

Financial Results Report

for the December 2005 Term (Consolidated)

February 10, 2006

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
 Shares traded: JASDAQ
 Location of headquarters: Tokyo
 Executive position of legal representative: Eikoh Harada
 Chairman and President, Representative Director
 Please address all communications to: Yoshiichiroh Ooka
 Senior Vice President, Chief Financial Officer
 Phone: (03) 6911-6061

Date of Board of Directors' meeting for approval of financial results: February 10, 2006
 The name of parent and other affiliated company: McDonald's Corporation and other two companies
 % of voting rights held: 49.99%
 Adoption of U.S. accounting standards: None

1. Consolidated operating results

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

(1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)
(The number with parenthesis shows negative figure)

| | Net sales | | Operating income | | Ordinary income | |
|-------------------|-------------------|-----|-------------------|--------|-------------------|--------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| December 31, 2005 | 325,655 | 5.7 | 3,210 | (55.7) | 2,859 | (60.7) |
| December 31, 2004 | 308,079 | 2.8 | 7,244 | 154.9 | 7,277 | 283.7 |

| | Net income | | Net income per share | Net income per share, fully diluted | Return on shareholders' equity | Ratio of ordinary income to total assets | Ratio of ordinary income to net sales |
|-------------------|-------------------|--------|----------------------|-------------------------------------|--------------------------------|--|---------------------------------------|
| | (Millions of yen) | % | (Yen) | (Yen) | % | % | % |
| December 31, 2005 | 60 | (98.3) | 0.46 | - | 0.0 | 1.5 | 0.9 |
| December 31, 2004 | 3,680 | - | 27.68 | - | 2.6 | 3.6 | 2.4 |

(Notes)

- Gains or losses on investments through equity method accounting:
 December 2005 term: 7 million yen December 2004 term: 50 million yen
- Average number of outstanding shares during term (consolidated):
 December 2005 term: 132,959,852 shares December 2004 term: 132,959,871 shares
- Changes in accounting methods: None
- The percentages shown next to net sales, operating income, ordinary income and net income (loss) represent year-on-year changes.

(2) Consolidated financial position

| | Total assets (Millions of yen) | Shareholders' equity (Millions of yen) | Equity ratio % | Shareholders' equity per share (Yen) |
|-------------------|-----------------------------------|---|-------------------|--|
| December 31, 2005 | 190,370 | 135,905 | 71.4 | 1,022.15 |
| December 31, 2004 | 190,909 | 140,174 | 73.4 | 1,054.26 |

(Note)

Number of outstanding shares at end of term (consolidated):

December 2005 term: 132,959,852 shares

December 2004 term: 132,959,852 shares

(3) Consolidated cash flow statement

| | Net cash (used in)/provided by operating activities (Millions of yen) | Net cash (used in)/provided by investing activities (Millions of yen) | Net cash (used in)/provided by financing activities (Millions of yen) | Cash and cash equivalents at end of term (Millions of yen) |
|-------------------|--|--|--|---|
| December 31, 2005 | 15,304 | (5,783) | (6,657) | 11,251 |
| December 31, 2004 | 800 | (4,266) | (3,964) | 8,355 |

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 2

Nonconsolidated subsidiary accounted for under equity method: —

Affiliated companies accounted for under equity method: 2

(5) Changes in scope of consolidation and in application of the equity method

Consolidation (new): — (elimination): —

Equity method (new): — (elimination): —

2. Consolidated forecasts for December 2006 term

(From January 1, 2006 to December 31, 2006)

| | Net sales (Millions of yen) | Ordinary income (Millions of yen) | Net income (Millions of yen) |
|----------------|--------------------------------|--------------------------------------|---------------------------------|
| Interim period | 164,000 – 168,000 | 0 – 1,000 | 0 – 500 |
| Annual | 339,000 – 351,000 | 2,500 – 5,000 | 1,000 – 2,500 |

(N.b.) Estimated earnings per share (annual): 7.52 – 18.80yen

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. In addition, above figures do not contain the impact of impairment accounting application.

1. Group organization

(1) Description of the group's business

(Businesses of McDonald's Holdings Company (Japan) Ltd.)

McDonald's Holdings Company (Japan) Ltd. ("the Company") acts as the holding company for McDonald's Company (Japan) Ltd. and EveryD Mc, Inc. The Company is responsible for the formulation and execution of consolidated management strategies covering the entire group, and also manages real estate businesses.

(Businesses of affiliated companies)

McDonald's Company (Japan) Ltd. ("McDonald's Japan") directly operates company-operated hamburger restaurants and develops restaurants through franchisees. McDonald's Japan pays royalties to McDonald's Corporation for the use of licenses for management services rendered. McDonald's Japan receives royalty payments from franchisees who operate franchised stores in Japan, in exchange for operating know-how and the granting of sub-licenses for the use of trademarks, etc.

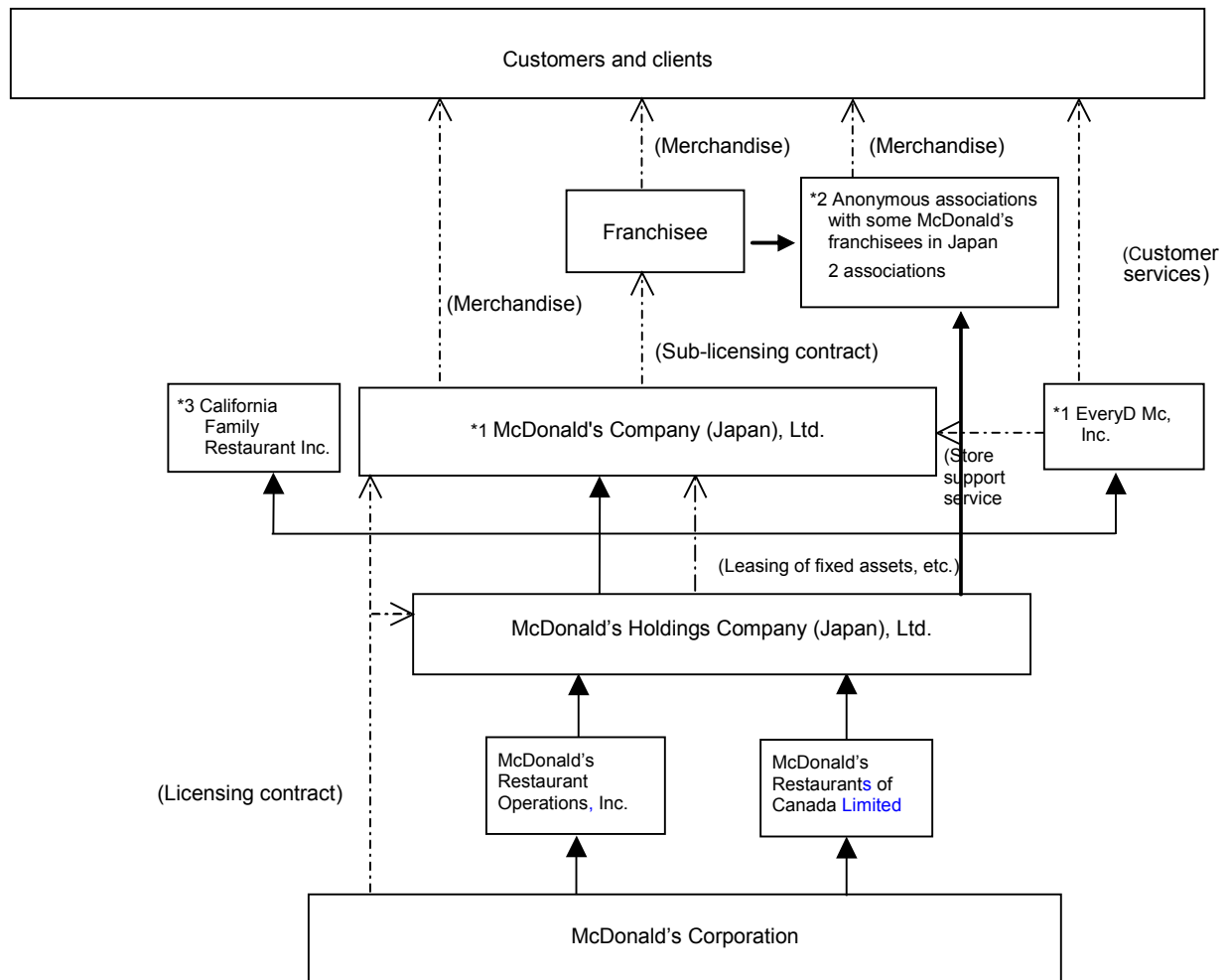
EveryD Mc, Inc., a wholly owned subsidiary of the Company, provides support to McDonald's restaurants and their customers.

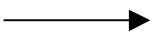
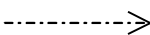
California Family Restaurants Inc. was established as a 100% subsidiary of the Company for the purpose of providing information to the Company and McDonald's Japan based on information collected in the U.S. restaurant market.

The Company established two dormant partnerships (as of December 31, 2005) with some McDonald's franchisees in Japan to operate hamburger restaurants business and has 50 % share of equity in the dormant partnerships.

[Group Relationship Diagram]

The business relationships described above for the fiscal year ended December 2005 are shown in diagram form below.



Capital relationship 
 Flow of merchandise and services 

- *1 Consolidated subsidiary
- *2 Affiliates accounted for by the equity method
- *3 Nonconsolidated subsidiary, equity method not applied

2. Affiliated companies

| December 31, 2005 Millions of yen | Address | Capital | Type of business | % of voting rights held (held by others) | Relationship | Remarks |
|--|-------------------------------|-----------------|----------------------------|--|--------------------------------------|--|
| Other affiliated companies | | | | | | |
| McDonald's Corporation | Illinois, U.S.A. | US\$16,600,000 | Hamburger restaurant chain | Owned: Indirect 49.99 | Concurrent directors | |
| McDonald's Restaurants of Canada Limited | Ontario, Canada | C\$4,633,000 | Hamburger restaurant chain | Owned: Direct 27.56 | Subsidiary of McDonald's Corporation | |
| McDonald's Restaurant Operations, Inc. | Delaware, U.S.A. | US\$3,000 | Holding company | Owned: Direct 22.43 | Subsidiary of McDonald's Corporation | Borrowings of funds |
| Consolidated subsidiaries | | | | | | |
| McDonald's Company (Japan), Ltd. | Shinjuku-ku, Tokyo | 100 million yen | Hamburger restaurant chain | Owning: Direct 100.0 | Concurrent directors | Note 1 Note 2 |
| EveryD Mc, Inc. | Minato-ku, Tokyo | 80 million yen | Restaurant support service | Owning: Direct 100.0 | Concurrent directors | Investing and financing Rent of stores and fixed assets |
| Affiliates consolidated under the equity method | | | | | | |
| Two anonymous partnerships with some McDonald's franchisees in Japan | Ryugasaki, Ibaraki and others | 424 million yen | Hamburger restaurant chain | Owning: Direct 50.0 | - | |

(Notes)

- McDonald's Company (Japan) Ltd. is a designated subsidiary.
- Net sales of McDonald's Company (Japan), Ltd. is greater than the 10 percent of the consolidated net sales in the group.

| | | |
|---|--------------------------|---------------------|
| Financial highlights of McDonald's Japan. | 1). Net sales | 325,258million yen |
| | 2). Ordinary income | 1,710million yen |
| | 3). Net loss | 768 million yen |
| | 4). Shareholders' equity | (2,941) million yen |
| | 5). Total assets | 64,652 million yen |

2. Management policy

(1) Fundamental Management Policy

The Company operates as a holding company to achieve stable long-term business growth of the McDonald's Japan group through the effective utilization of resources cultivated in the hamburger business. To achieve the end, the Company aims at increasing corporate value through more efficient management and increased flexibility.

(2) Fundamental policy with regard to the distribution of profits

Taking into consideration the overall balance between business results, dividend payout ratios, and cash flows, the Company strives to return profits based on the continuous payment of a stable dividend, while maintaining financial indicators like capital ratio and return on equity at appropriate levels.

(3) Medium-term management strategy

The role of the Company, which presides over the McDonald's group in Japan, is to implement organizational rearrangement as required to maximize group efficiency, and to provide operational support to group companies. In the near term, the Company views the core McDonald's hamburger restaurant operations as its foremost priority, and it is devoting its resources entirely to this area.

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

McDonald's Company (Japan) Ltd. is at present the flagship company of the group. Its mission is to offer the best quick service restaurant experience in the industry and is committed to better satisfy its customers. It has focused on developing a long-term strategy, reorganizing its structure and assets as well as on enhancing operational excellence at its existing restaurants.

During the fiscal year, McDonald's Company started the "value strategy" coined "McDonald's Invisible Menu Begins" aiming for further growth. The company will continue to promote initiatives that will strengthen its management platform with the view to the new era of growth for the hamburger business.

(EveryD Mc, Inc.)

EveryD Mc, Inc. strives to maximize McDonald's group profit and find new business style with the cooperation of McDonald's Japan, main client for the company. It also promotes improvement in current business efficiency and reinforces its business base.

(4) Issues facing the Company

The Company plans to continue focusing management resources on its principal hamburger restaurant business. It strives to rebuild the McDonald's brand by offering the best QSC&V (assured quality, quick and pleasant services, clean and comfortable environment, and added values) and with brand strategies under the "i'm lovin' it" theme. While it managed to win support from more customers through the Value Strategy, the Company will make further efforts to build sales and profits by executing measures faster and better. It also strives to enhance corporate value and further fortify its business platform through CSR initiatives including "Balanced, Active Lifestyles," which advocates a sound growth of children through sports and diet.

(5) Basic corporate governance policies and status

(Basic Corporate Governance Policies)

The Company has adopted the Executive Officer system, to separate the Board of Directors, which is an organization for business decision-making and monitoring of business activities, from the executive functions of Executive Officers. In this way, we have the capability to promptly cope with the changing business environment. In the fiscal year ended December 2003, a new Executive Management Team was formed, as an organization for supplement swiftness and precise management and executive judgment, comprising the chairman, president, executive vice president and other officers. The Executive Management Team functions as an active decision-making body as needed. In this system, the Executive Officers actively perform operations business in their charge.

For the supervisory function, please refer ㉞ (Condition of internal audit, Board of Audit and accounting audit) . Condition of internal audit and Board of Audit section ㉞ .

