

Consolidated Financial Results for the Six Months Ended June 30, 2014

July 29, 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: August 5, 2014

Preparation of supplementary materials for quarterly financial results: Yes

Quarterly results briefing: Yes (for institutional investors)

1. Consolidated operating results (From January 1, 2014 to June 30, 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)	%
June 30, 2014	121,000	(6.7)	3,512	(50.3)	3,233	(56.7)	1,852	(59.4)
June 30, 2013	129,703	(11.4)	7,062	(40.6)	7,459	(39.3)	4,566	(34.9)

(Note) Comprehensive income:

Six months ended June 30, 2014: 1,855 million yen (-59.4%)

Six months ended June 30, 2013: 4,571 million yen (64.5%)

	Net income per share	Net income per share, Fully diluted
	(Yen)	(Yen)
June 30, 2014	13.93	—
June 30, 2013	34.35	—

(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 June 30, 2014	211,841	169,761	80.1
As of December 31, 2013	213,226	171,895	80.5

(Note) Owner's equity: As of June 30, 2014: 169,584 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)
Annual	—	—	—	—	—	—	—	—	—

(Note) Changes to the earnings forecast from the most recently announced figures: Yes

2014 has been a challenging sales environment for McDonald's and we expect this to continue for the next several months. However, given the recent food quality and safety incident involving a Chinese-based chicken supplier, our sales and profit expectations have been reduced. The negative impact on sales and consumer confidence resulting from this incident, combined with the resulting lost margins and future investments required rebuild sales and to restore the trust of our customers will result in McDonald's Japan failing to meet Earnings Targets for 2014. As of today, we cannot commit to new targets as the financial impact of the incident cannot reasonably be estimated. While we are confident in our recovery strategies, we will announce new 2014 targets once we are able to determine the expected impact of our strategies.

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 June 30, 2014: 132,960,000 shares As of December 31, 2013: 132,960,000 shares
2. Number of treasury stock
As of June 30, 2014: 849 shares As of December 31, 2013: 829 shares
3. Average number of common shares outstanding
As of June 30, 2014: 132,959,161 shares As of June 30, 2013: 132,959,274 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 June 30, 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

In the previous quarter, we launched the American Vintage campaign, enabling customers to feel and enjoy “good old days of America”. During this quarter, we introduced variety of menu options. Avocado Beef, Avocado Chicken and Avocado Shrimp burgers were launched under the “Colorful Golden Week” campaign. Also, for the first time in our history, we launched a sandwich with *tonkatsu* (pork cutlet) called Tonkatsu McBurger. Moreover, we ran a 2014 FIFA World Cup campaign and offered FIFA World Cup™ official burgers, Brazil Burger, and German Burger. We were seeing positive response from customers to these menu items.

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	10	(20)	14	(2)	1,015
Franchised	2,151	6	(21)	2	(14)	2,124
Total	3,164	16	(41)	16	(16)	3,139

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 160. 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, 94 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 significantly heavy snow in February, strategic closure of restaurants, and some sales promotions that did not achieve their targets, system-wide sales in the current quarter were ¥237,778 million (down by 3.9% compared to the same quarter last year) and net sales was ¥121,000 million (down ¥8,703 million from the same quarter last year). Existing restaurant sales were down 3.5% to the same quarter last year.

In addition, due to the allocation of strategic marketing spend, investment in restaurant portfolio optimization and other investment planned at the beginning of the fiscal year, ordinary income declined by ¥4,226 million to ¥3,233 million and net income declined by ¥2,714 million year over year to ¥1,852 million.

(*) 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

1. Balance sheets

At the end of the second quarter, current assets totaled ¥74,976 million, ¥3,631 million decreased from the end of the previous year due mainly to the payments of dividends and royalty.

Noncurrent assets totaled ¥136,864 million, ¥2,247 million increased from the end of the previous year. During the quarter, property and equipment increased by ¥2,841 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 ¥429 million because of amortization of software. Furthermore, investment and other assets decreased by ¥164 million due to collection of lease and guarantee deposits.

Current liabilities were ¥29,390 million, an increase of ¥1,046 million compared to the end of the previous year due mainly to the increase of corporate income taxes payable.

