

## Consolidated Financial Results for the Nine Months Ended September 30, 2013

November 7, 2013

### 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 11, 2013  
Preparation of supplementary materials for quarterly financial results: No  
Quarterly results briefing: No

### 1. Consolidated operating results (From January 1, 2013 to September 30, 2013)

#### (1) Consolidated financial results

(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, 2013	197,352	(10.6)	10,774	(39.2)	10,843	(39.1)	6,394	(36.3)
September 30, 2012	220,786	(1.1)	17,718	(17.8)	17,803	(16.2)	10,044	16.3

	Net income per share	Net income per share, Fully diluted
	(Yen)	(Yen)
September 30, 2013	48.10	—
September 30, 2012	75.54	—

#### (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, 2013	209,928	173,149	82.4
As of December 31, 2012	226,338	170,737	75.4

(Note) Owner's equity: As of September 30, 2013: 172,977 million yen. As of December 31, 2012: 170,571 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, 2012	—	0.00	—	30.00	30.00
December 31, 2013	—	0.00	—	—	—
December 31, 2013 (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, 2013  
(From January 1, 2013 to December 31, 2013)**

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Annual	265,000	(10.1)	20,000	(19.3)	19,500	(18.0)	11,700	(9.1)	88.00

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

**4. Other**

**(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: Yes
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, 2013: 132,960,000 shares As of December 31, 2012: 132,960,000 shares
2. Number of treasury stock  
As of September 30, 2013: 779 shares As of December 31, 2012: 703 shares
3. Average number of common shares outstanding  
As of September 30, 2013: 132,959,256 shares As of September 30, 2012: 132,959,297 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 third quarter ended September 30, 2013

### (1) Qualitative information on consolidated operating results

#### **(Business strategy)**

During the quarter, our Group continued to focus on QSC as well as aggressively introducing new products and promotional activities. Restaurant portfolio optimization has been on a good progress. To create new markets and values, we implemented full-scale deployment of brand extensions such as 'McDelivery Service' and 'McCafe by Barista' simultaneously.

(Note) QSC stands for Q: reliable quality, S: speedy and pleasant service, and C: clean and comfortable environment

#### **Marketing**

During the summer campaigns including the 'BITE! Quarter Pounder' project, our Group offered unique products successively, such as the one-day only 'Quarter Pounder Jewelry' series in limited amount, the 'McFloat' drinks appeared for the first time in Japan market, as well as the 'McFizz' drinks. In addition to our popular limited-time offering "Teritama", "Chicken Tatsuta" and "Tsukimi Burger", new products were introduced as an extension of the series. "Buy One and Get One Free Coupon" campaign was launched for several products to drive guest count. We also offered the all-time favorite core menus such as the 'Hamburger' and 'McDonald's French Fries' through the 'Buy One Get One Free' campaign to strengthen our business baseline.

#### **Restaurant development**

While promoting new restaurant development of highly profitable and large-scale drive-thru restaurants in the suburbs as well as remodeling and relocation of existing restaurants, we executed strategic closure of 110 restaurants at an appropriate pace (closure costs had been recorded in the previous year) to facilitate optimization of restaurant portfolio. These activities resulted in the number of restaurants as follows:

Classification	Previous year end	Newly opened	Closed	Classification change		Current reporting period
				Increase	Decrease	
Company operated	1,105	19	(64)	1	(31)	1,030
Franchised	2,175	28	(71)	31	(1)	2,162
Total	3,280	47	(35)	32	(32)	3,192

#### **Brand extension**

At the end of this quarter, 73 'McCafe by Barista' with full-time baristas serving authentic café coffee as well as 86 McDelivery Service are operating in McDonald's restaurants, in preparation for their nationwide launch.

#### **(Business results)**

Existing restaurant sales declined by 5.0% compared with the same quarter last year, resulting in system-wide sales of ¥380,903 million (down by 3.3%) and sales of ¥197,352 million (down by ¥23,433 million). Multiple factors affected profit, such as decline in system-wide sales, temporary drop in gain on restaurant sales from franchise agreement conclusion, and external factors of sudden weakening of yen with surge in ingredient costs, which resulted in ordinary income of ¥10,843 million (down by ¥6,960 million) and quarterly net income of ¥6,394 million (down by ¥3,649 million).