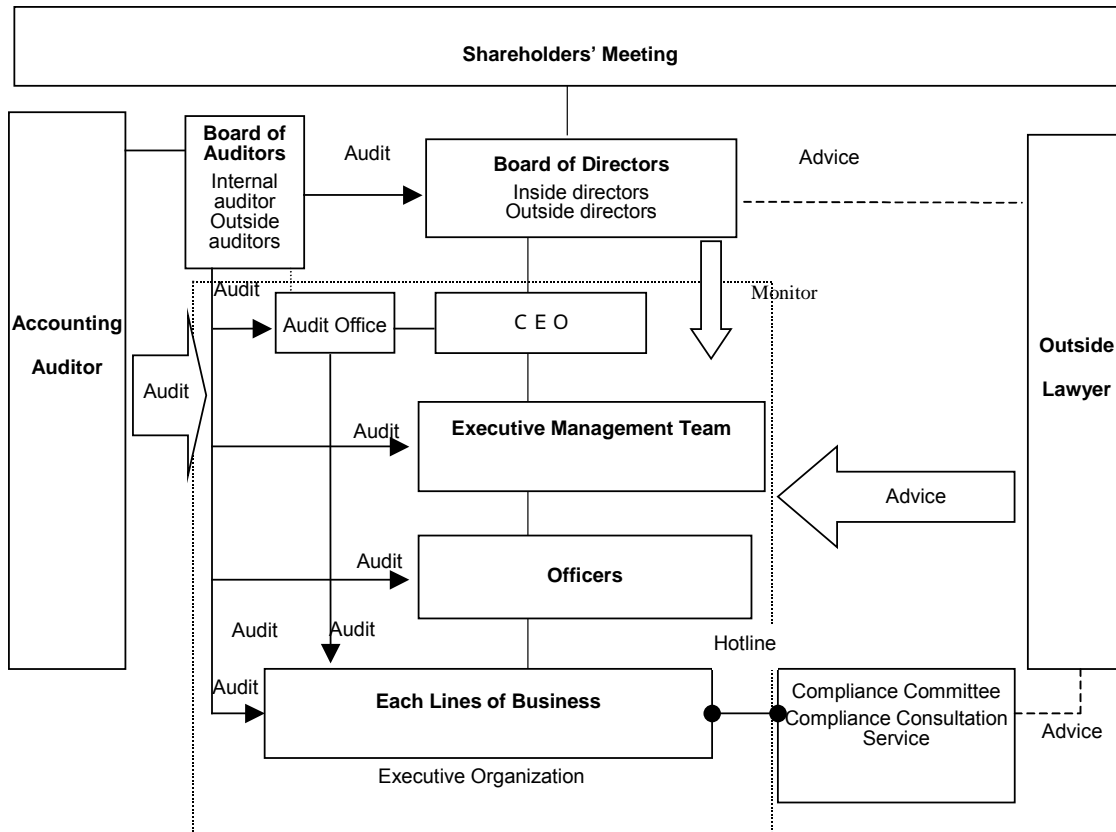
Third-party involvement in the supervisory function takes the form of advice on legal-compliance issues from corporate attorneys. Shin Nihon & Co. is our accounting auditor, and has audited our accounts for annually pursuant to the Commercial Code and Securities and Exchange Law. The result of audit is reported to Representative director and/or Statutory auditor based on the content.

(Basic Corporate Governance Status)

We feel that with more reported violation of corporate governance by some corporations lately, the Company has to put the level of its corporate governance a notch higher. For this reason the Company has established a Compliance Committee, headed by the director of legal and general affairs, reflecting our commitment to more stringent corporate ethics and better practice in risk management. This Committee generally meets every quarter, but meets whenever needed. We have also developed a code of conduct called the Compliance Program to eliminate any possible

violation in this area. In addition, we have established a Compliance Hotline where not only executives and employees of the Company but also part-timers, suppliers, those related to the Group and their families can call and receive counsel.

The following diagram describes our corporate governance organization.



(Condition of Internal Audit, Board of Audit and Accounting Audit)

. Condition of Internal Audit and Board of Audit

The Company established the Internal Auditing Department, advanced form of prior Audit Office, under the direct supervision of CEO. It conducts internal audit to ensure correct and appropriate handling of the business.

As to the Board of Audit, one full-time auditor and three part-timers make up the Board. This Board watches over the management of the Company.

. Condition of Accounting Audit

Detail of Accounting Audit is as follows:

| Name of CPA in charge | Name of audit firm | Continuous audit years to the Company |
|-----------------------|-------------------------|---------------------------------------|
| Takaaki Nimura | Ernst & Young ShinNihon | 17 years |
| Masayuki Miyairi | Ernst & Young ShinNihon | 8 years |

Note: The number of audit assistants is 4 CPAs and 5 CPA trainees.

(Detail of directors' compensation)

The Company has following compensation framework for its directors and corporate auditors.

. Director: Monthly compensation within the framework of Article 269-1 of the Commercial Code and stock price based compensation within the framework of Article 269-2 of the Commercial Code, which approved on the 33rd ordinary General Meeting of Shareholders. In this fiscal year, there was no stock price based compensation to directors.

. Corporate auditor: Monthly compensation within the framework of of Article 269-1 of the Commercial Code.

Compensation paid to directors (8 persons) and corporate auditors (3 persons) is as follows:

| | Director | Corporate Auditor | Total |
|--|-------------|-------------------|-------------|
| Millions of yen | Amount paid | Amount paid | Amount paid |
| Compensation pursuant to Articles of Association or resolution adopted at shareholders meeting | 156 | 10 | 167 |
| Retirement benefits pursuant to resolution adopted at shareholders meeting | 53 | - | 53 |
| Total | 209 | 10 | 220 |

(Notes)

1. As per the resolution adopted at the Ordinary General Meeting of Shareholders held on March 29, 2001,

the amount of compensation to be paid to directors is 250 million yen per year (including the portion of compensation as an employee

for employees serving concurrently as a director), and the amount to be paid to corporate auditors is 30 million yen per year.

2. In addition to the above amount, following compensations are made to the directors who concurrently acts as a director of McDonald's Japan.

Directors (6 persons) 204 million yen

Corporate Auditor (3 persons) 10 million yen

McDonald's Japan has following compensation framework for its directors and corporate auditor.

Director: Monthly compensation within the framework of Article 269-1 of the Commercial Code (250 million yen per year) and performance based compensation.

Corporate auditor: Monthly compensation within the framework of Article 269-1 of the Commercial Code (30 million yen per year)

(Accounting audit fee)

| Millions of yen | Amount paid |
|------------------------------------|--------------------|
| Payment for attestation engagement | 33 |
| Payment for other audit services | 5 |

(Relationship with the Company and its outside director and outside auditor)

The Company has no transaction with Akira Kawamura, the Company's outside director.

David M. Pojman, the Company's outside auditor, is Senior Vice President of McDonald's Corporation. McDonald's Japan and McDonald's Corporation has license contract and royalty payment, etc. is made between the companies. Please see 『Transaction with related parties』 section for detail.

(6) Parent and other affiliated company

Name of parent and other affiliated company

| Company | Attribute | % of voting rights held by others (%) | Stock exchange, etc in which other affiliated company joined. |
|--|--------------------------|---|---|
| McDonald's Corporation | Other affiliated company | Indirect 49.99 | New York, Chicago, American, Pacific, Switzerland |
| McDonald's Restaurants of Canada Limited | Other affiliated company | Direct 27.56 | None |
| McDonald's Restaurant Operations, Inc. | Other affiliated company | Direct 22.43 | None |

The most influential entity to the Company and the reason

| Name | Reason |
|------------------------|---|
| McDonald's Corporation | McDonald's Corporation is the major shareholder of McDonald's Restaurants of Canada Limited and McDonald's Restaurant Operations, Inc. The Company uses its trademark, business name, and know-how through license contract and has two directors and one outside auditors from McDonald's Corporation. |

Relationship with parent and other affiliated company

The Company's major shareholder, McDonald's Corporation, indirectly holds 49.99% of the Company's voting rights through its two subsidiaries. (McDonald's Restaurants of Canada Limited and McDonald's Restaurant Operations, Inc.)

The Company uses its trademark, business name, and know-how through license contract.

Two of Company's directors are concurrent director with McDonald's Corporation. These directors are assigned with a aim of better business facilitation with the Company's management.

Significant business matters are determined in board meeting, so the Company establishes autonomy for business entity as listed company in JASDAQ Stock exchange.

Transaction with parent and other affiliated company

Please refer to Notes ㉞ Transactions with related parties ㉞ for the detail.

(7) Improvement and Situation of Internal Controls

In our Company, job responsibilities and their respective departments are clearly defined, each department has appropriate, functioning and well-developed work flows in place, and important business information is appropriately reported to and discussed by the board of directors. Our Internal Auditing Department validates the propriety and effectiveness of our internal controls on a regular basis and reports validation results to management with recommendations on how to address

and solve problems as necessary. We also have a system to ensure important information regarding our consolidated subsidiaries, such as financial situations and business results, are reported to us quickly and accurately.

(8) Other significant matters to the Company

Not applicable.

3. Operating results and financial position

(1) Operating results

(Operating results of the McDonald's group)

We acknowledge that, although Japanese economy showed some signs of recovery in 2005, the eating out industry is shrinking, and that the business environment has been severe as oil price spikes and issues surrounding food safety remain unresolved.

Against this backdrop, the Group continues to concentrate its management resources on its principal hamburger business. Consolidated sales for 2005 increased by 17,575 million yen, to 325,655 million yen compared to the same period last year. Consolidated ordinary income was 2,859 million yen, down 4,417 million yen year on year. As a result of putting 238 million yen, compensation for relocation, under extraordinary gain, and 2,604 million yen, expenses for previous years incurred due to the implementation of a new work hour management system, under extraordinary loss, consolidated net income before taxes became 143 million yen and consolidated net income 60 million yen, down 6,529 million and 3,620 million yen from a year earlier, respectively.

Overview of hamburger restaurant operations

McDonald's Japan introduced three strategic initiatives: "marketing leadership (or rebuilding the McDonald's brand)," "operational excellence (or improvement of restaurant experience)" and "further development of organizational capacity and people excellence." In 2005, the Company also put a special focus on "Value," "Service," and "Family," which are the areas of traditional strength of McDonald's Japan, and by focusing on them we hope to soon enter a stable growth phase. We undertook the following activities in 2005:

On April 15, 2005, McDonald's celebrated its 50th anniversary of its first restaurant in Chicago. To commemorate this anniversary, we distributed 50th anniversary coupons and launched a series of anniversary promotional activities. We also offered popular items such as Filet-O-Fish, Chicken McNuggets and Mac Shakes at value prices in sequence, which greatly contributed to an increase in transaction count. Supported overwhelmingly by kids, we were also hugely successful with the Happy Meals featuring Pocket Monsters, THE DOG, and Cinnamoroll & The Runabouts.

On April 19, our Value Strategy started under the title, "McDonald's Invisible Menu Begins." Its focus is to offer the best "Value," in tangible and intangible services to customers, to meet various customer needs. McDonald's global strength is at the base of this strategy. As a part of this strategy, prices were revised to make McDonald's offerings more valuable and also to make it easier to order and pay.

Made for You is a high-speed cooking system, the installation of the system was accelerated last year. This great operational improvement now makes it possible to offer hot meals right off the grill.

We are airing TV commercials focusing on our food quality and using the company web site to disseminate information on food so that our customers can enjoy our products with peace of mind.

For better hospitality, we are refurbishing restaurants to offer pleasant eating environments and

extended hours to fit changing lifestyles.

We continue to promote our Balanced Active Lifestyles initiatives and are introducing many activities relating to balanced diet and sports. As part of this campaign, we support the activities and athletes of the Japan Olympics Committee from 2005 through 2008.

We are also promoting a new FUN, music filled lifestyle under the “always music” initiative.

In regards to social responsibility activity, we threw a charity concert with the support of Ronald McDonald’s House Charities Japan as well as many individuals who sympathize with our cause. We will continue fund raising activity at stores.

This Value Strategy helped to increase transaction count, which is our primary focus area, by as much as 12.3% compared to last year. Year-on-year declines in average check also became smaller, driven by a series of powerful measures including the launch of products of higher unit prices, such as Ebi Filet-O and Gratin Croquette Burger, and Happy Meals that achieved a new record in daily sales on December 23. All these contributed to a system-wide sales * of 411,823 million yen for 2005 (increase of 15,881 million yen from previous year term).

In 2005, 449 restaurants went through a remodel, 72 new traditional restaurants (standard restaurants) and 3 satellites (restaurants with a limited menu variety) opened, and a total of 75 restaurants,

15 traditional and 32 satellites, were closed. As of the end of fiscal 2005, the total number of restaurants is 3,802, up 28 from 3,774 at the end of the previous fiscal year.

*: ‘Systemwide sales’ shown in the business report refers to total sales of company-operated restaurants and franchised restaurants and is not the same as total sales reported in financial statements. The figure given in the business report does not include consumption tax.

Other businesses

EveryD Mc Inc., a subsidiary of the Company, provides support to McDonald’s restaurants and their customers. As a result of its activity, the company reported 847 million yen in sales (decrease of 296 million yen from previous term) and 56 million yen in ordinary income (decrease of 262 million yen from previous term) and 31 million yen in net income (decrease of 151 million yen from previous term)

The Company has formed two 50-50 anonymous associations with franchisees of McDonald’s Japan, which manage hamburger restaurants. These associations are treated as equity-method affiliates.

(Operating results of the Company)

As a holding company, the Company’s main business is investment in subsidiaries and real estate rental. Its principal revenue source is rental income that it receives from its consolidated subsidiary McDonald’s Japan. Our business for fiscal 2005 shows the following numbers: Sales of 50,796 million yen (decrease of 326 million yen from previous year term), Ordinary income of 1,079 million yen (increase of 247 million yen from previous year term). As a result of reporting 230 million yen in compensation for restaurant relocation, and others as extraordinary gain and 97

million yen in loss on retirement of fixed assets as extraordinary loss, net income before taxes marked 1,260 million yen and net income 790 million yen (increase of 109 million yen from previous year term).