Noncurrent liabilities totaled ¥12,689 million, down ¥297 million from the end of the previous year due to a decrease in the provision for bonuses.

2. Cash flow summary

Cash and cash equivalent at the end of second quarter was ¥62,932 million, down by ¥2,793 million from the end of the previous year.

(Cash inflows from operating activities)

Cash inflows from operating activities were ¥13,366 million (up ¥10,610 million from the same quarter last year). Depreciation and amortization of ¥4,960 million and income taxes refund of ¥3,489 million are the main contributors. Main payment factors include decrease in various provisions of ¥737 million and payments of trade payables of ¥581 million.

(Cash outflows in investing activities)

A total of ¥5,883 million (down ¥715 million from the same quarter last year) was allotted for investing activities. Payment of ¥5,998 million for purchase of property and equipment for new restaurant development was the main reason for the above. Main cash inflows in this category were proceeds of lease and guarantee deposits, amounting to ¥1,458 million.

(Cash outflows in financing activities)

A total of ¥4,686 million (up ¥142 million from the same quarter last year) was used for financing activities. This includes dividend payment of ¥3,971 million, and repayment of ¥715 million for lease obligations.

(3) Qualitative Information regarding Consolidated Business Forecasts

2014 has been a challenging sales environment for McDonald's and we expect this to continue for the next several months. However, given the recent food quality and safety incident involving a Chinese-based chicken supplier, our sales and profit expectations have been reduced. The negative impact on sales and consumer confidence resulting from this incident, combined with the resulting lost margins and future investments required rebuild sales and to restore the trust of our customers will result in McDonald's Japan failing to meet Earnings Targets for 2014. As of today, we cannot commit to new targets as the financial impact of the incident cannot reasonably be estimated. While we are confident in our recovery strategies, we will announce new 2014 targets once we are able to determine the expected impact of our strategies.

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	June 30, 2014
(Assets)		
Current assets		
Cash and deposits	45,041	61,932
Accounts receivable - trade	8,488	6,129
Short term investment securities	15,098	1,000
Raw materials and supplies	1,203	1,016
Deferred tax assets	797	1,011
Income taxes receivable	3,830	-
Other	4,259	3,997
Allowance for doubtful accounts	(110)	(110)
Total current assets	78,608	74,976
Noncurrent assets		
Property and equipment		
Buildings and structures, net	43,923	45,658
Machinery and equipment, net	5,556	5,166
Tools, furniture and fixtures, net	3,924	3,827
Land	17,069	17,222
Lease assets, net	4,199	4,748
Construction in progress	959	1,851
Total property and equipment	75,633	78,475
Intangible assets		
Goodwill	376	599
Software	2,579	1,926
Other	755	755
Total intangible assets	3,711	3,281
Investments and other assets		
Investment securities	56	56
Long-term loans receivable	9	9
Deferred tax assets	1,910	2,024
Lease and guarantee deposits	46,368	45,625
Other	7,246	7,710
Allowance for doubtful accounts	(318)	(318)
Total investments and other assets	55,271	55,107
Total noncurrent assets	134,617	136,864
Total assets	213,226	211,841

Millions of yen	December 31, 2013	June 30, 2014
(Liabilities)		
Current liabilities		
Accounts payable - trade	638	71
Lease obligations	1,239	1,508
Accounts payable - other	17,025	16,534
Accrued expenses	5,020	4,488
Income taxes payable	131	1,407
Provision for bonuses	-	336
Provision for loss on store closing	159	116
Provision for loss on natural disaster	23	23
Other	4,107	4,904
Total current liabilities	28,344	29,390
Noncurrent liabilities		
Long-term loans payable	500	500
Lease obligations	3,363	3,675
Deferred tax liabilities due to land devaluation	413	413
Provision for bonuses	1,517	768
Provision for directors' bonuses	405	137
Allowance for retirement benefits	1,805	1,776
Allowance for directors' retirement benefits	237	251
Asset retirement obligations	4,439	4,856
Other	303	309
Total noncurrent liabilities	12,986	12,689
Total liabilities	41,331	42,079
(Net assets)		
Shareholders' equity		
Common stock	24,113	24,113
Capital surplus	42,124	42,124
Retained earnings	110,110	107,974
Treasury stock	(1)	(1)
Total shareholders' equity	176,347	174,210
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	169,761
Total liabilities and net assets	213,226	211,841

