

# Consolidated Financial Results Report for the Nine Months ended September 30,2005

## McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)  
 Shares traded: JASDAQ  
 Executive position of legal representative: Eikoh Harada  
 Chairman and President, Representative Director  
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### 1. Assumptions underlying preparation of first quarter results report

- ( i ) Adoption of any concise accounting procedure : Yes  
 · The company adopts the concise procedure in accounting for the corporate, inhabitant and enterprise taxes for the period.  
 ( ii ) Changes in accounting methods from the latest consolidated financial statement : None  
 ( iii ) Changes in scope of consolidation and in application of the equity method : None

### 2. Consolidated operating results (From January 1, 2005 to September 30, 2005)

#### (1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

(The number with parenthesis shows negative figure)

	Sales revenues		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30,2005	240,306	4.5	1,699	(61.2)	1,219	(70.9)
September 30,2004	229,891	3.2	4,382	181.4	4,190	287.7
December 31,2004	308,079	2.8	7,244	154.9	7,277	283.7

	Net income(loss)		Net income(loss) per share		Net income per share, fully diluted
	(Millions of yen)	%	(Yen)		(Yen)
September 30,2005	(137)	—	(1)	(04)	—
September 30,2004	2,045	204.0	15	38	—
December 31,2004	3,680	—	27	68	—

(Notes)

The percentages shown next to sales revenues, operating income, ordinary income, and net income represent the rate of change from that of the previous term.

#### (2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30,2005	184,743	135,247	73.2	1,017
September 30,2004	192,294	138,378	72.0	1,040
December 31,2004	190,909	140,174	73.4	1,054

#### (3) Consolidated cash flow statement

	Net cash (used in)/provided by operating activities	Net cash (used in)/provided by investing activities	Net cash(used in)/provided by financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
September 30,2005	6,764	(3,840)	(1,150)	10,146
September 30,2004	(4,999)	(3,207)	1,292	8,876
December 31,2004	800	(4,266)	(3,964)	8,355

### 3. Consolidated forecasts for December 2005 term

(From January 1, 2005 to December 31, 2005)

	Sales revenues	Operating income	Net income(loss)
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Annual period	322,060	1,460	50

(N.b.) Estimated earnings per share (annual): 0.38 yen

The forecasts shown above are predicated upon information that is available as of the day of the announcement of this report; they incorporate assumptions, made as of the day of the announcement of this report, regarding a number of uncertain factors that may affect future performance. Actual financial performance, therefore, may differ considerably from these forecasts due to a variety of factors hereafter.

### 4. Third Quarter of Fiscal Year ending December 2005:

#### Overview of Operating Results and Financial Position

##### (1) Quantitative information regarding the progress in operating results (consolidated)

The hamburger restaurant business, our group's primary business, has been focusing on the three strategic imperatives; "marketing leadership to build the McDonald's brand", "operational excellence to enhance restaurant experience and relevance", and "enhancement of organizational alignment". We have, during this quarter, made "value", "service", and "family" our additional focal points. These represent our traditional strength. McDonald's Japan, on April 19, launched a new series of initiatives under the slogan of "McDonald's Invisible Menu Begins". These initiatives aim to offer customers unparalleled value, in tangible and intangible forms, that exceed their own expectations. This is something only a global company such as McDonald's can deliver.

The primary objective of this strategy has been to recover the market share the Company had lost over the last eight years. The strategy resulted in a remarkable increase of 14.9% year on year in the transaction count during the second quarter (from April through June). The transaction count continued to increase and showed a 11.4% gain during the third quarter (from July through September). Per customer spending, which dropped at one point, is making a steady recovery due to successive measures the company has taken.

In the meantime, under a new working hour administration implemented on August 1, the Company booked in the first-half results additional labor and other costs incurred during the past and current fiscal periods. As a result of this booking as well as the review of its sales forecast, the Company lowered its consolidated earnings forecast for the year on September 30, which remains unchanged to date.