(Analysis of the Group's operating results)

| Millions of yen | | Year ended December 31 2004 | | Year ended December 31 2005 | | Year-on-year Change |
|--|---------|--------------------------------|-------|--------------------------------|-------|------------------------|
| | | | % | | % | |
| System-wide sales | Notes 1 | 395,942 | | 411,823 | | 15,881 |
| Sales | | | | | | |
| Company-operated restaurant sales | Notes 1 | 276,094 | | 295,914 | | 19,819 |
| Franchise revenue | | 30,479 | | 28,435 | | (2,044) |
| Others | | 1,504 | | 1,305 | | (199) |
| Total sales | | 308,079 | 100.0 | 325,655 | 100.0 | 17,575 |
| Cost of sales | | | | | | |
| Cost of sales for company operated restaurant | | 243,968 | 79.2 | 268,439 | 82.4 | 24,471 |
| Law material | Notes 2 | 86,661 | 28.1 | 98,869 | 30.4 | 12,208 |
| Labor | Notes 3 | 81,198 | 26.4 | 91,359 | 28.0 | 10,160 |
| Others | | 76,108 | 24.7 | 78,211 | 24.0 | 2,102 |
| Cost of franchise revenue | | 21,456 | 7.0 | 19,406 | 6.0 | (2,050) |
| Cost of others sales | | 914 | 0.3 | 516 | 0.1 | (398) |
| Total cost of sales | | 266,339 | 86.5 | 288,362 | 88.5 | 22,023 |
| Gross profit | | 41,710 | 13.5 | 37,292 | 11.5 | (4,447) |
| Selling, general and administrative expenses | | | | | | |
| Advertising and selling expense | | 15,811 | 5.1 | 15,311 | 4.7 | (500) |
| Labor | | 10,251 | 3.3 | 10,813 | 3.3 | 561 |
| Others | | 8,432 | 2.7 | 7,958 | 2.5 | (474) |
| Total selling, general and administrative expenses | | 34,496 | 11.1 | 34,082 | 10.5 | (413) |
| Operating income | | 7,244 | 2.4 | 3,210 | 1.0 | (4,034) |
| Nonoperating income | | 1,543 | 0.5 | 1,398 | 0.4 | (144) |
| Nonoperating expenses | | 1,509 | 0.5 | 1,748 | 0.5 | 238 |
| Ordinary income | | 7,277 | 2.4 | 2,859 | 0.9 | (4,417) |
| Extraordinary income | | 845 | 0.3 | 298 | 0.1 | (547) |
| Extraordinary expenses | Notes 4 | 1,450 | 0.5 | 3,014 | 0.9 | 1,564 |
| Net income before taxes and other adjustments | | 6,672 | 2.2 | 143 | 0.1 | (6,529) |
| Net income | | 3,680 | 1.2 | 60 | 0.0 | (3,620) |

Notes 1: System-wide sales and product sales

McDonald's started "New Value Strategy" with the focus of further improvement in its strength "Value", "Service", and "Family". As a result, we could succeed to cultivate new customers and total customer number increased by 12.3% from previous year term. For the detail, please see 『3. Operating results and financial position-Overview of hamburger restaurant operations』 section.

System-wide sales was 411,823 million yen (increase of 15,881 million yen or 4.0%) and sales at existing stores increased by 3.3% and sales in company-operated restaurant was 295,914 million yen (increase of 19,819 million yen or 7.2%).

Notes 2: Law material

Law material cost increased by 98,869 million yen (increase of 12,208 million yen or 4.0% from previous year term) in conjunction with sales increase.

Notes 3: Labor

The number of new customers and total customer increased significantly as a result of the implementation of "New Value Strategy". To maintain high quality in "Service" and "Value", the company increased investment in its labor to correspond customer increase.

Additional labor, both salaried manager and part-timer, was put in stores to further strengthen two strategic initiatives, introduced in prior year, "marketing leadership (or rebuilding the McDonald's brand)," "operational excellence (or improvement of restaurant experience)". As a result, labor cost was 91,359 million yen (increase of 10,160 million yen or 12.5% from previous year term).

Notes 4: Extraordinary expenses

As to the Extraordinary expenses, please refer Notes 『consolidated income statement』.

(2) Financial position

(Analysis of the Group's financial position)

| Millions of yen | | December 31 2004 | | December 31 2005 | | Year-on-year Change |
|--|---------|------------------|-------|------------------|-------|------------------------|
| | | | % | | % | |
| Assets | | | | | | |
| Current assets | Notes 1 | 24,444 | 12.8 | 28,564 | 15.0 | 4,120 |
| Fixed assets | | 166,465 | 87.2 | 161,805 | 85.0 | (4,659) |
| 1 Tangible fixed assets | | 70,209 | 36.8 | 69,009 | 36.3 | (1,200) |
| 2 Intangible fixed assets | | 5,109 | 2.7 | 5,321 | 2.8 | 211 |
| 3 Investments and other assets | Notes 2 | 91,145 | 47.7 | 87,474 | 45.9 | (3,670) |
| Total assets | | 190,909 | 100.0 | 190,370 | 100.0 | (538) |
| Liabilities | | | | | | |
| Current liabilities | Notes 3 | 48,042 | 25.2 | 51,441 | 27.0 | 3,398 |
| Non-current liabilities | | 2,692 | 1.4 | 3,023 | 1.6 | 331 |
| Total liabilities | | 50,734 | 26.6 | 54,464 | 28.6 | 3,730 |
| Shareholders' equity | | | | | | |
| Total shareholders' equity | | 140,174 | 73.4 | 135,905 | 71.4 | (4,269) |
| Total liabilities and shareholders' equity | | 190,909 | 100.0 | 190,370 | 100.0 | (538) |

Notes

Notes 1: Current assets

Current assets as of fiscal year end was 28,564 million yen (increase of 4,120 million yen or 16.9% from previous year end). The main reason is the increase in cash and deposits.

Please see 『Cash Flow Summary』 for the detail.

Notes 2: Investments and other assets

Investments and other assets as of fiscal year end was 87,474 million yen (decrease of 3,670 million yen or 4.0% from previous year end). The main reason is the reconsideration of rental contract condition at existing-stores and increase in collection of "Leasing and guarantee deposits"

Notes 3: Current liabilities

Current liabilities as of fiscal year end was 51,441 million yen (increase of 3,398 million yen or 7.1% from previous year end). The main reason is that the some portion of payment for "loss on introduction of new working hours administration" listed under extraordinary loss is made in the year 2006.

Cash Flow Summary

Cash flows for the term are as follows:

Cash and cash equivalents ('cash') outstanding as of the end of the term totaled 11,251 million yen (increase of 34.7% from previous year term).

(Net cash provided by operating activities)

Operating activities during the period resulted in a net cash inflow of 15,304million yen (increase of 1,812.2% from previous year term). This includes the payment of the following special factors in the previous period. If we exclude these special factors, operating activities during the period would result in a net cash inflow of 11,796 million yen.

| Special factors in the previous period resulted | (Millions of yen) |
|---|-------------------|
| Payment of management services agreement cancellation fee | 6,249 |
| Payment of additional increase in voluntary retirement for early retirees | 3,551 |
| Payments in connection with the withdrawal from the McVISION business | 1,195 |

(Net cash used in investing activities)

Investing activities during the period resulted in a net outflow of 5,783million yen (increase of 35.5% from previous year term).. This was primarily the result of outlays for the acquisition of equipment for stores by the implementation of remodeling and refreshing at existing outlets and new store development.

(Net cash used in financing activities)

Financing activities during the period resulted in a net outflow of 6,657 million yen (increase of 67.9% from previous year term). This was principally due to payments of cash dividends of 3,907million yen, payment of long-term loans of 1,250 million yen and net decrease in short-term loans of 1,500 million yen.

Trends in cash flow-related indices for the corporate group are shown below.

| | December 31, 2004 | December 31, 2005 |
|--------------------------------------|--------------------------|--------------------------|
| Equity ratio | 73.4% | 71.4% |
| Equity ratio based on market prices | 153.6% | 133.3% |
| Years required to redeem liabilities | 8.4 years | 0.3 years |
| Interest-coverage ratio | 18.6 times | 1,638.1 times |

Equity ratio: Shareholders' equity/total assets

Equity ratio based on market prices: Market capitalization/total assets

Years required to redeem liabilities: Interest-bearing liabilities/operating cash flow

Interest-coverage ratio: Operating cash flow/interest payments

- * Each of the foregoing ratios is calculated on the basis of consolidated financial data.
- * Interest-bearing debt refers to all liabilities on the consolidated balance sheet on which interest is paid.

* Operating cash flow and debt-service payments are calculated using the respective figures for cash flow from operating activities and interest expenses, as listed on the consolidated statement of cash flows.

(3) Forecasts for the year ended December 2006

The Company will continue to focus on our core hamburger business and to drive the Value Strategy in a faster and enhanced manner so that McDonald's Japan can achieve a sustainable growth. Based on the above activity, we expect to record in 2006, 339,000 – 351,000 million yen in sales, 2,500 – 5,000 million yen in ordinary income, and 1,000 – 2,500 million yen in net income on a consolidated basis.

(4) Operational and Other Risks

The Company's operating results and financial position are subject to the following risks. References in this document relating to the remainder of this fiscal year are the estimates made on December 31, 2005.

(Restaurants' reliance on rented property)

The Company's headquarters, offices and more than 95% of its restaurants are leased properties. The lease term can be extended upon agreement between the Company and the lessor. The Company pays a deposit to the lessor of which the security deposit (shikikin) is returned in full at the end of the contract, and the security money (hoshoukin) ["cooperative construction deposit" (kensetsukyoryokukin)] is returned as separate sums over several years up to a maximum 20 years. The current balance of security deposit and security money is 69,898 million yen. There is a risk that the whole or part of this may become uncollectible due to bankruptcy or other problems of the lessor. Furthermore, contracts may be terminated prematurely due to the lessor's circumstances, making the closure of some restaurants unavoidable even where they are profitable.

(Fluctuations in the price of ingredients)

The cost of the ingredients of McDonald's Japan's products, such as beef and potatoes, is subject to international commodity market conditions. Such fluctuations could affect the Group's operating results.

(Currency risk)

Since most of the ingredients in food served at McDonald's Japan are imported, foreign exchange rates affect their costs. McDonald's Japan makes every effort to avoid currency risk by having favorable exchange contracts with import agencies. However, there is no guarantee that we will be able to execute the optimum deal at all times. We may see the cost of sales rise, should the yen fall sharply beyond the scope of the contracts' coverage. This could affect the Group's operating results.

(Risks associated with weather and natural disasters)

There is a risk from natural disasters such as typhoons and earthquakes, especially where there is a high concentration of restaurants, as in Tokyo. This would also have a bearing on the Group's finance and operating results.

(Legal regulations)

McDonald's Japan's directly operated and franchise restaurants are licensed by the authorities to operate in restaurant, pastry production and dairy product sales businesses and must comply with the provisions of the food hygiene law. It is also bound by many kinds of conservation ordinances designed to protect the environment, such as the Containers and Packaging Recycling Law. Should these restrictions be strengthened, our costs would increase, which in turn could affect the Group's operating results.

(Food safety control of the Company)

McDonald's Japan recognizes the importance of food safety in the restaurant industry. In going beyond the statutory food hygiene requirements, it carries out periodic independent inspections based on the HACCP technique (Hazard Analysis Critical Control Point: see note below). The appointment of Food Hygiene Inspectors, extermination of insect pests, strict enforcement of hand washing and the cleanliness of uniforms for employees, among others, enable us to provide safe products for our customers. We are planning to

implement measures, which would, if any mishap should occur, provide prompt medical support and contain damage. We have also taken out indemnity insurance for such a possibility.

However, it is in the nature of the food and drink business that there is always the possibility of food poisoning or other health problems. These are the (unavoidable) risk elements that could affect the Group's operating results.

(Note) An inspection process developed by NASA whereby each stage of the food manufacturing process is checked for microbial contamination to ensure food safety.

(General food safety crisis)

The company's business may be affected by general hygiene problems such as BSE and avian influenza. In such a case, the Group's sales will decline and additional investment will be required for improving safety procedures and upgrading facilities as well as running safety campaigns.

(Competition)

McDonald's Japan is competing not only with other burger-based fast food chains, but also with convenience stores and so-called " nakashoku " (takeaway) businesses. McDonald's Japan defines itself as a player in the IEO(Informal Eating Out)market; that is the market comprising of restaurant businesses excluding pubs, bars and canteens. We analyze our business within the framework of this market. Any intensification of competition within the IEO market could affect the Group's operating results.

(Personal data protection)

McDonald's Japan and EveryD Mc, Inc. manage customers' personal data in strict accordance with the Personal Data Protection Law. Any leak, should it occur, would cause great damage to our customers and would put our credibility at risk.

4. Consolidated financial statements

(1). Consolidated balance sheet

| Millions of yen | Notes | December 31, 2004 | % | December 31, 2005 | % | Year-on-year change |
|--|-------|-------------------|-------|-------------------|-------|---------------------|
| Current assets | | | | | | |
| Cash and deposits | | 8,355 | | 11,251 | | |
| Accounts receivable - trade | | 7,762 | | 8,403 | | |
| Securities | 2 | - | | 416 | | |
| Inventories | | 2,721 | | 2,858 | | |
| Deferred tax assets | | 788 | | 1,148 | | |
| Others | | 4,910 | | 4,567 | | |
| Allowance for doubtful accounts | | (94) | | (80) | | |
| | | <u>24,444</u> | 12.8 | <u>28,564</u> | 15.0 | 4,120 |
| Fixed assets | | | | | | |
| Tangible fixed assets | | | | | | |
| Buildings and structures | 4 | 88,036 | | 89,987 | | |
| Accumulated depreciation | | <u>49,601</u> | | <u>51,046</u> | | |
| | | 38,435 | | 38,940 | | |
| Machinery and equipment | | 17,960 | | 18,384 | | |
| Accumulated depreciation | | <u>8,692</u> | | <u>9,795</u> | | |
| | | 9,267 | | 8,589 | | |
| Tools, appliances and fixtures | | 20,386 | | 20,128 | | |
| Accumulated depreciation | | <u>14,818</u> | | <u>15,530</u> | | |
| | | 5,568 | | 4,597 | | |
| Land | 8 | 16,820 | | 16,820 | | |
| Construction in progress | | <u>118</u> | | <u>61</u> | | |
| | | 70,209 | 36.8 | 69,009 | 36.3 | (1,200) |
| Intangible fixed assets | | | | | | |
| Goodwill | | 1,063 | | 1,327 | | |
| Others | | <u>4,046</u> | | <u>3,993</u> | | |
| | | 5,109 | 2.7 | 5,321 | 2.8 | 211 |
| Investments and other assets | | | | | | |
| Investments in securities | | 7,902 | | 6,908 | | |
| Long-term loans | 1,2 | 99 | | 68 | | |
| Deferred tax assets | | 3,787 | | 3,615 | | |
| Deferred tax assets due to revaluation | 8 | 1,925 | | 1,925 | | |
| Leasing and guarantee deposits | | 72,153 | | 69,898 | | |
| Others | 1,2 | 6,447 | | 6,131 | | |
| Allowance for doubtful accounts | | <u>(1,170)</u> | | <u>(1,074)</u> | | |
| | | 91,145 | 47.7 | 87,474 | 45.9 | (3,670) |
| Total fixed assets | | <u>166,465</u> | 87.2 | <u>161,805</u> | 85.0 | (4,659) |
| Total assets | | <u>190,909</u> | 100.0 | <u>190,370</u> | 100.0 | (538) |

| Millions of yen | Notes | December 31, 2004 | % | December 31, 2005 | % | Year-on-year change |
|---|-------|-------------------|-------|-------------------|-------|---------------------|
| Current liabilities | | | | | | |
| Notes and accounts payable | 5 | 16,125 | | 16,953 | | |
| Short-term loans payable | | 5,000 | | 3,500 | | |
| Current portion of long-term loans payable | | 1,250 | | - | | |
| Accounts payable-other | | 11,660 | | 14,760 | | |
| Accrued expenses | | 6,640 | | 8,164 | | |
| Income taxes payable | | 105 | | 185 | | |
| Deferred tax liabilities | | 50 | | - | | |
| Allowance for bonuses | | 1,600 | | 1,143 | | |
| Others | 2,5 | 5,609 | | 6,733 | | |
| | | <u>48,042</u> | 25.2 | <u>51,441</u> | 27.0 | <u>3,398</u> |
| Non-current liabilities | | | | | | |
| Long-term loans payable | | 500 | | 500 | | |
| Allowance for employees' retirement benefits | | 874 | | 1,347 | | |
| Allowance for directors' retirement benefits | | 76 | | 50 | | |
| Deposits received | | 1,240 | | 1,126 | | |
| | | <u>2,692</u> | 1.4 | <u>3,023</u> | 1.6 | <u>331</u> |
| | | <u>50,734</u> | 26.6 | <u>54,464</u> | 28.6 | <u>3,730</u> |
| Shareholders' equity | | | | | | |
| Common stock | 6 | 24,113 | 12.6 | 24,113 | 12.7 | - |
| Capital reserves | | 42,124 | 22.1 | 42,124 | 22.1 | - |
| Retained earnings | | 72,760 | 38.1 | 68,832 | 36.2 | (3,927) |
| Revaluation account for land | 8 | (2,806) | (1.5) | (2,806) | (1.5) | - |
| Unrecognized holding gain on other securities | | 3,983 | 2.1 | 3,641 | 1.9 | (341) |
| Treasury stock | 7 | (0) | (0.0) | (0) | (0.0) | - |
| | | <u>140,174</u> | 73.4 | <u>135,905</u> | 71.4 | <u>(4,269)</u> |
| Total liabilities and shareholders' equity | | <u>190,909</u> | 100.0 | <u>190,370</u> | 100.0 | <u>(538)</u> |

