posted for the remaining 104 restaurants planned to be closed on or after the consolidated fourth quarter of FY2010.

Note1: existing restaurant sales include restaurants operating for at least 13 months or longer; sales of current and previous year are added separately for comparison

2: systemwide sales is the total net sales of company operated and franchised restaurants; its amount is not identical with net sales specified in consolidated income statement

3: see below (hamburger restaurant business) for more details on strategic closure

(Hamburger Restaurant Business)

McDonald's Company (Japan), Ltd. operates the hamburger restaurant business, the core business of our group. Based on the restaurant foundation of QSC (trusted Quality, speedy and friendly Service, Clean and comfortable atmosphere), the company continues to make strategic investments to create more opportunities for restaurant visits and increase the number of guests. Expansion of 24hour restaurants (1,720 at end of consolidated third quarter 2010), expansion of drive-thru restaurants (1,299 at end of consolidated third quarter 2010), and remodeling of restaurants (63 restaurants including 13 'new-generation design' restaurants during consolidated third quarter 2010) were made to enlarge our customer base. At the same time, the company implemented various promotion activities to address the economic climate and trends and offered 'value' unique to McDonald's; all these contributed to increase the number of restaurant visits.

Stated below are our main activities executed during the consolidated third quarter period to capture additional new guests and differentiate ourselves from others:

- 1) Deployment of 'Big America' campaign with limited offer of 4 new products 'Texas Burger', 'New York Burger', 'California Burger' and 'Hawaiian Burger' providing all-new genuine American taste
- 2) Deployment of 'total non-smoking campaign' at 298 restaurants in Kanagawa prefecture, from March 1, 2010
- 3) Project launch of 'Big-na-yume-o-miyo' in line with opening of the Central League professional baseball season to bring dreams and vitality to Japan via baseball
- 4) Deployment of the 'McDonald's taste of Japan' campaign with limited time offer of 'NEW Teritama Mochi-mochi Buns', 'NEW Goma Ebi Filet-o Goma-goma Buns', 'Chicken Tatsuta', 'Teritama', and 'Cheese Teritama' from April 5, 2010
- 5) Deployment of 13 'new-generation design' restaurants in Tokyo from April 25, 2010
- 6) Deployment of the 'Coke glass campaign' with a design featuring the 2010 FIFA World Cup South Africa official logo from May 24, 2010, in commemoration of the tournament. Both McDonald's and The Coca-Cola Company are official partners of 2010 FIFA World Cup South Africa. In addition, 11 "McDonald's Player Escorts" were sent to South Africa and walked hand-in-hand onto the pitch with players at the June 19 match between the Netherlands and Japan (held in Durban).
- 7) Join of popular breakfast products 'Sausage Muffin' into '100-yen Mc' and deployment of 'Combi 200-yen (with S-size drink)' from June 21, 2010
- 8) Launch of 'Chicken Burger Salt & Lemon', 'Juicy Chicken Select' as a regular menu from July 2, 2010, and deployment of new products of chicken with limited time offer of 'Chicken Burger Aurora' from July 16, 2010.
- 9) Deployment of the 'Food strap' campaign from July 26, 2010
- 10) Limited time offer of standard products of autumn 'Tsukimi Burger', 'Cheese Tsukimi Burger' and new products for 20th anniversary 'Dai Tsukimi Burger' from Aug 27, 2010

In addition to the traditional scrap-and-build of restaurants to reinforce revenue base and enhance asset efficiency, decision to strategically close 433 restaurants was made at the board of directors meeting on February 9, 2010 to further improve profit and McDonald's brand, which is closely interlocked with the group's franchise strategy. To accelerate our growth, restaurants that do not meet our criteria in size and location and at the same time have opportunity for better management efficiency and maximizing of brand image will be closed. In the next few years, we will facilitate building of new restaurants that are superior in profitability and establishing our brand image to raise the overall restaurant quality, including those that are franchised.

The number of restaurants as a result of strategic closure and smooth enhanced franchising is stated

Classification	Previous year end	Newly opened	Closed	Classification change *Note		Current term end
				Increase	Decrease	
Company operated	1,705	12	(254)	22	(88)	1,397
Franchised	2,010	22	(129)	88	(22)	1,969
Total number of restaurants	3,715	34	(383)	110	(110)	3,366

*Note: These figures do not include sales of restaurant businesses by BFL exercise.

Meaning of BFL and BFL Exercise:

Arrangements where the company leases the businesses, including equipment, to franchisees who generally have options to purchase the businesses.

BFL exercise is the case where franchisees choose to exercise (application by franchisees to McDonald's Japan) these options to convert into conventional contracts (where franchisees purchase all necessary equipments for restaurant operation) after examination procedures by McDonald's Japan.

The company also has an overseas training system as a part of its continued investment in people development to send about 100 restaurant salaried managers for training in McDonald's restaurants in English-speaking countries for up to 6 months. In addition, support to 'Donald McDonald House', accommodation facility for sick children and their family members, and installing of LED lighting at restaurants to reduce CO2 emission and address environmental concerns are all part of various CSR activities that contributed to strengthen McDonald's brand power and expansion of customer base.