As for the restaurant chain development, 37 new restaurants opened, consisting of 36 traditional (standard restaurant) and 1 satellite (small restaurant offering a limited menu) restaurant, while 38 restaurants (12 traditionals and 26 satellites) closed. The total store count as of the end of the third quarter is 3,773 (net reduction of 1 from the end of December 2004).

Our third quarter activities resulted in the systemwide sales (total sales of company-operated and franchised restaurants) of 304,908 million yen (up 2.9% year-on-year), consolidated sales of 240,306 million yen (up 4.5% year-on-year), and consolidated ordinary income of 1,219 million yen (down 70.9% year-on-year).

## **(2) Qualitative information regarding the fluctuation in financial position (consolidated)**

As of the end of this year's third quarter, cash and cash equivalents (hereinafter, "cash") stood at 10,146 million yen (an increase of 14.3% compared with the same period in the previous fiscal year).

(Cash flows provided by operating activities)

Operating activities during the period resulted in a net cash inflow of 6,764 million yen (compared to a net cash outflow of 4,999 million yen for the same period in the previous year). This was principally due to the fact that net loss before taxes and other adjustments of 30 million yen (compared to a net income before taxes and other adjustments of 3,666 million yen for the same period in the previous year) and in previous year there was a payment of management services agreement cancellation fee of 10,995 million yen.

(Cash flows used in investing activities)

Investment activities during the period resulted in a net cash outflow of 3,840 million yen (19.7% year-on-year increase). This was primarily the result of outlays for the acquisition of equipment for restaurants of 5,392 million yen, payment for rent deposits and guarantees of 1,035 million yen and the proceeds from returned rent deposits and guarantees of 2,817 million yen.

(Cash flows used by financing activities)

Financial activities during the period resulted in a net outflow of 1,150 million yen (compared to a net cash inflow of 1,292 million yen for the same period in the previous year). This was principally due to proceeds from the issuance of new short-term debt of 4,000 million yen and to repayments of long-term debt of 1,250 million yen and payments of cash dividends of 3,900 million yen.

## **(3) Qualitative information regarding financial forecast for the full year**

At this point, there are no changes to the existing consolidated forecast for the fiscal year posted on September 30, 2005.

**Consolidated financial statements**  
**(1). Consolidated balance sheet (Condensed)**

(Millions of yen)

	As of September 30, 2005		As of December 31, 2004		Increase (Decrease)	As of September 30, 2004	
(Assets)		%		%			%
<b>I Current assets</b>							
1. Cash and deposits	10,146		8,355		1,790	8,876	
2. Accounts receivable - trade	5,961		7,762		(1,800)	6,295	
3. Inventories	2,741		2,721		19	2,846	
4. Deferred tax assets	788		788		—	2,867	
5. Others	4,873		4,910		(37)	5,756	
6. Allowance for doubtful accounts	(73)		(94)		21	(106)	
Total current assets	24,437	13.2	24,444	12.8	(6)	26,534	13.8
<b>II Fixed assets</b>							
<b>1. Tangible fixed assets</b>							
(1) Buildings and structures	37,966		38,435		(468)	38,266	
(2) Machinery	8,747		9,267		(520)	9,119	
(3) Tools, appliances and fixtures	4,618		5,568		(949)	5,713	
(4) Land	16,820		16,820		—	16,829	
(5) Construction in progress	233		118		114	4	
Total tangible fixed assets	68,386	37.0	70,209	36.8	(1,823)	69,933	36.4
<b>2. Intangible fixed assets</b>							
(1) Goodwill	1,164		1,063		100	982	
(2) Others	3,768		4,046		(277)	4,239	
Total intangible fixed assets	4,933	2.7	5,109	2.7	(176)	5,222	2.7
<b>3. Investments and other assets</b>							
(1) Investments in securities	6,284		7,902		(1,618)	7,636	
(2) Long-term loans receivable	74		99		(24)	87	
(3) Deferred tax assets	4,328		3,787		541	4,388	
(4) Deferred tax assets due to revaluation of land	1,925		1,925		—	1,923	
(5) Rent deposits and guarantees	70,261		72,153		(1,891)	72,947	
(6) Others	5,268		6,447		(1,179)	5,474	
(7) Allowance for doubtful accounts	(1,157)		(1,170)		12	(1,854)	
Total investments and other assets	86,986	47.1	91,145	47.7	(4,159)	90,603	47.1
Total fixed assets	160,305	86.8	166,465	87.2	(6,159)	165,759	86.2
<b>Total assets</b>	184,743	100.0	190,909	100.0	(6,166)	192,294	100.0