(2). Consolidated income statement

| Millions of yen | Notes | Year ended December 31, 2004 | % | Year ended December 31, 2005 | % | Year-on-year change |
|--|-------|---------------------------------|-------|---------------------------------|-------|------------------------|
| Sales | | 308,079 | 100.0 | 325,655 | 100.0 | 17,575 |
| Cost of sales | | 266,339 | 86.5 | 288,362 | 88.5 | 22,023 |
| Gross profit | | 41,740 | 13.5 | 37,292 | 11.5 | (4,447) |
| Selling, general and administrative expenses | 1,8 | 34,496 | 11.1 | 34,082 | 10.5 | (413) |
| Operating income | | 7,244 | 2.4 | 3,210 | 1.0 | (4,034) |
| Nonoperating income | | | | | | |
| Interest income | | 86 | | 72 | | |
| Dividend income | | 115 | | 109 | | |
| Equity in earnings of affiliated companies | | 50 | | 7 | | |
| Revenue from unredeemed gift certificates | | 169 | | 270 | | |
| Insurance proceeds | | 231 | | 182 | | |
| Others | | 889 | | 755 | | |
| | | 1,543 | 0.5 | 1,398 | 0.4 | (144) |
| Nonoperating expenses | | | | | | |
| Interest expenses | | 52 | | 19 | | |
| Provision for allowance for doubtful accounts | | 132 | | - | | |
| Loss on disposal of fixed assets at stores | | 1,051 | | 1,626 | | |
| Others | | 273 | | 102 | | |
| | | 1,509 | 0.5 | 1,748 | 0.5 | 238 |
| Ordinary income | | 7,277 | 2.4 | 2,859 | 0.9 | (4,417) |
| Extraordinary income | | | | | | |
| Gain on revision of earnings from previous term | | 26 | | - | | |
| Gain on reversal of allowance for doubtful accounts | | - | | 60 | | |
| Gain on reversal of allowance for losses on restaurant closings | | 224 | | - | | |
| Gain on reversal of allowance for liquidation of affiliate company | | 273 | | - | | |
| Gain on sales of fixed assets | 2 | 26 | | - | | |
| Gain on sale of investment securities | | 228 | | - | | |
| Compensation for relocation of stores | | 66 | | 238 | | |
| | | 845 | 0.3 | 298 | 0.1 | (547) |
| Extraordinary losses | | | | | | |
| Loss on disposal of fixed assets | 3 | 448 | | 410 | | |
| Loss on introduction of new working hours administration | 4 | - | | 2,604 | | |
| Costs of bird flu and BSE countermeasures | 5 | 865 | | - | | |
| Loss on office relocation | 6 | 81 | | - | | |
| Others | 7 | 54 | | - | | |
| | | 1,450 | 0.5 | 3,014 | 1.0 | 1,564 |
| Net income before taxes | | 6,672 | 2.2 | 143 | 0.0 | (6,529) |
| Current tax expenses | | 170 | | 87 | | |
| Deferred tax expenses | | 2,821 | | (4) | | |
| | | 2,991 | 1.0 | 82 | 0.0 | (2,909) |
| Net income | | 3,680 | 1.2 | 60 | 0.0 | (3,620) |

(3). Consolidated statement of retained earnings

| Millions of yen | December 31, 2004 | December 31, 2005 | Year-on-year change |
|---|-------------------|-------------------|---------------------|
| Capital reserves | | | |
| Capital reserves, beginning of term | | | |
| Additional paid-in capital, beginning of term | 42,124 | 42,124 | - |
| Capital reserves, end of term | 42,124 | 42,124 | - |
| Retained earnings | | | |
| Retained earnings, beginning of term | 73,070 | 72,760 | (309) |
| Increase in retained earnings | | | |
| Net income | 3,680 | 60 | |
| | <u>3,680</u> | <u>60</u> | <u>(3,620)</u> |
| Reduction in retained earnings | | | |
| Dividends | 3,988 | 3,988 | |
| Disposition of revaluation account for land | 1 | - | |
| | <u>3,990</u> | <u>3,988</u> | <u>(1)</u> |
| Retained earnings, end of term | 72,760 | 68,832 | (3,927) |

(4). Consolidated statement of cash flows

| Millions of yen | Year ended December 31, 2004 | Year ended December 31, 2005 | Year-on-year change |
|--|---------------------------------|---------------------------------|------------------------|
| Net cash provided by operating activities | | | |
| Net income before taxes | 6,672 | 143 | |
| Depreciation | 9,005 | 8,742 | |
| Increase (decrease) in allowances | 803 | (70) | |
| Increase (decrease) in allowances for losses on restaurant closings | (298) | - | |
| Unredeemed gift certificates in current and previous years | (169) | (270) | |
| Interest and dividend income | (201) | (182) | |
| Interest expenses | 52 | 19 | |
| Equity in losses (earnings) of unconsolidated companies | (50) | (7) | |
| Gain on reversal of allowance for liquidation of affiliates | (150) | - | |
| Loss on disposal of fixed assets | 1,188 | 1,648 | |
| Decrease (increase) in accounts receivable - trade | 9 | (640) | |
| Decrease (increase) in inventories | (20) | (136) | |
| Decrease (increase) in goodwill from acquisition of franchise stores | (121) | (263) | |
| Decrease (increase) in other assets | (777) | 688 | |
| Increase (decrease) in accounts payable | 622 | 1,219 | |
| Increase (decrease) in notes payable | (1,144) | (391) | |
| Increase (decrease) in accrued expenses payable | 99 | 1,514 | |
| Increase (decrease) in other current liabilities | (3,350) | 3,304 | |
| Others | (133) | 10 | |
| | 12,035 | 15,326 | 3,290 |
| Interest and dividend income received | 163 | 138 | |
| Interest expenses paid | (43) | (9) | |
| Payment for additional increase in voluntary retirement | (3,551) | - | |
| Payment for management services agreement cancellation fee | (6,249) | - | |
| Loss on withdrawal from Mc-Vision business | (1,195) | - | |
| Payment for income tax | (359) | (150) | |
| | 800 | 15,304 | 14,504 |
| Net cash used in investment activities | | | |
| Payments for purchase of restaurant equipment | (7,888) | (7,255) | |
| Proceeds from sales of restaurant equipment | 1,651 | 725 | |
| Proceeds from sales of investment securities | 230 | - | |
| Payments for rent deposits and guarantees | (601) | (1,761) | |
| Proceeds from returned rent deposits and guarantees | 4,560 | 3,853 | |
| Payments for loans and advances | (48) | (1) | |
| Proceeds from collection of loans and advances | 33 | 35 | |
| Outlays for loans to affiliates | (650) | - | |
| Payments for development of information systems | (1,529) | (1,315) | |
| Others | (25) | (64) | |
| | (4,266) | (5,783) | (1,516) |

| Millions of yen | Year ended December 31, 2004 | Year ended December 31, 2005 | Year-on-year change |
|---|---------------------------------|---------------------------------|------------------------|
| Net cash used in financing activities | | | |
| Payments of net changes in short-term debt | 5,000 | (1,500) | |
| Payments of long-term debt | (5,000) | (1,250) | |
| Payments of dividends | (3,964) | (3,907) | |
| Payments for purchase of treasury stocks | (0) | - | |
| | (3,964) | (6,657) | (2,693) |
| Effect of exchange rate changes on cash and cash equivalents | (2) | 32 | 35 |
| Increase (decrease) in cash and cash equivalents | (7,433) | 2,895 | 10,329 |
| Cash and cash equivalents at beginning of term | 15,789 | 8,355 | (7,433) |
| Cash and cash equivalents at end of term *Notes | 8,355 | 11,251 | 2,895 |

Accounting policy

| Item | December 31, 2004 | December 31, 2005 |
|--|---|---|
| 1. Item relating to scope of consolidation | (1) Number of consolidated subsidiary: 2 Name of consolidated subsidiary: McDonald's Company (Japan), Ltd. EveryD Mc, Inc. | (1) Number of consolidated subsidiaries: Same as December 31, 2004 |
| | (2) Number of nonconsolidated subsidiary: 1 Name of nonconsolidated subsidiary: California Family Restaurants, Inc. (Reason for exclusion from consolidation) This nonconsolidated subsidiary is small in scale, and its effect on consolidated financial statements in terms of total assets, sales, net income for the term (amount corresponding to ownership share), and retained earnings (amount corresponding to ownership share) is not significant. | (2) Number of nonconsolidated subsidiary: Same as December 31, 2004 |
| 2. Item relating to application of the equity method | (1) Number of affiliates accounted for by the equity method: 2 2 anonymous association | (1) Number of affiliates accounted for by the equity method: Same as December 31, 2004 |
| | (2) The Company did not apply the equity method to its nonconsolidated subsidiary (California Family Restaurants, Inc.) because of its minimal impact on consolidated net income, consolidated retained earnings, etc. | (2) Same as December 31, 2004 |
| 3. Item relating to the fiscal years etc. of consolidated subsidiaries | All consolidated subsidiaries end their fiscal years on the same day as the date of closing of consolidated accounts. | Same as December 31, 2004 |
| 4. Items related to accounting standards | | |
| (1) Standards and methods of valuation for important assets | i. Marketable and investment securities | i.. Marketable and investment securities |
| | (a) Bonds held to maturity: cost amortization method (straight line) | (a) Bonds held to maturity: Same as December 31, 2004 |
| | (b) Other securities: Quoted securities: market price method based on closing prices on the date of the closing of accounts (all differences are credited or debited directly to the shareholders' equity account; sales prices are calculated on the basis of average cost) Unquoted securities: valued at cost using the periodic average method | (b) Other securities: Same as December 31, 2004 |
| | ii. Inventories: Food materials and supplies: valued at cost, computed on a periodic average basis | ii. Inventories: Same as December 31, 2004 |
| (2) Major depreciable assets and methods of depreciation | i. Tangible fixed assets: straight-line method Years of useful life for principal assets: Buildings and structures: 2 - 50 years Machinery and equipment: 2 - 15 years Tools, appliances and fixtures: 2 - 20 years | i. Tangible fixed assets: Same as December 31, 2004 |
| | ii. Intangible fixed assets: straight-line method For software used internally, the straight-line method is applied based on the period of expected use by the Company (5 years). | ii. Intangible fixed assets: Same as December 31, 2004 |
| | iii. Long-term prepaid expenses: Straight-line method | iii. Long-term prepaid expenses: Same as December 31, 2004 |

| Item | December 31, 2004 | December 31, 2005 |
|---|---|--|
| (3) Standards for important allowances | i. Allowance for doubtful accounts To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a statutory deduction ratio for general accounts receivable plus an amount for specific accounts for which collection appears doubtful. | i. Allowance for doubtful accounts Same as December 31, 2004 |
| | ii. Allowance for bonuses In order to prepare for the payment of bonuses to employees, an allowance is made for the estimated amount to be paid as of the end of the fiscal year. | ii. Allowance for bonuses Same as December 31, 2004 |
| | iii. Employees' retirement benefits To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the term to December 2004. Differences arising in the course of mathematical calculations are proportionally divided using the straight-line method over a fixed number of years not exceeding the average number of remaining years of service of employees in each term (13), and are treated as expenses from the year following the year in which they occur. | iii. Employees' retirement benefits To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the term to December 2005. Differences arising in the course of mathematical calculations are proportionally divided using the straight-line method over a fixed number of years not exceeding the average number of remaining years of service of employees in each term (8), and are treated as expenses from the year following the year in which they occur. (Additional information) Previously, differences arising in the course of mathematical calculations were proportionally divided by 13 year which is the average number of employees service period. The Company changed the period from 13 to 8 years since average number of employees service period became below 13 years. Due to this change, cost of sales increased 185 million yen, selling, general and administrative expenses increased 145 million yen. As a result, operating income, ordinary income, and net income before taxes decreased by 330 million yen compared to previous accounting treatment. |
| | iv. Allowance for directors' retirement benefit In order to prepare for the payment of retirement benefit to directors, an allowance is made for the estimated amount to be paid as of the end of the fiscal year based on the regulations of retirement allowance to retiring directors. | iv. Allowance for directors' retirement benefit Same as December 31, 2004 |
| (4) Accounting for significant lease transactions | Financing leases, which exclude leased assets for which title is recognized as being conveyed to lessees, are treated as ordinary rental transactions. | Same as December 31, 2004 |
| (5) Important hedge accounting methods | (1) Accounting method Appropriated methods. | |
| | (2) Hedging methods and items hedged: Hedging methods: exchange contract Items hedged: I expected future imports | |
| | (3) Policy related to hedging: Cash flow hedging. | |
| | (4) Method of evaluating the effectiveness of hedging: Confirm match hedging methods and items hedged. | |

| Item | December 31, 2004 | December 31, 2005 |
|---|--|--|
| (6) Other significant items associated with the preparation of financial statements | (1) Accounting for consumption taxes and local consumption taxes: Amounts shown are exclusive of consumption taxes. | (1) Accounting for consumption taxes and local consumption taxes: Same as December 31, 2004 |
| 5. Consolidated appropriation of retained earnings | The consolidated appropriation of retained earnings shown is determined during this fiscal year. | Same as December 31, 2004 |
| 6. Scope of funds in the consolidated statement of cash flow | “Funds” (cash and cash equivalents) in the context of the consolidated cash flow statement comprise cash on hand, freely withdrawable deposits, and short-term investments maturing in less than three months from the date of their acquisition, which must also be easily converted to cash and subject to minimal risk of price fluctuations. | Same as December 31, 2004 |