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

(note) System-wide sales are the combined net sales of company operated and franchised restaurants; the amount does not equal to net sales specified in consolidated quarterly statement of income.

## (2) Qualitative Information on Consolidated Financial Position

### (Balance sheets)

Current assets at the end of third quarter were ¥77,431 million or down by ¥14,159 million from the end of previous fiscal year, due mainly to decrease in cash and deposits from payment of dividends and corporation taxes.

Noncurrent assets were ¥132,496 million or down by ¥2,250 million from the end of previous fiscal year. Property, plant and equipment increased by ¥2,888 million, due mainly to capital investment including opening of new restaurants, remodels, and relocations. Main reasons for the decline in noncurrent assets are due to drop in intangible assets by ¥1,771 million from software amortization, as well as decrease in investment and other assets by ¥3,367 million from collection of lease and guarantee deposits.

Current liabilities were ¥24,176 million, down by ¥19,770 million from previous fiscal year, due mainly to significant decrease in accounts payable from the change in payment term and decrease in accrued income taxes payable from payment of corporation taxes.

Noncurrent liabilities were ¥12,601 million, up by ¥947 million from previous fiscal year, due mainly to increased provision for stock-price-linked bonus.

## (3) Qualitative Information regarding Consolidated Business Forecasts

No change is made to the consolidated business forecast for this fiscal year ending December 2013, announced on August 9, 2013.

## 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) Changes in accounting policies and accounting estimates

Change in accounting policy

Historically we recorded relevant costs of products provided for free coupons in Selling, General, and Administrative Expenses. Effective the first quarter, we have decided to record such costs in cost of sales due to the following reasons.

When coupons were originally introduced, relevant costs were recorded as promotion expenses within Selling, General and Administrative Expenses given its primary purpose being promotion. We also accounted for paper-coupons under the same accounting policy, which are issued several times per year.

Lately, we expanded our IT infrastructure to further cultivate use of electronic-based-coupons (e-coupons) noting that the total potential users of e-coupons reached to 35 million exceeding our initial target. The result also indicated that more than one fourth of total annual guest count uses coupons including e-coupons. The fact that e-coupons (which represents vast majority of coupon use lately) are reusable without limit essentially indicates change in selling prices of products since guest with such coupons can purchase products at a lower prices anytime. As a result, we concluded that current trend of coupon use represented change in selling prices rather than promotion nature.

As such, effective the first quarter we have changed to account relevant costs for products corresponding to coupons within Cost of Sales instead of Selling, General, and Administrative Expenses.

The change is applied retrospectively to the comparative figures on the consolidated statements of income. Therefore, cost of sales for the third quarter of 2012 is increased 5,370 million yen and Selling, General, Administrative Expenses decreased for the same amount. There are no impacts to Operating Income, Ordinary Income, Income before Income Taxes and Net Income.

### 3. Consolidated quarterly financial statements

#### (1) Consolidated quarterly balance sheets

Millions of yen	December 31, 2012	September 30, 2013
(Assets)		
<b>Current assets</b>		
Cash and deposits	50,950	45,201
Accounts receivable - trade	9,794	7,609
Short term investment securities	21,197	14,100
Raw materials and supplies	1,198	1,169
Deferred tax assets	1,768	1,768
Other	6,690	7,592
Allowance for doubtful accounts	(9)	(9)
Total current assets	91,590	77,431
<b>Noncurrent assets</b>		
<b>Property and equipment</b>		
Buildings and structures, net	39,811	43,016
Machinery and equipment, net	6,320	5,636
Tools, furniture and fixtures, net	3,974	3,854
Land	17,371	16,955
Lease assets, net	3,936	4,283
Construction in progress	643	1,201
Total property and equipment	72,058	74,946
<b>Intangible assets</b>		
Goodwill	678	451
Software	4,562	3,019
Other	755	755
Total intangible assets	5,997	4,226
<b>Investments and other assets</b>		
Investment securities	56	56
Long-term loans receivable	9	9
Deferred tax assets	1,024	1,024
Lease and guarantee deposits	49,426	47,490
Other	6,766	5,194
Allowance for doubtful accounts	(590)	(451)
Total investments and other assets	56,691	53,323
Total noncurrent assets	134,747	132,496
<b>Total assets</b>	<b>226,338</b>	<b>209,928</b>