(Other businesses)

EveryD Mc Inc., a subsidiary of the company, provides support to McDonald's restaurants and guests. During the consolidated cumulative third quarter, it reported net sales of 533 million yen, ordinary income of 29 million yen, and quarterly net income of 17 million yen.

The JV Inc., an additional subsidiary of the company, 70% owned by the company and 30% owned by NTT DoCoMo Inc., designs and implements promotion activities for members of McDonald's Company (Japan), Ltd. Membership of 'Toku-suru Keitai Site', operated by the JV Inc., is growing steadily, reaching over 19 million members as of Sep 30, 2010, includes 9 million 'Kazasu-coupon' members. Its performance during the consolidated cumulative third quarter resulted in sales of 648 million yen, ordinary income of 57 million yen, and quarterly net income of 34 million yen.

(2) Qualitative information on the fluctuation in consolidated financial position

(Financial position analysis)

Total assets at the end of consolidated third quarter period was 194.480 billion yen, or 6.317 billion yen less than previous consolidated fiscal year end. Main reasons for the decline are decreases of 6.018 billion yen in property, plant and equipment.

(Cash flow analysis)

Cash flow for each activity are stated below for the consolidated cumulative third quarter period.

Cash and cash equivalents for the period ('funds') rose by 4.615 billion yen from previous consolidated fiscal year end, to 24.763 billion yen for the consolidated third quarter period.

(Cash flows provided by operating activities)

Operating activities provided net cash of 11.421 billion yen (decreased by 2.232 billion yen from the same period last year). Inflows were mainly due to 11.235 billion yen of income before income taxes and minority interest, 9.151 billion yen posting of depreciation and amortization, and 4.58 billion yen posting of loss on store closings. Outflows were mainly due to 12.751 billion yen of income taxes paid.

(Cash flows used in investment activities)

Money used for investment activities amounted to 3.041 billion yen (decreased by 2.339 billion yen from the same period last year). Outflows were mainly due to 6.684 billion yen of purchase of property, plant and equipment and 1.184 billion yen of purchase of software. Inflows were mainly due to 3.753 billion yen of proceeds from collection of lease and guarantee deposits.

(Cash flows used by financing activities)

3.753 billion yen was used for financing activities (increased by 4.283 billion yen from the same period last year). Outflows were mainly due to 3.966 billion yen of cash dividends paid.

(3) Qualitative information on the financial forecast

The forecasts to our performance result are on the whole as expected, and there are no changes to our forecast results as announced on Feb 9, 2010 as of the release date of the report.

2. Others

(1) Important changes in subsidiaries : None

(2) Application of simplified accounting procedures or special accounting procedures

(a) Simplified accounting procedures:

Valuation of inventories

The carrying amount of inventories is only reduced to estimated net selling value when there is an obvious decrease of profitability.

(b) Accounting procedures specific to the preparation of quarterly consolidated financial statements:

Calculation of taxes:

Income taxes are calculated by multiplying the effective tax rate, the yearly net income before taxes which includes this quarter was used in determination.

Also, 'deferred tax expenses' is shown included in 'income taxes'.

(3) Changes in accounting principles, procedures and descriptions : None

3. Consolidated quarterly financial statements
(1) Consolidated quarterly balance sheet

(Millions of yen)

	As of September 30, 2010	As of December 31, 2009
(Assets)		
Current assets		
Cash and deposits	24,763	20,148
Accounts receivable - trade	8,217	9,963
Merchandise	4	3
Raw materials and supplies	1,335	2,230
Other	11,878	8,305
Allowance for doubtful accounts	(10)	(25)
Total current assets	46,189	40,626
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	29,884	34,061
Machinery and equipment, net	9,562	12,422
Tools, furniture and fixtures, net	6,457	8,140
Land	17,677	17,677
Lease assets, net	2,206	839
Construction in progress	1,422	88
Total property, plant and equipment	67,210	73,229
Intangible assets		
Goodwill	1,556	1,656
Software	14,692	16,958
Other	769	770
Total intangible assets	17,018	19,385
Investments and other assets		
Lease and guarantee deposits	56,317	59,535
Other	8,512	8,855
Allowance for doubtful accounts	(767)	(833)
Total investments and other assets	64,062	67,557
Total noncurrent assets	148,291	160,171
Total assets	194,480	200,798
(Liabilities)		
Current liabilities		
Accounts payable-trade	7,332	8,527
Accounts payable-other	12,407	16,823
Income taxes payable	457	5,732
Provision for bonuses	2,834	2,069
Provision for loss on store closing	2,572	236
Other	12,479	14,447
Total current liabilities	38,084	47,838
Noncurrent liabilities		
Long-term loans payable	500	500
Provision for retirement benefits	1,914	2,123
Provision for directors' retirement benefits	161	148
Other	2,979	1,685
Total noncurrent liabilities	5,555	4,457
Total liabilities	43,640	52,295
(Net assets)		
Shareholders' Equity		
Capital stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	89,707	87,449
Treasury stock	(1)	(0)
Total shareholders' equity	155,944	153,687
Valuation and translation adjustments		
Deferred gains or losses on hedges	-	(70)
Revaluation reserve for land	(5,240)	(5,240)
Total valuation and translation adjustments	(5,240)	(5,311)
Minority interests		
	137	126
Total net assets	150,840	148,502
Total liabilities and net assets	194,480	200,798