Changes in the representation policy

| | December 31, 2004 | December 31, 2005 |
|--|--|-------------------|
| | <p>“Insurance proceeds” was presented in “Others” in the Non-operating income section of consolidated statement of income until last fiscal year. However, the amount of the account is more than one-tenth of total Non-operating income this year. Therefore, the account is designated in the statement. The amount for the last fiscal year is 74 million yen.</p> | |
| | <p>Due to being immaterial, “Compensation for interruption of business at stores” is included in “Others” in the Non-operating income section of consolidated statement of income. For reference, the amount of the account for the fiscal year is 101 million yen.</p> | |

Notes

(Consolidated balance sheet - related)

| Millions of yen | December 31, 2004 | December 31, 2005 | |
|---|-------------------|--|---------|
| 1. Amounts at nonconsolidated subsidiaries and affiliates are as follows | | 1. Amounts at nonconsolidated subsidiaries and affiliates are as follows | |
| Investment securities | 341 | Investment securities | 341 |
| Investments | 195 | Investments | 185 |
| 2. Investment securities in the amount of 667 million yen and "other" assets in investments and other assets in the amount of 560 million yen are provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. Liabilities collateralized by these securities are advance receipts from customers in the amount of 416 million yen. | | 2. Securities in the amount of 416 million yen, Investment securities in the amount of 250 million yen and "other" assets in investments and other assets in the amount of 640 million yen are provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. Liabilities collateralized by these securities are advance receipts from customers in the amount of 469 million yen. | |
| 3. Contingent liabilities | | 3. Contingent liabilities | |
| (1) Guarantees provided for borrowings from financial institutions by parties in which the Company has an equity stake: | | (1) Guarantees provided for borrowings from financial institutions by parties in which the Company has an equity stake: | |
| Toys"R"Us-Japan, Ltd. | 3,480 | Toys"R"Us-Japan, Ltd. | 3,304 |
| (2) Guarantees provided for employees' mortgages from banks: | 26 | (2) Guarantees provided for employees' mortgages from banks: | 13 |
| 4. Reductions of tangible fixed assets from gains on insurance claims were 130 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen. | | 4. Reductions of tangible fixed assets from gains on insurance claims were 112 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen. | |
| 5. Notes maturing on final day of the fiscal year | | 5. Notes maturing on final day of the fiscal year | |
| Notes are settled on the basis of date of clearing. Because the final day of the fiscal year was a banking holiday, however, the following notes maturing on the final day of the fiscal year are included in term-end balances. | | Notes are settled on the basis of date of clearing. Because the final day of the fiscal year was a banking holiday, however, the following notes maturing on the final day of the fiscal year are included in term-end balances. | |
| Notes payable | 1,840 | Notes payable | 1,706 |
| Notes payable - plant and equipment | 432 | Notes payable - plant and equipment | 645 |
| 6. The number of outstanding shares is common stock of 132,960,000. | | 6. The number of outstanding shares is common stock of 132,960,000. | |
| 7. The Company has 148 shares of its common stock as a treasury stock. | | 7. The Company has 148 shares of its common stock as a treasury stock. | |
| 8. Revaluation of land | | 8. Revaluation of land | |
| As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity. | | As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity. | |
| Revaluation method: | | Revaluation method: | |
| As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax. | | As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax. | |
| Date of revaluation: December 31, 2001 | | Date of revaluation: December 31, 2001 | |
| Differential between book value and post-revaluation market value of revalued land at end of term | (3,846) | Differential between book value and post-revaluation market value of revalued land at end of term | (4,037) |

(Consolidated statement of income - related)

| Millions of yen | December 31, 2004 | December 31, 2005 | |
|---|--|--|--------------|
| 1. Primary items and amounts included under selling, general and administrative expenses | | 1. Primary items and amounts included under selling, general and administrative expenses | |
| (1) Advertising expenses | 8,705 | (1) Advertising expenses | 8,163 |
| (2) Sales promotion expenses | 7,105 | (2) Sales promotion expenses | 7,147 |
| (3) Salaries | 4,935 | (3) Salaries | 5,196 |
| (4) Bonuses | 1,858 | (4) Bonuses | 1,797 |
| (5) Provision for bonuses | 586 | (5) Provision for bonuses | 350 |
| (6) Pension expenses | 813 | (6) Pension expenses | 1,039 |
| (7) Provision for directors' retirement allowances | 40 | (7) Provision for directors' retirement allowances | 48 |
| (8) Rent on real estate | 986 | (8) Rent on real estate | 891 |
| (9) Depreciation | 1,608 | (9) Depreciation | 1,433 |
| (10) Outside services expenses | 2,331 | (10) Outside services expenses | 2,452 |
| (11) Investigation and research expenses | 863 | (11) Investigation and research expenses | 524 |
| <hr/> | | <hr/> | |
| 2. Breakdown of gain on sale s of fixed assets | 2. | | |
| Land | 6 | | |
| Vehicle | 20 | | |
| Total | <u>26</u> | | |
| <hr/> | | <hr/> | |
| 3. Breakdown of losses on disposal of fixed assets | 3. Breakdown of losses on disposal of fixed assets | | |
| Buildings and structures | 76 | Buildings and structures | 43 |
| Machinery and equipment | 15 | Machinery and equipment | 18 |
| Tools, appliances and fixtures | 20 | Tools, appliances and fixtures | 294 |
| Software | 336 | Software | 53 |
| Total | <u>448</u> | Total | <u>410</u> |
| <hr/> | | <hr/> | |
| 4. | | 4. "Loss on introduction of new working hours administration" in extraordinary losses arose due to the change in the calculation of working hours from nearest 30minutes to unit of one minute for part-time staff and full-time employee's overtime in McDonald's operated restaurants and its office staffs. | |
| | | Breakdown of the loss is stated below | |
| | | Salary payable in prior years | 2,494 |
| | | Set up of call center | 110 |
| | | Total | <u>2,604</u> |
| <hr/> | | <hr/> | |
| 5. Breakdown of losses related to Bird Flu and BSE are as follows | 5. | | |
| Loss on disposal of food inventories related to Bird Flu | 414 | | |
| Loss on disposal of food inventories related to BSE | 372 | | |
| Loss on disposal of sales promotion material related to Bird Flu | 79 | | |
| Total | <u>865</u> | | |
| <hr/> | | <hr/> | |
| 6. Breakdown of losses related to closing of regional offices are as follow | 6. | | |
| Restoration costs | 41 | | |
| Disposal of fixed assets | 18 | | |
| Cancellation penalty fee | 21 | | |
| Total | <u>81</u> | | |
| <hr/> | | <hr/> | |
| 7. "Others" as shown under extraordinary losses consists of cancellation fees on lease contracts for kitchen equipment made obsolete by the introduction of the "Made for You" order-made cooking system of 39 million yen and the payment of 12 million yen to franchisees as compensation fees for store closing. | 7. | | |
| <hr/> | | <hr/> | |
| 8. R&D expenses in selling, general and administrative expenses | 280 | 8. R&D expenses in selling, general and administrative expenses | 304 |

(Consolidated statement of cash flow - related)

Balance of cash and cash equivalents agrees with balance of cash and deposit the balance sheet as of the year end of 2004 and 2005.

(Lease related)

1. Financing leases, which exclude leased assets whose titles are recognized as being conveyed to lessees

Lessee

(1) Equivalent acquisition costs, equivalent accumulated depreciation and equivalent book value at year end

| Millions of yen | December 31, 2004 | December 31, 2005 |
|---------------------------------------|-------------------|-------------------|
| Buildings and structures | | |
| Acquisition cost | 3 | 1 |
| Accumulated depreciation | 2 | 0 |
| Net leased property | 0 | 1 |
| Machinery and equipment | | |
| Acquisition cost | 10,824 | 9,093 |
| Accumulated depreciation | 5,707 | 4,620 |
| Net leased property | 5,117 | 4,473 |
| Tools, appliances and fixtures | | |
| Acquisition cost | 4,852 | 5,884 |
| Accumulated depreciation | 1,911 | 2,680 |
| Net leased property | 2,941 | 3,204 |
| Total | | |
| Acquisition cost | 15,680 | 14,979 |
| Accumulated depreciation | 7,621 | 7,301 |
| Net leased property | 8,058 | 7,678 |

(2) Equivalent amount of unearned lease payments

| Millions of yen | December 31, 2004 | December 31, 2005 |
|---------------------|-------------------|-------------------|
| Due within one year | 2,764 | 2,622 |
| Due after one year | 5,286 | 4,948 |
| | 8,051 | 7,570 |

(3) Lease rents, equivalent depreciation and equivalent amount of interest paid

| Millions of yen | December 31, 2004 | December 31, 2005 |
|------------------------------------|-------------------|-------------------|
| Lease rents | 3,353 | 3,213 |
| Equivalent depreciation | 2,649 | 2,642 |
| Equivalent amount of interest paid | 173 | 170 |

(4) Method of calculating equivalent depreciation

The Company uses straight-line depreciation, assuming that lease periods are equal to estimated economic life and that residual values are zero.

(5) Calculation method for equivalent amount of interest

The equivalent amount of interest is the difference between the total amount of lease fees and the equivalent of the acquisition value of the leased property, with the interest method used for the allocation to each term.

2. Operation Leases

| Millions of yen | December 31, 2004 | December 31, 2005 |
|------------------|-------------------|-------------------|
| Unexpired leases | | |
| Within 1 year | 337 | 337 |
| More than 1 year | 1,572 | 1,235 |
| Total | 1,909 | 1,572 |

(Marketable and investment securities)

1. Quoted bonds which are being held to maturity

| Millions of yen | December 31, 2004 | | | December 31, 2005 | | |
|---|-------------------|------------|------------------------|-------------------|------------|------------------------|
| | Current value | Book value | Unrealized gain (loss) | Current value | Book value | Unrealized gain (loss) |
| Bonds whose market values exceed amounts recognized on the consolidated balance sheet | | | | | | |
| JGB | 667 | 670 | 2 | 666 | 667 | 1 |
| Total | 667 | 670 | 2 | 666 | 667 | 1 |

2. Other quoted securities

| Millions of yen | December 31, 2004 | | | December 31, 2005 | | |
|---|---------------------|------------|------------------------|---------------------|------------|------------------------|
| | Cost of acquisition | Book value | Unrealized gain (loss) | Cost of acquisition | Book value | Unrealized gain (loss) |
| Securities valued on the consolidated balance sheet at amounts greater than purchase cost | | | | | | |
| Shares | 121 | 6,837 | 6,715 | 120 | 6,260 | 6,140 |
| Total | 121 | 6,837 | 6,715 | 120 | 6,260 | 6,140 |

3. Other marketable securities that were sold during the year ended December 31, 2004 and 2005

| Millions of yen | Amount sold | Total gains on sales | Total losses on sales |
|-------------------|-------------|----------------------|-----------------------|
| December 31, 2005 | - | - | - |
| December 31, 2004 | 230 | 228 | - |

4. Major investment securities without market prices

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| Other securities | | |
| Unlisted stocks (excluding OTC stocks) | 56 | 56 |

5. Scheduled redemptions of bonds with maturity dates and bonds being held to maturity

| Millions of yen | Up to 1 year | Greater than 1 and up to 5 years | Greater than 5 and up to 10 years | Greater than 10 years |
|-------------------|--------------|----------------------------------|-----------------------------------|-----------------------|
| December 31, 2005 | | | | |
| JGB | 416 | 250 | - | - |
| | 416 | 250 | - | - |
| December 31, 2004 | | | | |
| JGB | - | 667 | - | - |
| | - | 667 | - | - |

(Derivatives)

I. Items related to the status of transactions

1. Transaction details

Derivative transactions used by the Company consist of forward foreign exchange contracts. The forward foreign exchange contracts with financial institutions and importers for food materials are carried out based on the decision made by McDonald's Company (Japan), Ltd.

The effect of these forward foreign exchange contracts is reflected in the price of transactions with shipping companies that purchase ingredients from the importer and deliver them to McDonald's Company (Japan), Ltd. and its franchisees.

2. Policy regarding transactions

The Company's derivative transactions are undertaken for the purpose of avoiding risk from future movements in foreign exchange rates, always taking into consideration the amount of expected future imports. The Company does not enter into derivative transactions for speculative purposes.

3. Purpose of transactions

Forward foreign exchange contracts are undertaken for the purpose of maintaining stable purchase prices for food ingredients at McDonald's Company (Japan), Ltd. and its franchisees.

4. Transaction risks

Forward foreign exchange contracts are recognized as having some market risk due to exchange rate fluctuations. But because the counterparties to the contracts undertaken by importers are major domestic banks, the risk of a counterparty defaulting on a contract (credit risk) is deemed negligible.

5. Risk management system for transactions

The execution and management of derivative transactions are carried out in accordance with internal rules and procedures of McDonald's Company (Japan), Ltd. The policy for forward foreign exchange contracts is determined by the responsible officers, and the request to the importer for the execution of a full or partial contract is made based on the decision of the general manager of the purchasing department. The execution of the contract is confirmed upon receipt of a written report or a copy of the confirmation from the importer for each contract.

6. Supplementary explanation of items related to the market value of contracts

With regard to the market value of contracts, the contract amount is strictly that of the derivative contract, and in and of itself does not represent the amount of risk inherent in the derivative transaction.

In addition, the contract amounts, market values and valuation profits and losses include portions that will be returned to McDonald's Company (Japan) Ltd. and its franchisees.

II. Market value of transactions

Contract amount, market value, and valuation profit or loss of derivative transactions

Currency-related

| Millions of yen | December 31, 2004 | | | | December 31, 2005 | | | |
|---|-------------------------|--------|-------------|-------------------------|-------------------|-------------|--|--|
| | Amount of contract etc. | Market | Unrealized | Amount of contract etc. | Market | Unrealized | | |
| Category and type | Over one year | value | gain (loss) | Over one year | value | gain (loss) | | |
| Transactions other than market transactions | | | | | | | | |
| Exchange contract transactions | | | | | | | | |
| Buying contracts | | | | | | | | |
| U.S. Dollar | 19,984 | 8,098 | (661) | 28,284 | 14,029 | 1,453 | | |
| | 19,984 | 8,098 | (661) | 28,284 | 14,029 | 1,453 | | |

(Note)

Market value calculation method

The end-of-term market value is calculated using prices in the futures market.