(Millions of yen)

	As of September 30, 2005		As of December 31, 2004		Increase (Decrease)	As of September 30, 2004	
		%		%			%
<b>(Liabilities)</b>							
<b>I Current liabilities</b>							
1. Notes and accounts payable	13,953		16,125		(2,172)	14,822	
2. Short-term loans payable	9,000		5,000		4,000	9,000	
3. Current portion of long-term loans payable	—		1,250		(1,250)	2,500	
4. Accounts payable - other	8,842		11,660		(2,818)	7,436	
5. Accrued expenses payable	7,194		6,640		554	6,718	
6. Accrued income taxes payable	202		105		96	1,349	
7. Allowance for employee bonuses	2,946		1,600		1,345	3,864	
8. Others	4,599		5,659		(1,060)	5,210	
Total current liabilities	46,738	25.3	48,042	25.2	(1,303)	50,900	26.5
<b>II Long-term liabilities</b>							
1. Long-term loans payable	500		500		—	500	
2. Employees' retirement benefits	1,092		874		218	789	
3. Reserve for directors' retirement allowances	43		76		(33)	67	
4. Deposit received for guarantees	1,121		1,240		(119)	1,657	
Total long-term liabilities	2,757	1.5	2,692	1.4	65	3,015	1.5
<b>Total liabilities</b>	49,496	26.8	50,734	26.6	(1,238)	53,915	28.0
<b>(Shareholders' equity)</b>							
I Common stock	24,113	13.0	24,113	12.6	—	24,113	12.5
II Additional paid-in capital	42,124	22.8	42,124	22.1	—	42,124	21.9
III Retained earnings	68,634	37.2	72,760	38.1	(4,126)	71,122	37.0
IV Revaluation account for land	(2,806)	△ 1.5	(2,806)	△ 1.5	—	(2,804)	△ 1.4
V Unrealized gain on other securities	3,182	1.7	3,983	2.1	(800)	3,822	2.0
VI Treasury stock	(0)	△ 0.0	(0)	△ 0.0	—	(0)	△ 0.0
Total shareholders' equity	135,247	73.2	140,174	73.4	(4,927)	138,378	72.0
<b>Total liabilities and shareholders' equity</b>	184,743	100.0	190,909	100.0	(6,166)	192,294	100.0

**(2). Consolidated statement of income (Condensed)**

**(Millions of yen)**

	Nine months ended September 30 2005		Nine months ended September 30 2004		Increase (Decrease)	Year ended December 31 2004	
		%		%			%
<b>I Sales revenues</b>	240,306	100.0	229,891	100.0	10,414	308,079	100.0
<b>II Cost of sales revenues</b>	213,515	88.9	199,252	86.7	14,263	266,339	86.5
<b>Gross profit on sales</b>	26,790	11.1	30,639	13.3	(3,848)	41,740	13.5
<b>III Selling, general and administrative expenses</b>	25,091	10.4	26,256	11.4	(1,165)	34,496	11.1
<b>Operating income</b>	1,699	0.7	4,382	1.9	(2,683)	7,244	2.4
<b>IV Non-operating income</b>	991	0.4	1,056	0.4	(64)	1,543	0.5
<b>V Non-operating expenses</b>	1,471	0.6	1,248	0.5	222	1,509	0.5
<b>Ordinary income</b>	1,219	0.5	4,190	1.8	(2,971)	7,277	2.4
<b>VI Extraordinary gains</b>	252	0.1	419	0.2	(167)	845	0.3
<b>VII Extraordinary losses</b>	1,501	0.6	943	0.4	557	1,450	0.5
<b>Net income(loss) before tax</b>	(30)	(0.0)	3,666	1.6	(3,696)	6,672	2.2
<b>Tax expenses</b>	107	0.1	1,621	0.7	(1,513)	2,991	1.0
<b>Net income(loss)</b>	(137)	(0.1)	2,045	0.9	(2,182)	3,680	1.2

