

Consolidated Financial Results for the Three Months Ended March 31, 2014

May 9, 2014

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
Stock Market: Tokyo Securities Exchange, JASDAQ
Representative: Sarah L. Casanova
CEO and President, Representative Director
Contact: Row Imamura
Vice President, Finance Division
Phone: +81-3- 6911-6000

Schedule of dividends payment: -

Schedule of quarterly securities report submission: May 12, 2014

Preparation of supplementary materials for quarterly financial results: No

Quarterly results briefing: No

1. Consolidated operating results (From January 1, 2014 to March 31, 2014)

(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)	%
March 31, 2014	62,325	(5.4)	2,402	(28.7)	2,189	(34.3)	1,263	(34.7)
March 31, 2013	65,910	(14.6)	3,371	(53.3)	3,335	(55.5)	1,935	(54.8)

(Note) Comprehensive income:

Three months ended March 31, 2014: 1,264 million yen (-34.8%)

Three months ended March 31, 2013: 1,938 million yen (-54.8%)

	Net income per share	Net income per share, Fully diluted
	(Yen)	(Yen)
March 31, 2014	9.50	—
March 31, 2013	14.56	—

(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 March 31, 2014	209,893	169,171	80.5
As of December 31, 2013	213,226	171,895	80.5

(Note) Owner's equity: As of March 31, 2014: 168,994 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 income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
1 st Half	122,000	(5.9)	4,000	(43.4)	3,500	(53.1)	1,900	(58.4)	14.29
Annual	250,000	(4.0)	11,700	1.5	10,700	4.5	6,000	16.7	45.13

(Note) Change 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 March 31, 2014: 132,960,000 shares As of December 31, 2013: 132,960,000 shares
2. Number of treasury stock
As of March 31, 2014: 829 shares As of December 31, 2013: 829 shares
3. Average number of common shares outstanding
As of March 31, 2014: 132,959,171 shares As of March 31, 2013: 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 first quarter ended March 31, 2014

(1) Qualitative information on consolidated operating results

(Business strategy)

During the quarter, with a mission of “putting customers at the center of everything we do”, we concentrated our business resources on three focal areas of “enhance McDonald’s exclusivity”, “new initiatives to address customers’ demand”, and “restaurant modernization”, while basing on QSC (reliable Quality, Speedy and pleasant service, and Clean and comfortable environment), the foundation of our business.

Product strategies

We launched “American Vintage” campaign themed on ‘good old America’, under which we offered both beef and chicken sandwiches for each theme (50s, 70s, and 80s) such as ‘Diner Double Beef’, ‘Diner Honey Mustard’, ‘Hot and Groovy Beef’, ‘Hot and Groovy Chicken’, ‘Funky BBQ Beef’, and ‘Funky BBQ Chicken’. In addition, a new side menu, Classic Fries with Cheese were offered throughout the campaign to bring a wide variety of American taste to customers. Meanwhile, our popular limited-time offer for spring, Teritama, was joined by a new variant Sakura Teritama, which was visually eye-catching with flavor of cherry blossoms. Also joined the line were McFizz Sakura Cherry and McFloat Sakura Cherry, all of which were received well by many customers.

Restaurant development

While actively opening highly profitable, large-scale drive-thru restaurants in the suburbs and remodeling and relocating existing restaurants, we also executed strategic closures at an appropriate pace to facilitate optimization of the 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	1,013	5	(18)	5	(1)	1,004
Franchised	2,151	3	(7)	1	(5)	2,143
Total	3,164	8	(25)	6	(6)	3,147

Brand extension

In order to address the changing customers’ needs, such as the rising demand for HMR (Home Meal Replacement), we accelerated implementation of McDelivery Service (MDS): at the end of this quarter, the number of MDS hubs reached 149. We are steadily increasing the number of hubs to offer MDS to our customers nationwide. On the other hand, as of the end of this quarter, 93 restaurants were equipped with “McCafé by Barista”, where dedicated baristas offer good-quality coffee as served in an authentic café.

(Business results)

Due partly to heavy snow and strategic restaurant closures planned in the previous year, the system-wide sales* in the current quarter recorded ¥122,945 million (down by 2.7% from the same quarter last year) with the sales of ¥62,325 million (down by ¥3,585 million from the same quarter last year). The existing restaurants’ sales* also declined by 2.5% compared with the same quarter last year.

The ordinary income recorded ¥2,189 million (down by ¥1,145 million from the same quarter last year) with the quarterly net income of ¥1,263 million (down by ¥672 million from the same quarter last year). It was a result of strategic spread of marketing expenditure in this quarter as planned as well as active investment to optimize the restaurant portfolio.

(*) System-wide sales are the combined net sales of company operated and franchised restaurants; the amount does not equal to net sales presented in consolidated quarterly 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 first quarter, current assets totaled ¥75,112 million, ¥3,496 million decreased from the end of the previous year due mainly to the payments of dividends and royalty.