(Retirement benefits)

1. Outline of retirement benefit system

Consolidated subsidiary has adopted a qualified pension plan as a defined benefit plan for employees of mandatory retirement age. This is in addition to the internal reserve for lump-sum retirement payments as per its retirement regulations.

In addition to this system of retirement benefits, consolidated subsidiary participates in the Yogashi Employees Pension Fund, and this pension plan is treated as an exception under Article 33 of the Implementation Policy for Retirement Benefit Accounting. Consolidated subsidiary's portion of this pension fund's outstanding assets at the end of the term under review, based on the consolidated subsidiary's contributions (number of participants), was 22,853 million yen.

2. Matters relating to retirement benefit liabilities

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| (1) Retirement benefit liabilities | (20,937) | (19,133) |
| (2) Pension assets | 20,764 | 24,566 |
| (3) Unaccrued pension benefit liabilities (1) + (2) | (172) | 5,433 |
| (4) Unrecognized actuarial gains or losses | 2,740 | (3,680) |
| (5) Net amount shown on consolidated balance sheet (3) + (4) | 2,567 | 1,753 |
| (6) Prepaid pension expenses | 3,442 | 3,100 |
| (7) Allowance for retirement benefits (5) – (6) | (874) | (1,347) |

3. Matters relating to retirement benefit expenses

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| (1) Current service costs | 1,647 | 1,715 |
| (2) Interest expense | 504 | 418 |
| (3) Expected earnings on pension fund assets | (473) | (284) |
| (4) Expensing of differences based on actuarial calculations | 95 | 624 |
| (5) Subtotal | 1,774 | 2,474 |
| (6) Additional retirement funds | 48 | - |
| (7) Total retirement benefit expenses | 1,822 | 2,474 |

4. Assumptions underlying the calculation of retirement benefit liabilities

| | December 31, 2004 | December 31, 2005 |
|---|----------------------|----------------------|
| (1) Discount rate | 2.0% | 2.0% |
| (2) Expected rate of return | 2.5% | 1.5% |
| (3) Method of allocating prospective retirement benefits to each period | Straight-line method | Straight-line method |
| (4) Amortization period for actuarial gains or losses | 13 years | 8 years |

(Deferred taxes)

1. Breakdown of primary causes of deferred tax assets and liabilities

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| Deferred tax assets | | |
| Enterprise taxes payable | 81 | 147 |
| Excess over limit of allowance for bonuses | 668 | 480 |
| Allowance for directors' retirement | 31 | 20 |
| Excess over limit of allowance for doubtful accounts | 503 | 464 |
| Excess over limit of allowance for retirement benefits | 407 | 834 |
| Valuation loss on food products and supplies | 23 | - |
| Depreciation expenses | 392 | 640 |
| Loss carried forward | 6,947 | 6,047 |
| Others | 575 | 542 |
| | 9,631 | 9,183 |
| Deferred tax liabilities | | |
| Unrealized gains or losses on other securities | (2,732) | (2,498) |
| Gain from establishment of pension plan assets | (1,562) | (1,606) |
| Gift Card miscellaneous income | (3) | (18) |
| Reserve for special depreciation | (316) | (219) |
| Labor insurance | (165) | - |
| Others | (325) | (76) |
| | (5,106) | (4,419) |
| Total deferred tax assets – net | 4,525 | 4,764 |

2. Causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting

| December 31, 2004 | | December 31, 2005 | |
|---|---------|---|----------|
| The detailed information about causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting in this fiscal year is shown below: | | The detailed information about causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting in this fiscal year is shown below: | |
| Legal effective tax rate | 42.05% | Legal effective tax rate | 40.69% |
| <adjustment> | | <adjustment> | |
| Expenses not deductible for tax purposes (such as entertainment expenses) | 1.70% | Expenses not deductible for tax purposes (such as entertainment expenses) | 75.51% |
| Incomes not included for tax purposes (such as interests receivable) | (0.45%) | Incomes not included for tax purposes (such as interests receivable) | (43.39%) |
| Per capita rate of inhabitant tax | 1.29% | Per capita rate of inhabitant tax | 49.08% |
| Others | 0.24% | Tax rate variance of subsidiaries | (63.55%) |
| Income tax and others accompanying adoption of tax effect accounting | 44.83% | Others | (0.83%) |
| | | Income tax and others accompanying adoption of tax effect accounting | 57.51% |

(Segment information)

Business segment information

For the year ended December 2004 (January 1 – December 31, 2004) and 2005 (January 1 – December 31, 2005), sales, operating income and assets corresponding to hamburger restaurant operations accounted for more than 90% of the group's total sales, operating income and assets for all business segments. Accordingly, business segment information is omitted.

Geographical segment information

For the year ended December 2004 (January 1 – December 31, 2004) and 2005 (January 1 – December 31, 2005), the Company had no consolidated subsidiaries domiciled outside Japan. Accordingly, there is no geographical segment information.

Overseas sales

For the year ended December 2004 (January 1 – December 31, 2004) and 2005 (January 1 – December 31, 2005), the Company had no sales outside Japan, therefore this section is omitted.

(Transaction with related parties)

December 2004 term

(1) Parent company and primary institutional shareholders

| December 31; Millions of yen | Address | Capital | Type of business or occupation | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---|---------------------|---------------|-----------------------------------|---|-----------------------------|--------------------------|--------------------------|------------------------------|---------------------------|
| | | | | % of voting rights held (held by others) | Shareholder and director | | | | |
| Other affiliated company | | | | | | | | | |
| McDonald's Restaurant Operations, Inc. | Delaware, U.S.A. | US\$ 3,000 | Holding company | Owned: Direct 22.43 | - | - Borrowings of funds | - | Long-term Borrowings | 500 |

(2) Directors and major individual shareholders, etc.

| December 31; Millions of yen | Address | Capital | Type of business or occupation | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---|---------------------|---------|--|---|-----------------------------|------------------------------------|---|---------------------------------------|---------------------------|
| | | | | % of voting rights held (held by others) | Shareholder and director | | | | |
| Companies with majority of voting rights owned by major individual shareholders or close relatives of major individual shareholder | | | | | | | | | |
| Fujita & Co., Ltd. | Minato-ku, Tokyo | 70 | Importing of luxury goods and clothing from the U.S. and Europe | - | - | Rental of stores and offices | Rental fees and deposits and guarantees for stores | 7 Prepaid expenses | 1 |
| Den Fujita Kosan, Inc. | Minato-ku, Tokyo | 187 | Real estate | - | - | Rental of stores and offices | Deposits and guarantees for buildings | - Rental and guarantee deposits | 84 |
| | | | | | | Rental fees for stores | 42 Prepaid expenses | | 3 |
| Major individual shareholders and close relatives of major individual shareholders | | | | | | | | | |
| Etsuko Fujita, Spouse of major individual shareholder Den Fujita | - | - | Director, Fujita & Co., Ltd. | Owned: Direct 10.06 | - | - | Rent for company housing | 0 | - |
| Gen Fujita, Son of major individual shareholder Den Fujita | - | - | Director, Fujita & Co., Ltd. | Owned: Direct 6.92 | - | - | Rent for company housing, etc. | 2 Prepaid expenses | 0 |

Note: Messrs. Den Fujita and Gen Fujita retired as director of the Company as of March 28, 2003. Mr. Den Fujita is a major individual shareholder in the fiscal term.

(3)Subsidiaries

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---------------------------------|---------------------|---------|-----------------------------------|---|-----------------------------|--------------------------|--------------------------|--------------------------|------------------------------|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Affiliated company | | | | | | | | | | |
| Pret A Manger (Japan), Inc. | Minato-ku, Tokyo | - | Sandwich chain | - | - | - | -Lending of funds | 650 | - | - |
| | | | | | | | Rent for stores, etc. | 39 | - | - |

Note: The allowance for doubtful account is set on the long-term loans to Pret A Manger (Japan), Inc. for whole balance.

Policies regarding transaction conditions

1. Consumption tax is included in the year-end balances but not in the transaction amounts listed in (1)–(3) above.
2. The amount of lease payments for stores and offices, and residential rental payments paid to Fujita & Co., Ltd. and Den Fujita Kosan are determined by referring to corresponding rents in the geographic vicinity.
3. The interest rate applied in the loan to Pret A Manger (Japan), Inc. is calculated based on the market rate of interest.
4. The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

Reference (Transaction with related parties)

December 2004 Term

Transactions between parties affiliated with both the Company and its consolidated subsidiary, McDonald's Company (Japan) Ltd. (affiliated party relationships on a consolidated basis) are as follows:

(1) Parent company and primary institutional shareholders

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transaction s | Accounting classification | Balance at term end |
|---|---------------------|--------------------|--------------------------------------|---|-----------------------------|---|--|------------------------------|------------------------------------|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Parent company | | | | | | | | | | |
| McDonald's Corporation | Illinois, U.S.A. | US\$ 16,600,000 | Hamburger restaurant chain | Owned: Indirect 49.99 | 4 | Licensing consent based on a licensing contract | Royalties | 9,900 | Accounts payable - other | 5,066 |
| | | | | | | | Accrued Income etc. | 1,411 | Others (current assets) | 733 |
| | | | | | | | Advertising expenses and salaries of seconded staff etc. | 851 | Others (current liabilities) | 799 |
| Other affiliated company | | | | | | | | | | |
| McDonald's Restaurant Operations, Inc. | Delaware, U.S.A. | US\$ 3,000 | Holding company | Owned: Direct 22.43 | - | - | --Borrowings of funds | - | Long-tem borrowings | 500 |

(2) Directors and major individual shareholders, etc.

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|--|---------------------|---------|---|---|-----------------------------|---|---|--------------------------|---------------------------------------|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Companies with majority of voting rights owned by major individual shareholders or their close relative | | | | | | | | | | |
| Fujita & Co., Ltd. | Minato-ku, Tokyo | 70 | Importing of luxury goods and clothing from the U.S. and Europe | None | - | - | Rent for stores | 8 | Prepaid expenses | 1 |
| Den Fujita & Co., Ltd | Minato-ku, Tokyo | 50 | Trading | None | - | Importing of building materials for stores | Import of materials for stores | 1,906 | - | - |
| Den Fujita Kosan Ltd. | Minato-ku, Tokyo | 187 | Real estate | None | - | Leasing of stores and offices | Office leases | 43 | Prepaid expenses | 3 |
| | | | | | | | Deposits and guarantees for buildings | - | Rental and guarantee deposits - | 84 |
| Close relatives of major individual shareholders | | | | | | | | | | |
| Etsuko Fujita, Major individual shareholder | - | - | Director, Fujita & Co., Ltd. | Owned: Direct 10.06 | - | - | Rent for company housing | 1 | - | - |
| Gen Fujita, Son of major individual shareholder Etsuko Fujita | - | - | Director, Fujita & Co., Ltd. | Owned: Direct 6.92 | - | - | Rent for company housing | 2 | Prepaid expenses | 0 |

Note: Ms. Etsuko Fujita became a major individual shareholder of the Company by inheritance during the fiscal term.

(3) Subsidiaries

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---------------------------------|---------------------|---------|-----------------------------------|---|-----------------------------|--------------------------|--|--------------------------|------------------------------|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Affiliated company | | | | | | | | | | |
| Pret A Manger (Japan), Inc. | Minato-ku, Tokyo | - | Sandwich chain | - | - | - | Lending of funds | 650 | - | - |
| | | | | | | | Rent for stores, etc. | 39 | - | - |
| | | | | | | | Advances for employees' salaries | 6 | - | - |

Note: As a result of application of equity method, the long-term loan to Pret A Manger (Japan), Inc. is zero balance on the consolidated balance sheet.

Policies regarding transaction conditions

- Consumption tax is included in the year-end balances but not in the transaction amounts listed in (1)–(3) above.
- McDonald's Company (Japan), Ltd., a consolidated company, has concluded the License Agreement with McDonald's Corporation, under which royalties are paid in the amount of 2.5% of systemwide sales (total sales of company-operated and franchised stores).
- The amount of lease payments for stores and offices, and residential rental payments paid to Fujita & Co., Ltd. and Den Fujita Kosan are determined by referring to corresponding rents in the geographic vicinity.
- The transaction with the importer Den Fujita Co., Ltd. has been terminated during this fiscal year.
- The interest rate applied in the loan to Pret A Manger (Japan), Inc. is calculated based on the market rate of interest.
- The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

(Transaction with related parties)

December 2005 term

(1) Parent company and primary institutional shareholders

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---|---------------------|---------------|-----------------------------------|---|-----------------------------|--------------------------|------------------------|--------------------------|------------------------------|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Other affiliated company | | | | | | | | | | |
| McDonald's Restaurant Operations, Inc. | Delaware, U.S.A. | US\$ 3,000 | Holding company | Owned: Direct 22.43 | - | - | - | - | Long-term borrowings | 500 |

(2) Directors and major individual shareholders, etc.

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|---|---------------------|---------|---|---|-----------------------------|------------------------------------|--|--------------------------|--|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Companies with majority of voting rights owned by major individual shareholders or close relatives of major individual shareholder | | | | | | | | | | |
| Fujita & Co., Ltd. | Minato-ku, Tokyo | 70 | Importing of luxury goods and clothing from the U.S. and Europe | - | - | Rental of stores and offices | Rental fees and deposits and guarantees for stores | 1 | Prepaid expenses | 0 |
| Den Fujita Kosan Ltd. | Minato-ku, Tokyo | 187 | Real estate | - | - | Rental of stores and offices | Deposits and guarantees for buildings Rental fees for stores | - 23 | Rental and guarantee deposits Prepaid expenses | 84 3 |

Policies regarding transaction conditions

- Consumption tax is included in the year-end balances but not in the transaction amounts listed in (1)–(3) above.
- The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.
- A representative of Den Fujita Kosan Ltd. and Fujita & Co., Ltd. is a close relative of Etsuko Fujita who had been a major individual shareholder of the Company. Etsuko Fujita is not a major individual shareholder after July 27, 2005, therefore, the value of transaction is the sum of transactions from January 1 to July 31, 2005 and the balance at term end is a balance as of July 31, 2005.
- The amount of lease payments for stores and offices, and residential rental payments paid to Fujita & Co., Ltd. and Den Fujita Kosan are determined by referring to corresponding rents in the geographic vicinity.