**(3). Consolidated statement of cash flow (Condensed)****(Millions of yen)**

	<b>Nine months ended September 30 2005</b>	<b>Nine months ended September 30 2004</b>	<b>Year ended December 31 2004</b>
<b>I Net cash (used in)/provided by operating activities</b>			
Net income(loss) before taxes	(30)	3,666	6,672
Depreciation and amortization	6,527	6,831	9,005
Increase (decrease) in allowances	1,547	2,873	803
Increase (decrease) in allowances for losses on restaurant closings	—	(126)	(298)
Gain on unredeemed gift certificates in current	(202)	(128)	(169)
Interest and dividend income	(164)	(183)	(201)
Interest expenses	16	40	52
Equity in losses (earnings) of affiliated companies	(14)	(39)	(50)
Loss on disposal of fixed assets	1,140	627	1,188
Decrease (increase) in accounts receivable - trade	1,800	1,470	9
Decrease (increase) in inventories	(19)	(145)	(20)
Decrease (increase) in goodwill from acquisition of franchise stores	(100)	(39)	(121)
Decrease (increase) in other assets	1,515	102	(777)
Increase (decrease) in accounts payable	(741)	(270)	622
Increase (decrease) in notes payable	(1,430)	(1,554)	(1,144)
Increase (decrease) in accrued expenses payable	546	182	99
Increase (decrease) in other current liabilities	(3,657)	(7,132)	(3,350)
Others	12	59	(283)
<b>Subtotal</b>	<b>6,745</b>	<b>6,233</b>	<b>12,035</b>
Proceeds from interest and dividend income	135	160	163
Payment of interest expenses	(8)	(36)	(43)
Payment of additional increase in voluntary retirement	—	(3,551)	(3,551)
Payment of management services agreement cancellation fee	—	(6,249)	(6,249)
Payment of withdrawal from McVISION business	—	(1,195)	(1,195)
Payment of income tax	(108)	(360)	(359)
<b>Total</b>	<b>6,764</b>	<b>(4,999)</b>	<b>800</b>

(Millions of yen)

	Nine months ended September 30 2005	Nine months ended September 30 2004	Year ended December 31 2004
<b>II Net cash (used in)/provided by investing activities</b>			
Payments for purchase of restaurant equipment	(5,392)	(5,863)	(7,888)
Proceeds from sales of restaurant equipment	626	1,251	1,651
Payments for rent deposits and guarantees	(1,035)	(405)	(601)
Proceeds from returned rent deposits and guarantees	2,817	3,574	4,560
Proceeds from collection of loans receivable	14	22	33
Payment for loans to affiliated companies	—	(650)	(650)
Payments for development of information systems	(842)	(1,081)	(1,529)
Others	(30)	(55)	156
<b>Total</b>	<b>(3,840)</b>	<b>(3,207)</b>	<b>(4,266)</b>
<b>III Net cash (used in)/provided by financing activities</b>			
Proceeds from net increase in short-term debt	4,000	9,000	5,000
Payments of long-term debt	(1,250)	(3,750)	(5,000)
Payments of dividends	(3,900)	(3,957)	(3,964)
Payments for purchase of treasury stocks	—	(0)	(0)
<b>Total</b>	<b>(1,150)</b>	<b>1,292</b>	<b>(3,964)</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	17	1	(2)
<b>V Increase (decrease) in cash and cash equivalents</b>	1,790	(6,913)	(7,433)
<b>VI Cash and cash equivalents at beginning of term</b>	8,355	15,789	15,789
<b>VII Cash and cash equivalents at end of term</b>	10,146	8,876	8,355