(2) Consolidated quarterly statements of income

(Millions of yen)

	Nine months ended September 30, 2009	Nine months ended September 30, 2010
Net sales	276,861	246,107
Cost of sales	225,527	194,449
Gross profit	51,333	51,657
Selling, general and administrative expenses	33,670	29,441
Operating income	17,663	22,216
Non-operating income		
Interest income	84	95
Revenue from unredeemed gift certificates	178	145
Compensation income	83	94
Other	329	245
Total non-operating income	676	580
Non-operating expenses		
Interest expenses	23	42
Provision of allowance for doubtful accounts	143	-
Loss on retirement of noncurrent assets at Company-operated restaurants	1,076	888
Other	142	113
Total non-operating expenses	1,385	1,044
Ordinary income	16,953	21,752
Extraordinary income		
Reversal of allowance for doubtful accounts	-	36
Compensation for transfer	64	-
Total extraordinary income	64	36
Extraordinary loss		
Loss on retirement of noncurrent assets	115	189
Provision for loss on store closings	645	2,508
Loss on store closings	113	7,846
Other	15	9
Total extraordinary loss	890	10,553
Income before income taxes and minority interests	16,128	11,235
Income taxes	6,563	4,979
Minority interests in income	25	10
Net income	9,539	6,246

(3) Consolidated quarterly statements of cash flows

(Millions of yen)

	Nine months ended September 30, 2009	Nine months ended September 30, 2010
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	16,128	11,235
Depreciation and amortization	9,192	9,151
Loss on store closings	29	4,580
Increase (decrease) in provision for loss on store closings	645	2,348
Increase (decrease) in provision	1,057	564
Unredeemed gift certificates	(178)	(145)
Interest income	(84)	(95)
Interest expenses	23	42
Loss on retirement of noncurrent assets	622	605
Decrease (increase) in accounts receivable-trade	1,264	1,739
Decrease (increase) in inventories	622	894
Decrease (increase) in goodwill from acquisition of franchise restaurants	56	100
Decrease (increase) in other assets	1,552	1,692
Increase (decrease) in accounts payable-trade	(1,777)	(1,195)
Increase (decrease) in accounts payable-other	(6,850)	(4,480)
Increase (decrease) in accrued expenses payable	(993)	(1,740)
Increase (decrease) in other current liabilities	-	(1,187)
Other, net	(610)	41
Subtotal	20,701	24,152
Interest income received	2	9
Interest expenses paid	(17)	(27)
Income taxes paid	(7,265)	(12,751)
Income taxes refund	233	38
Net cash provided by (used in) operating activities	13,654	11,421
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(8,162)	(6,684)
Proceeds from sales of property, plant and equipment	7,051	2,641
Payments for lease and guarantee deposits	(1,263)	(1,596)
Proceeds from collection of lease and guarantee deposits	2,569	3,753
Collection of loans receivable	2	-
Purchase of software	(5,492)	(1,184)
Other, net	(87)	27
Net cash provided by (used in) investment activities	(5,381)	(3,041)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	4,500	-
Repayments of finance lease obligations	-	(281)
Proceeds from sale and lease-back transactions	-	494
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(3,970)	(3,966)
Net cash provided by (used in) financing activities	529	(3,753)
Effect of exchange rate change on cash and cash equivalents	(0)	(10)
Net increase (decrease) in cash and cash equivalents	8,802	4,615
Cash and cash equivalents at beginning of period	9,782	20,148
Cash and cash equivalents at end of period	18,584	24,763

(4) Notes for assumption of going concern

None

(5) Segment information

(Business segment information)

For the period ended September 2009 (January 1 – September 30, 2009) and 2010 (January 1 – September 30, 2010), sales and operating income corresponding to hamburger restaurant operations accounted for more than 90% of the group's total sales and operating income for all business segments. Accordingly, business segment information is omitted.

(Geographical segment information)

For the period ended September 2009 (January 1 – September 30, 2009) and 2010 (January 1 – September 30, 2010), the company had no consolidated subsidiaries domiciled outside Japan. Accordingly, there is no geographical segment information.

(Overseas sales)

For the period ended September 2009 (January 1 – September 30, 2009) and 2010 (January 1 – September 30, 2010), the company had no sales outside Japan, therefore this section is omitted.

(6) Notes for significant changes of shareholders' equity

None