Reference (Transaction with related parties)

December 2005 term

Transactions between parties affiliated with both the Company and its consolidated subsidiary, McDonald's Company (Japan) Ltd. (affiliated party relationships on a consolidated basis) are as follows:

(1) Parent company and primary institutional shareholders

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transaction s | Accounting classification | Balance at term end |
|---------------------------------|---------------------|--------------------|--------------------------------------|---|-----------------------------|---|-------------------------------------|------------------------------|---|---------------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Other affiliated company | | | | | | | | | | |
| McDonald's Corporation | Illinois, U.S.A. | US\$ 16,600,000 | Hamburger restaurant chain | Owned: Indirect 49.99 | 3 | Licensing consent based on a licensing contract | Royalties Accrued Income etc. | 10,295 1,453 | Accounts payable - other Others (current assets) | 5,284 752 |

| | | | | | | | | | |
|--|------------------|------------|-----------------|---------------------|---|--|-------|------------------------------|-------|
| | | | | | | Advertising expenses and salaries of seconded staff etc. | 1,189 | Others (current liabilities) | 1,094 |
| Other affiliated company | | | | | | | | | |
| McDonald's Restaurant Operations, Inc. | Delaware, U.S.A. | US\$ 3,000 | Holding company | Owned: Direct 22.43 | - | -Borrowings | - | Long-tem borrowings | 500 |

(2) Directors and major individual shareholders, etc.

| December 31; Millions of yen | Address | Capital | Type of business or occupation | % of voting rights held (held by others) | Relationship | | Type of transaction | Value of transactions | Accounting classification | Balance at term end |
|--|------------------|---------|---|--|--------------------------|-------------------------------|--|-----------------------|--|---------------------|
| | | | | | Shareholder and director | Business relationship | | | | |
| Companies with majority of voting rights owned by major individual shareholders or their close relative | | | | | | | | | | |
| Fujita & Co., Ltd. | Minato-ku, Tokyo | 70 | Importing of luxury goods and clothing from the U.S. and Europe | - | - | Rental stores and offices | Leasing fees for stores | 1 | Prepaid expenses | 0 |
| Den Fujita Kosan, Inc. | Minato-ku, Tokyo | 187 | Real estate | - | - | Leasing of stores and offices | Deposits and guarantees for buildings Office leases | - 23 | Deposits and guarantees Prepaid expenses- | 84 3 |

Policies regarding transaction conditions

- Consumption tax is included in the year-end balances but not in the transaction amounts listed in (1)–(3) above.
- McDonald's Company (Japan), Ltd., a consolidated company, has concluded the License Agreement with McDonald's Corporation, under which royalties are paid in the amount of 2.5% of systemwide sales (total sales of company-operated and franchised stores).
- The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.
- A representative of Den Fujita Kosan Ltd. and Fujita & Co., Ltd. is a close relative of Etsuko Fujita who had been a major individual shareholder of the Company. Etsuko Fujita is not a major individual shareholder after July 27, 2005, therefore, the value of transaction is the sum of transactions from January 1 to July 31, 2005 and the balance at term end is a balance as of July 31, 2005.
- The amount of lease payments for stores and offices, and residential rental payments paid to Fujita & Co., Ltd. and Den Fujita Kosan are determined by referring to corresponding rents in the geographic vicinity.

(Per share-related financial information)

| Yen | December 31, 2004 | December 31, 2005 |
|---|-------------------|---|
| Shareholders' equity per share | 1,054.26 | 1,022.15 |
| Net loss per share | 27.68 | 0.46 |
| No amounts for fully diluted earnings per share have been shown because the Company had neither bonds with warrants nor convertible bonds outstanding in the year to December 2004. | | No amounts for fully diluted earnings per share have been shown because the Company had neither bonds with warrants nor convertible bonds outstanding in the year to December 2005. |

(Note)

Net loss per share is calculated based on the following information.

| Millions of yen | December 31, 2004 | December 31, 2005 |
|---|-------------------|-------------------|
| Net income (loss) | 3,680 | 60 |
| Income not available to common stockholders | - | - |

| | | |
|--|---------|---------|
| Income available to common stockholders | 3,680 | 60 |
| Average number of common shares outstanding (thousands shares) | 132,959 | 132,959 |

(Important matters occurring subsequent to report period)

Not applicable

5. Sales

McDonald's Company (Japan) Ltd., the Company's consolidated subsidiary derives its revenue from the development of company-operated McDonald's hamburger restaurants and from royalties paid by franchised stores. The Composition of sales, sales of company-operated stores by geographic region, and number of company-operated stores are shown below.

Sales

(1) Sales results by division

| Millions of yen | December 31, 2004 | | December 31, 2005 | |
|-------------------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Company-operated store sales | | | | |
| Sandwiches | 114,016 | 37.0 | 121,939 | 37.4 |
| Desserts | 63,711 | 20.7 | 74,837 | 23.0 |
| Drinks | 79,997 | 26.0 | 75,410 | 23.2 |
| Breakfasts | 5,945 | 1.9 | 9,478 | 2.9 |
| Breakfast desserts | 6,009 | 2.0 | 8,029 | 2.5 |
| Others | 6,413 | 2.0 | 6,219 | 1.9 |
| | 276,094 | 89.6 | 295,914 | 90.9 |
| Franchise revenue | 30,479 | 9.9 | 28,435 | 8.7 |
| Others | 1,504 | 0.5 | 1,305 | 0.4 |
| | 308,079 | 100.0 | 325,655 | 100.0 |

(Notes)

1. The above does not include consumption taxes.
2. The portion of sales from franchised restaurants is not included in the amounts shown as company-operated store sales.
3. Sales amounts shown under franchise revenue include royalties, rental fees, sales promotion expenses, and proceeds from the sale of stores.
4. Sandwiches consists of burgers including hamburgers, cheeseburgers, Big Macs, Filet-O-Fish, Teriyaki Mcburger, etc.
5. "Others" sales consists of revenue from service fees.

(2) Company-operated store sales and number of stores by geographic region.

| Millions of yen | December 31, 2004 | | | December 31, 2005 | | |
|-----------------|-------------------|----------------|-------------------------|-------------------|----------------|-------------------------|
| | No. of stores | Amount | Percentage of total (%) | No. of stores | Amount | Percentage of total (%) |
| Hokkaido | 67 | 5,644 | 2.0 | 71 | 6,103 | 2.1 |
| Aomori | 11 | 985 | 0.4 | 12 | 1,106 | 0.4 |
| Iwate | 16 | 1,146 | 0.4 | 16 | 1,224 | 0.4 |
| Miyagi | 43 | 4,278 | 1.5 | 42 | 4,425 | 1.5 |
| Akita | 14 | 1,076 | 0.4 | 14 | 1,121 | 0.4 |
| Yamagata | 18 | 1,343 | 0.5 | 18 | 1,437 | 0.5 |
| Fukushima | 22 | 1,869 | 0.7 | 24 | 2,064 | 0.7 |
| Ibaraki | 76 | 6,900 | 2.5 | 76 | 7,263 | 2.4 |
| Tochigi | 49 | 3,868 | 1.4 | 49 | 4,109 | 1.4 |
| Gunma | 48 | 3,961 | 1.4 | 50 | 4,009 | 1.3 |
| Saitama | 136 | 13,080 | 4.7 | 146 | 14,212 | 4.8 |
| Chiba | 128 | 13,727 | 5.0 | 135 | 14,477 | 4.9 |
| Tokyo | 397 | 53,247 | 19.3 | 399 | 55,317 | 18.7 |
| Kanagawa | 226 | 26,206 | 9.5 | 244 | 28,045 | 9.5 |
| Niigata | 25 | 2,062 | 0.8 | 30 | 2,279 | 0.8 |
| Toyama | 23 | 1,957 | 0.7 | 23 | 2,069 | 0.7 |
| Ishikawa | 17 | 1,584 | 0.6 | 17 | 1,668 | 0.6 |
| Fukui | 14 | 1,270 | 0.5 | 16 | 1,383 | 0.5 |
| Yamanashi | 24 | 2,115 | 0.8 | 26 | 2,185 | 0.7 |
| Nagano | 51 | 3,581 | 1.3 | 52 | 3,747 | 1.3 |
| Gifu | 50 | 4,159 | 1.5 | 50 | 4,405 | 1.5 |
| Shizuoka | 72 | 5,839 | 2.1 | 80 | 6,600 | 2.2 |
| Aichi | 201 | 17,867 | 6.5 | 209 | 19,747 | 6.7 |
| Mie | 44 | 3,495 | 1.3 | 45 | 3,680 | 1.2 |
| Shiga | 48 | 4,138 | 1.5 | 49 | 4,426 | 1.5 |
| Kyoto | 76 | 7,809 | 2.8 | 77 | 8,517 | 2.9 |
| Osaka | 246 | 28,128 | 10.2 | 249 | 30,196 | 10.2 |
| Hyogo | 110 | 11,325 | 4.1 | 112 | 12,334 | 4.2 |
| Nara | 33 | 2,984 | 1.1 | 33 | 3,299 | 1.1 |
| Wakayama | 18 | 1,539 | 0.6 | 21 | 1,725 | 0.6 |
| Tottori | 2 | 227 | 0.1 | 2 | 238 | 0.1 |
| Shimane | 2 | 190 | 0.1 | 3 | 270 | 0.1 |
| Okayama | 27 | 2,863 | 1.0 | 27 | 3,061 | 1.0 |
| Hiroshima | 42 | 4,478 | 1.6 | 46 | 4,957 | 1.7 |
| Yamaguchi | 18 | 1,575 | 0.6 | 18 | 1,651 | 0.6 |
| Tokushima | 13 | 1,486 | 0.5 | 13 | 1,591 | 0.5 |
| Kagawa | 20 | 2,008 | 0.7 | 21 | 2,087 | 0.7 |
| Ehime | 29 | 2,355 | 0.8 | 29 | 2,597 | 0.9 |
| Kochi | 5 | 599 | 0.2 | 5 | 654 | 0.2 |
| Fukuoka | 85 | 8,322 | 3.0 | 89 | 9,273 | 3.1 |
| Saga | 12 | 922 | 0.3 | 12 | 953 | 0.3 |
| Nagasaki | 13 | 1,188 | 0.4 | 14 | 1,335 | 0.4 |
| Kumamoto | 33 | 3,173 | 1.1 | 35 | 3,609 | 1.2 |
| Oita | 18 | 2,144 | 0.8 | 18 | 2,231 | 0.7 |
| Miyazaki | 15 | 1,261 | 0.5 | 16 | 1,408 | 0.5 |
| Kagoshima | 17 | 1,882 | 0.7 | 18 | 1,956 | 0.7 |
| Okinawa | 32 | 4,215 | 1.5 | 34 | 4,850 | 1.6 |
| | 2,686 | 276,094 | 100.0 | 2,785 | 295,914 | 100.0 |

(Notes)

1. The number of stores shown above is the number of stores as of the final day of the term under review.
2. The above does not include consumption taxes.
3. The number of stores and sales amounts shown above do not include the franchised stores' portion.

Financial Results Report

for the December 2005 Term (Nonconsolidated)

February 10, 2006

McDonald's Holdings Company (Japan), Ltd.

Company code number: 2702 (URL <http://www.mcd-holdings.co.jp/>)
 Shares traded: JASDAQ
 Location of headquarters: Tokyo
 Executive position of legal representative: Eikoh Harada
 President and Representative Director
 Please address all communications to: **Yoshiichiroh Ooka**
 Senior Vice President, Chief Financial Officer
 Phone: (03) 6911-6061

Date of Board of Directors' meeting for approval of financial results: February 10, 2006
 Date of regular general meeting of shareholders: March 27, 2006
 Adoption of system of interim dividends: Yes
 Application of unit trading system: Yes (100 shares per unit)

1. Nonconsolidated operating results

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

(1) Nonconsolidated financial results

(In millions of yen, with fractional amounts discarded)
 (The number with parenthesis shows negative figure)

| | Net sales | | Operating income | | Ordinary income | |
|-------------------|-------------------|-------|-------------------|------|-------------------|------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| December 31, 2005 | 50,796 | (0.6) | 1,574 | 24.0 | 1,079 | 29.7 |
| December 31, 2004 | 51,122 | (3.8) | 1,269 | 16.6 | 832 | 49.1 |

| | Net income (loss) | | Net income (loss) per share | Net income (loss) per share, fully diluted | Return on shareholders' equity | Ratio of ordinary income to total assets | Ratio of ordinary income to net sales |
|-------------------|-------------------|------|-----------------------------|--|--------------------------------|--|---------------------------------------|
| | (Millions of yen) | % | (Yen) | (Yen) | % | % | % |
| December 31, 2005 | 790 | 16.2 | 5.94 | - | 0.6 | 0.7 | 2.1 |
| December 31, 2004 | 680 | - | 5.11 | - | 0.5 | 0.5 | 1.6 |

(Notes)

- Average number of outstanding shares during term:
 December 2005 term: 132,959,852 shares December 2004 term: 132,959,871 shares
- Changes in accounting methods: None
- The percentages shown next to net sales, operating income, ordinary income and net income (loss) represent year-on-year changes.

(2) Dividends

| | Annual dividends per share | | | Dividend payment (Millions of yen) | Dividend payout ratio % | The ratio of dividend to shareholders' equity % |
|-------------------|----------------------------|-------------------------|-------------------|---------------------------------------|----------------------------|--|
| | (Yen) | Interim period (Yen) | Term end (Yen) | | | |
| December 31, 2005 | 30.00 | - | 30.00 | 3,988 | 504.9 | 2.9 |
| December 31, 2004 | 30.00 | - | 30.00 | 3,988 | 586.5 | 2.8 |

(3) Nonconsolidated financial position

| | Total assets (Millions of yen) | Shareholders' equity (Millions of yen) | Equity ratio % | Shareholders' equity per share (Yen) |
|-------------------|-----------------------------------|---|-------------------|---|
| December 31, 2005 | 149,235 | 139,397 | 93.4 | 1,048.42 |
| December 31, 2004 | 154,988 | 142,937 | 92.2 | 1,075.04 |

(Notes)

Number of outstanding shares at end of term:

December 2005 term: 132,959,852 shares

December 2004 term: 132,959,852 shares

Number of treasury stock at end of term:

December 2005 term: 148 shares

December 2004 term: 148 shares

2. Nonconsolidated forecasts for December 2005 term

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

| | Net sales (Millions of yen) | Ordinary income (Millions of yen) | Net income (Millions of yen) | Annual dividends per share | | |
|----------------|--------------------------------|--------------------------------------|---------------------------------|----------------------------|-------------------|-------|
| | | | | Interim period (Yen) | Term end (Yen) | (Yen) |
| Interim period | 25,500 – 27,500 | 100 – 1,000 | 100 – 800 | 0 | - | - |
| Annual | 52,000 – 55,000 | 500 – 2,000 | 300 – 1,500 | - | 30.00 | 30.00 |

(N.b.) Estimated earnings per share (annual): 2.26 – 11.28 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. In addition, above figures do not contain the impact of impairment accounting application.