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

Consolidated quarterly statements of income for the six months ended June 30, 2013 and 2014

Millions of yen	Six months ended June 30, 2013	Six months ended June 30, 2014
Net sales	129,703	121,000
Cost of sales	109,303	104,753
Gross profit	20,400	16,246
Selling, general and administrative expenses	13,337	12,734
Operating income	7,062	3,512
Non-operating income		
Interest income	133	78
Income from unredeemed gift certificates	56	-
Compensation income	242	87
Insurance income	44	31
Reversal of allowance for doubtful accounts	3	-
Other	283	119
Total non-operating income	763	317
Non-operating expenses		
Interest expenses	50	48
Provision of allowance for doubtful accounts	-	0
Loss on disposals of company-operated restaurants	171	470
Other	144	76
Total non-operating expenses	366	595
Ordinary income	7,459	3,233
Special income		
Gain on sales of noncurrent assets	74	-
Total special income	74	-
Special loss		
Loss on disposals of noncurrent assets	85	23
Loss on sales of noncurrent assets	3	-
Total special loss	88	23
Income before income taxes	7,445	3,210
Income taxes	2,874	1,355
Income before minority interests	4,571	1,855
Minority interests in income	4	2
Net income	4,566	1,852

Consolidated quarterly statements of comprehensive income

For the six months ended June 30, 2013 and 2014

Millions of yen	Six months ended June 30, 2013	Six months ended June 30, 2014
Income before minority interests	4,571	1,855
Comprehensive income	4,571	1,855
Comprehensive income attributable to:		
Shareholders of McDonald's Holdings Company (Japan)	4,566	1,852
Minority interests	4	2

(3) Consolidated quarterly statements of cash flows

For the six months ended June 30, 2013 and 2014

Millions of yen	Six months ended June 30, 2013	Six months ended June 30, 2014
Net cash provided by operating activities		
Income before income taxes and minority interests	7,455	3,210
Depreciation and amortization	5,459	4,960
Increase (decrease) in provision	104	(737)
Unredeemed gift certificates	(56)	-
Interest income	(133)	(78)
Interest expenses	50	48
Gain on sales of noncurrent assets	(71)	-
Loss on disposals of noncurrent assets	257	320
Decrease in accounts receivable - trade	1,706	2,359
(Increase) decrease in raw materials and supplies	(137)	186
Decrease (increase) in goodwill from acquisition of franchised restaurants	155	(344)
Decrease in other assets	17	233
Decrease in accounts payable - trade	(6,880)	(566)
Decrease in accounts payable - other	(2,541)	(581)
Decrease in accrued expenses	(844)	(532)
Increase in other current liabilities	293	1,305
Other, net	(6)	137
Subtotal	4,818	9,921
Interest income received	68	26
Interest expenses paid	(46)	(29)
Income taxes paid	(4,653)	(41)
Income taxes refund	2,569	3,489
Net cash provided by operating activities	2,756	13,366
Net cash used in investing activities		
Purchase of property and equipment	(8,457)	(5,998)
Proceeds from sales of property and equipment	888	104
Payments for lease and guarantee deposits	(711)	(750)
Refunds of lease and guarantee deposits	2,025	1,485
Purchase of software	(325)	(185)
Execution of asset retirement obligations	-	(143)
Payments for deposit provided for gift certificates	-	(400)
Other, net	(16)	4
Net cash used in investing activities	(6,598)	(5,883)
Net cash used in financing activities		
Repayment of lease obligations	(578)	(715)
Repurchase of treasury stock	(0)	(0)
Dividends paid	(3,965)	(3,971)
Net cash used in financing activities	(4,544)	(4,686)
Effect of exchange rate changes on cash and cash equivalents	20	(3)
Net (decrease) increase in cash and cash equivalents	(8,365)	2,793
Cash and cash equivalents at beginning of period	72,148	60,139
Cash and cash equivalents at end of period	63,783	62,932

(4) Notes for assumption of going concern

None

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

None