Noncurrent assets totaled ¥134,781 million, ¥164 million increased from the end of the previous year. During the quarter, property and equipment increased by ¥839 million due mainly to capital expenditure for new restaurants as well as remodeling and relocation of existing restaurants. In the meantime, intangible assets decreased by ¥282 million because of depreciation of software. Furthermore, investment and other assets decreased by ¥392 million due to collection of lease and guarantee deposits.

Current liabilities were ¥27,632 million, ¥712 million decreased from the end of the previous year, due to the payment of royalty offsetting by provision for income taxes for the period.

Noncurrent liabilities totaled ¥13,090 million, ¥103 million increased from the end of the previous year due to the increase of asset retirement obligations as a result of the review of closure cost trend.

(3) Qualitative Information regarding Consolidated Business Forecasts

No change has been made to the consolidated business forecasts for this fiscal year ending December 2014, announced on February 6, 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. Consolidated quarterly financial statements

(1) Consolidated quarterly balance sheets

Millions of yen	December 31, 2013	March 31, 2014
(Assets)		
Current assets		
Cash and deposits	45,041	54,946
Accounts receivable - trade	8,488	8,138
Short term investment securities	15,098	2,500
Raw materials and supplies	1,203	986
Deferred tax assets	797	797
Income taxes receivable	3,830	3,830
Other	4,259	4,023
Allowance for doubtful accounts	(110)	(110)
Total current assets	78,608	75,112
Noncurrent assets		
Property and equipment		
Buildings and structures, net	43,923	45,074
Machinery and equipment, net	5,556	5,383
Tools, furniture and fixtures, net	3,924	3,901
Land	17,069	17,069
Lease assets, net	4,199	4,491
Construction in progress	959	552
Total property and equipment	75,633	76,473
Intangible assets		
Goodwill	376	477
Software	2,579	2,195
Other	755	755
Total intangible assets	3,711	3,428
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Deferred tax assets	1,910	1,910
Lease and guarantee deposits	46,368	45,819
Other	7,246	7,400
Allowance for doubtful accounts	(318)	(316)
Total investments and other assets	55,271	54,879
Total noncurrent assets	134,617	134,781
Total assets	213,226	209,893

Millions of yen	December 31, 2013	March 31, 2014
(Liabilities)		
Current liabilities		
Accounts payable - trade	638	1,283
Lease obligations	1,239	1,374
Accounts payable - other	17,025	14,536
Accrued expenses	5,020	4,964
Income taxes payable	131	949
Provision for bonuses	-	527
Provision for loss on store closing	159	150
Provision for loss on natural disaster	23	23
Other	4,107	3,822
Total current liabilities	28,344	27,632
Noncurrent liabilities		
Long-term loans payable	500	500
Lease obligations	3,363	3,529
Deferred tax liabilities due to land devaluation	413	413
Provision for bonuses	1,517	1,018
Provision for directors' bonuses	405	403
Allowance for retirement benefits	1,805	1,794
Allowance for directors' retirement benefits	237	243
Asset retirement obligations	4,439	4,882
Other	303	304
Total noncurrent liabilities	12,986	13,090
Total liabilities	41,331	40,722
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	110,110	107,385
Treasury stock	(1)	(1)
Total shareholders' equity	176,347	173,621
Accumulated other comprehensive income		
Devaluation reserve for land	(4,626)	(4,626)
Total accumulated other comprehensive income	(4,626)	(4,626)
Minority interests		
Total net assets	171,895	169,171
Total liabilities and net assets	213,226	209,893

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

Consolidated quarterly statements of income for the three months ended March 31, 2013 and 2014

Millions of yen	Three months ended March 31, 2013	Three months ended March 31, 2014
Net sales	65,910	62,325
Cost of sales	55,487	53,513
Gross profit	10,423	8,812
Selling, general and administrative expenses	7,052	6,409
Operating income	3,371	2,402
Non-operating income		
Interest income	68	45
Compensation income	10	80
Insurance income	23	34
Reversal of allowance for doubtful accounts	-	2
Other	73	30
Total non-operating income	175	194
Non-operating expenses		
Interest expenses	25	24
Provision of allowance for doubtful accounts	0	-
Loss on disposals of company-operated restaurants	107	338
Other	77	43
Total non-operating expenses	210	407
Ordinary income	3,335	2,189
Special loss		
Loss on disposals of noncurrent assets	73	12
Loss on sales of noncurrent assets	2	-
Total special loss	76	12
Income before income taxes	3,259	2,177
Income taxes	1,320	913
Income before minority interests	1,938	1,264
Minority interests in income	2	1
Net income	1,935	1,263

Consolidated quarterly statements of comprehensive income

For the three months ended March 31, 2013 and 2014

Millions of yen	Three months ended March 31, 2013	Three months ended March 31, 2014
Income before minority interests	1,938	1,264
Comprehensive income	1,938	1,264
Comprehensive income attributable to:		
Shareholders of McDonald's Holdings Company (Japan)	1,935	1,263
Minority interests	2	1

(3) Notes for assumption of going concern

None

(4) Notes for significant changes in the amount of shareholders' equity

None