Millions of yen	December 31, 2012	September 30, 2013
<b>(Liabilities)</b>		
<b>Current liabilities</b>		
Accounts payable - trade	7,023	114
Lease obligations	1,007	1,195
Accounts payable - other	18,476	14,265
Accrued expenses	5,506	4,354
Income taxes payable	4,786	74
Provision for bonuses	693	281
Provision for loss on store closing	67	52
Provision for loss on natural disaster	99	23
Other	6,286	3,814
Total current liabilities	43,946	24,176
<b>Noncurrent liabilities</b>		
Long-term loans payable	500	500
Lease obligations	3,210	3,404
Deferred tax liabilities due to land devaluation	413	413
Provision for bonuses	347	1,326
Provision for directors' bonuses	164	357
Allowance for retirement benefits	1,796	1,798
Allowance for directors' retirement benefits	202	226
Asset retirement obligations	4,715	4,271
Other	302	302
Total noncurrent liabilities	11,653	12,601
<b>Total liabilities</b>	55,600	36,778
<b>(Net assets)</b>		
<b>Shareholders' equity</b>		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	109,364	111,367
Treasury stock	(1)	(1)
Total shareholders' equity	175,601	177,603
<b>Accumulated other comprehensive income</b>		
Devaluation reserve for land	(5,029)	(4,626)
Total accumulated other comprehensive income	(5,029)	(4,626)
<b>Minority interests</b>		
Total net assets	170,737	173,149
<b>Total liabilities and net assets</b>	226,338	209,928

**(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income**

Consolidated quarterly statements of income for the nine months ended September 30, 2012 and 2013

Millions of yen	Nine months ended September 30, 2012	Nine months ended September 30, 2013
<b>Net sales</b>	220,786	197,352
<b>Cost of sales</b>	182,166	166,718
<b>Gross profit</b>	38,619	30,634
<b>Selling, general and administrative expenses</b>	20,901	19,859
<b>Operating income</b>	17,718	10,774
<b>Non-operating income</b>		
Interest income	197	192
Compensation income	40	369
Insurance income	268	55
Reversal of allowance for doubtful accounts	20	26
Other	208	139
Total non-operating income	735	784
<b>Non-operating expenses</b>		
Interest expenses	73	75
Loss on disposals of company-operated restaurants	483	274
Loss on cancellation of leasehold contracts	41	178
Other	51	186
Total non-operating expenses	650	715
<b>Ordinary income</b>	17,803	10,843
<b>Special income</b>		
Gain on sales of noncurrent assets	-	74
Total special income	-	74
<b>Special loss</b>		
Loss on disposals of noncurrent assets	253	62
Loss on sales of noncurrent assets	3	238
Total special loss	257	300
<b>Income before income taxes</b>	17,546	10,617
Income taxes	7,494	4,215
<b>Income before minority interests</b>	10,052	6,401
Minority interests in income	7	6
<b>Net income</b>	10,044	6,394



**Consolidated quarterly statements of comprehensive income**

For the nine months ended September 30, 2012 and 2013

<b>Millions of yen</b>	<b>Nine months ended September 30, 2012</b>	<b>Nine months ended September 30, 2013</b>
<b>Income before minority interests</b>	10,052	6,401
<b>Other comprehensive income</b>		
Devaluation reserve for land	59	-
<b>Total other comprehensive income</b>	59	-
<b>Comprehensive income</b>	10,111	6,401
<b>Comprehensive income attributable to:</b>		
Shareholders of McDonald's Holdings Company (Japan)	10,103	6,394
Minority interests	7	6

**(3) Notes for assumption of going concern: None**

**(4) Notes for significant changes in the amount of shareholders' equity: None**