6. Nonconsolidated Financial Statements

1. Nonconsolidated balance sheet

| Millions of yen | Notes | December 31, 2004 | % | December 31, 2005 | % | Year-on-year change |
|---|-------|-------------------|-------|-------------------|-------|---------------------|
| Current assets | | | | | | |
| Cash and deposits | | 289 | | 261 | | |
| Accounts receivable - trade | 6 | 4,365 | | 4,465 | | |
| Securities | 1 | - | | 416 | | |
| Prepaid expenses | | 2,172 | | 2,209 | | |
| Deferred tax assets | 6 | - | | 55 | | |
| Short-term loans receivable | | 12,500 | | 14,000 | | |
| Others | | 159 | | 34 | | |
| | | <u>19,487</u> | 12.6 | <u>21,442</u> | 14.4 | 1,955 |
| Fixed assets | | | | | | |
| Tangible fixed assets | | | | | | |
| | 5 | | | | | |
| Buildings | | 68,595 | | 65,454 | | |
| Accumulated depreciation | | <u>43,651</u> | | <u>44,004</u> | | |
| | | 24,944 | | 21,449 | | |
| Structures | | 7,239 | | 6,965 | | |
| Accumulated depreciation | | <u>4,746</u> | | <u>4,782</u> | | |
| | | 2,493 | | 2,182 | | |
| Tools, appliances and fixtures | | 82 | | 82 | | |
| Accumulated depreciation | | <u>78</u> | | <u>80</u> | | |
| | | 3 | | 2 | | |
| Land | 8 | <u>16,820</u> | | <u>16,820</u> | | |
| | | 44,261 | 28.5 | 40,455 | 27.1 | (3,805) |
| Intangible fixed assets | | | | | | |
| Leaseholds | | 729 | | 729 | | |
| Software | | 3,263 | | 3,210 | | |
| Telephone subscription rights | | <u>48</u> | | <u>48</u> | | |
| | | 4,040 | 2.6 | 3,988 | 2.7 | (52) |
| Investments and other assets | | | | | | |
| Investments in securities | 1 | 7,561 | | 6,567 | | |
| Shares of affiliated companies | | 1,572 | | 1,160 | | |
| Investments in affiliated companies | | 229 | | 206 | | |
| Long-term loans receivable | | 58 | | 35 | | |
| Claims in bankruptcy and substantial bankruptcy | | 956 | | 892 | | |
| Long-term prepaid expenses | | 933 | | 1,034 | | |
| Deferred tax assets | | 2,219 | | 1,886 | | |
| Deferred tax assets due to revaluation | 8 | 1,925 | | 1,925 | | |
| Leasing and guarantee deposits | | 72,153 | | 69,898 | | |
| Others | 1 | 733 | | 812 | | |
| Allowance for doubtful accounts | | <u>(1,145)</u> | | <u>(1,071)</u> | | |
| | | 87,198 | 56.3 | 83,349 | 55.8 | (3,849) |
| Total fixed assets | | <u>135,500</u> | 87.4 | <u>127,793</u> | 85.6 | (7,707) |
| Total assets | | <u>154,988</u> | 100.0 | <u>149,235</u> | 100.0 | (5,752) |

| Millions of yen | Notes | December 31, 2004 | % | December 31, 2005 | % | Year-on-year change |
|---|-------|-------------------|-------|-------------------|-------|---------------------|
| Current liabilities | | | | | | |
| Accounts payable - trade | | 631 | | 636 | | |
| Short-term loans payable | | 5,000 | | 3,500 | | |
| Current portion of long-term loans payable | | 1,250 | | - | | |
| Accounts payable - other | 6 | 4,116 | | 4,506 | | |
| Accounts expenses payable | | 10 | | 17 | | |
| Income taxes payable | | - | | 141 | | |
| Deferred Tax Liabilities | | 50 | | - | | |
| Consumption taxes payable | | 111 | | 214 | | |
| Allowance for bonuses | | 0 | | 0 | | |
| Others | | 71 | | 24 | | |
| | | <u>11,242</u> | 7.3 | <u>9,041</u> | 6.1 | (2,200) |
| Long-term liabilities | | | | | | |
| Long-term loans payable relating to affiliates | | 500 | | 500 | | |
| Allowance for directors' retirement | | 43 | | 23 | | |
| Guarantee deposits received | | 264 | | 273 | | |
| | | <u>807</u> | 0.5 | <u>796</u> | 0.5 | (11) |
| | | <u>12,050</u> | 7.8 | <u>9,837</u> | 6.6 | (2,212) |
| Shareholders' equity | | | | | | |
| Common stock | 2 | 24,113 | 15.5 | 24,113 | 16.2 | |
| Capital reserves | | | | | | |
| Additional paid-in capital | | <u>42,124</u> | | <u>42,124</u> | | |
| | | <u>42,124</u> | 27.2 | <u>42,124</u> | 28.2 | |
| Retained earnings | | | | | | |
| Legal income reserves | | 253 | | 253 | | |
| Unappropriated retained earnings, end of term | | 75,270 | | 72,072 | | |
| | | <u>75,523</u> | 48.7 | <u>75,325</u> | 48.5 | (3,198) |
| Revaluation account for land | 8 | (2,806) | (1.8) | (2,806) | (1.9) | - |
| Unrecognized holding gain on other securities | | 3,983 | 2.6 | 3,641 | 2.4 | (341) |
| Treasury stock | 3 | (0) | (0.0) | 0 | (0) | - |
| | | <u>142,937</u> | 92.2 | <u>139,397</u> | 93.4 | (3,540) |
| Total liabilities and shareholders' equity | | <u>154,988</u> | 100.0 | <u>149,235</u> | 100.0 | (5,752) |

2. Nonconsolidated statement of income

| Millions of yen | Notes | Year ended December 31, 2004 | % | Year ended December 31, 2005 | % | Year-on-year change |
|--|-------|---------------------------------|-------|---------------------------------|-------|------------------------|
| Sales | 3 | 51,122 | 100.0 | 50,796 | 100.0 | (326) |
| Cost of sales | | 47,853 | 93.6 | 47,438 | 93.4 | (414) |
| Gross profit on sales | | 3,269 | 6.4 | 3,357 | 6.6 | 88 |
| Selling, general and administrative expenses | 1 | 1,999 | 3.9 | 1,783 | 3.5 | (216) |
| Operating income | | 1,269 | 2.5 | 1,574 | 3.1 | 304 |
| Nonoperating income | | | | | | |
| Interest income | 3 | 246 | | 238 | | |
| Dividend income | | 115 | | 109 | | |
| Compensation for interruption of business at stores | | 101 | | 123 | | |
| Revenue from unredeemed gift certificates | | 86 | | - | | |
| Others | | 183 | | 116 | | |
| | | 733 | 1.4 | 588 | 1.1 | (145) |
| Nonoperating expenses | | | | | | |
| Interest expenses | | 46 | | 19 | | |
| Provision for allowance for doubtful accounts | | 132 | | - | | |
| Loss on disposal of fixed assets at stores | | 802 | | 1,035 | | |
| Penalty paid to landlord | | 120 | | - | | |
| Others | | 68 | | 28 | | |
| | | 1,171 | 2.3 | 1,083 | 2.1 | (87) |
| Ordinary income | | 832 | 1.6 | 1,079 | 2.1 | 247 |
| Extraordinary income | | | | | | |
| Gain on revision of earnings from previous term | | 26 | | - | | |
| Gain on reversal of allowance for losses on restaurant closures | | 156 | | - | | |
| Gain on reversal of allowance for liquidation of affiliate company | | 273 | | - | | |
| Gain on reversal of doubtful accounts | | - | | 47 | | |
| Gain on sales of fixed assets | 4 | 26 | | - | | |
| Gain on sale of investment securities | | 228 | | - | | |
| Compensation for relocation of stores | | 66 | | 230 | | |
| | | 777 | 1.5 | 277 | 0.6 | (499) |
| Extraordinary losses | | | | | | |
| Loss on disposal of fixed assets | 2 | 436 | | 97 | | |
| Loss on office relocation | 5 | 81 | | - | | |
| | | 518 | 1.0 | 97 | 0.2 | (421) |
| Income before taxes and other adjustments | | 1,091 | 2.1 | 1,260 | 2.5 | 168 |
| Corporate, inhabitant and enterprises taxes | | 11 | | 8 | | |
| Deferred taxes | | 400 | | 461 | | |
| | | 411 | 0.8 | 470 | 0.9 | 58 |
| Net Income | | 680 | 1.3 | 790 | 1.6 | 109 |
| Retained earnings carried forward from previous term | | 74,592 | | 71,282 | | (3,310) |
| Disposition of revaluation account for land | | (1) | | - | | (1) |
| Unappropriated retained earnings, end of term | | 75,270 | | 72,072 | | (3,198) |

3. Proposal for appropriation of retained earnings

| Millions of yen | December 31, 2004 | December 31, 2005 | Year-on-year change |
|--|--------------------------|--------------------------|----------------------------|
| Unappropriated retained earnings, end of term | 75,270 | 72,072 | (3,198) |
| | 75,270 | 72,072 | (3,198) |
| Appropriation of retained earnings | | | |
| Dividends | *Notes 3,988 | 3,988 | - |
| Retained earnings carried forward to next term | 71,282 | 68,083 | (3,198) |

Dividends in 2004 and 2005 are calculated based on the number of shares excluding the treasury stock.

Significant accounting policies

| Item | December 31, 2004 | December 31, 2005 |
|--|--|--|
| 1. Standards and methods of valuation for marketable and investment securities | (1) Bonds held to maturity: Cost amortization method (straight line) | (1) Bonds held to maturity: Same as December 31, 2004 |
| | (2) Shares in subsidiaries and affiliates: Valued at cost using the periodic average method | (2) Shares in subsidiaries and affiliates: Same as December 31, 2004 |
| | (3) Other securities: Quoted securities: market price method based on closing prices on the date of the closing of accounts (all differences are credited or debited directly to the shareholders' equity account; sales prices are calculated on the basis of average cost) Unquoted securities: valued at cost using the periodic average method | (3) Other securities: Same as December 31, 2004 |
| 2. Major depreciable assets and methods of depreciation | (1) Tangible fixed assets: straight-line method Years of useful life for principal assets: Buildings and structures: 2 – 50 years Tools, appliances and fixtures: 2 - 20 years | (1) Tangible fixed assets: straight-line method Same as December 31, 2004 |
| | (2) Intangible fixed assets: straight-line method For software used internally, the straight-line method is applied based on the period of expected use by the Company (5 years). | (2) Intangible fixed assets: straight-line method Same as December 31, 2004 |
| | (3) Long-term prepaid expenses: Straight-line method | (3) Long-term prepaid expenses: Same as December 31, 2004 |
| 3. Standards for important allowances | (1) Allowance for doubtful accounts To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a statutory deduction ratio for general accounts receivable plus an amount for specific accounts for which collection appears doubtful. | (1) Allowance for doubtful accounts Same as December 31, 2004 |
| | (2) Reserve for bonuses To provide for payments of bonuses to employees, the Company estimates amounts that will have to be paid and recognizes these required amounts. | (2) Reserve for bonuses Same as December 31, 2004 |
| | (3) Reserve for directors' retirement allowances Recognition of full amount of liability at term end based on employment regulations. | (3) Reserve for directors' retirement allowances Same as December 31, 2004 |
| 4. Other significant items associated with preparation of the financial statements | (1) Accounting for consumption taxes: Amounts shown are exclusive of consumption taxes. | Accounting for consumption taxes: Same as December 31, 2004 |

Changes in the method of presentation

| Millions of yen | December 31, 2004 | December 31, 2005 |
|-----------------|--|--|
| | <p>“Penalty paid to landlord” (53 million yen for the last fiscal year) was presented in “Others” in the Non-operating income section of statement of income until last fiscal year. However, the account is more than one-tenth of total Non-operating income this year and, therefore, account is designated in the statement.</p> | <p>“Penalty paid to landlord” was designated in the Non-operating income section of statement of income until last fiscal year. However, due to being immaterial in the amount this year end, it is included in “Others” in the statement. For reference, the amount of the account for this year is 18 million yen.</p> |

Notes

(Nonconsolidated balance sheet - related)

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|---|
| 1. Investment securities in the amount of 677 million yen and "other" assets in investments and other assets in the amount of 560 million yen are provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. The guarantee deposits are made as collateral for liabilities of McDonald's Company (Japan) Ltd., a consolidated subsidiary. | | 1. Securities in the amount of 416 million yen, investment securities in the amount of 250 million yen and "other" assets in investments and other assets in the amount of 640 million yen are provided as guarantee deposits for the issuing of gift certificates (McCard), as per the relevant laws regulating prepaid gift certificates. Liabilities collateralized by these guarantee deposits are advance receipts from customers in the amount of 469 million yen of McDonald's Company (Japan) Ltd., a consolidated subsidiary |
| 2. Number of shares authorized to be issued and outstanding shares Number of shares authorized to be issued 480,840,000 shares of common stock Number of outstanding shares 132,960,000 shares of common stock | | 2. Number of shares authorized to be issued and outstanding shares Number of shares authorized to be issued 480,840,000 shares of common stock Number of outstanding shares 132,960,000 shares of common stock |
| 3. The Company has 148 shares of its common stock as a treasury stock. | | 3. The Company has 148 shares of its common stock as a treasury stock. |
| 4. Contingent liabilities (1) Guarantees provided for borrowings from financial institutions by parties in which the Company has an equity stake: Toys"R"Us-Japan, Ltd. 3,480 (2) Guarantees provided for employees' mortgages from banks: 26 (4) Liabilities (security deposits held) assumed by McDonald's Company (Japan), Ltd. at the time of corporate separation: 694 | | 4. Contingent liabilities (1) Guarantees provided for borrowings from financial institutions by parties in which the Company has an equity stake: Toys"R"Us-Japan, Ltd. 3,304 (2) Guarantees provided for employees' mortgages from banks: 13 (3) Liabilities (security deposits held) assumed by McDonald's Company (Japan), Ltd. at the time of corporate separation: 566 |
| 5. Reductions of tangible fixed assets from gains on insurance claims were 130 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen. | | 5. Reductions of tangible fixed assets from gains on insurance claims were 82 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen. |
| 6. Note to affiliated companies Assets and liabilities at affiliated companies included in other items Accounts receivable 4,364 Short-term loans 12,500 Accounts payable - other 4,111 | | 6. Note to affiliated companies Assets and liabilities at affiliated companies included in other items Accounts receivable 4,465 Short-term loans 14,000 Accounts payable - other 4,500 |
| 7. Dividend restrictions Net assets increased by 3,983 million yen due to the market valuation of securities. As stipulated in Article 124-3 of the Commercial Code, the use of this amount for dividends is restricted. | | 7. Dividend restrictions Net assets increased by 3,641 million yen due to the market valuation of securities. As stipulated in Article 124-3 of the Commercial Code, the use of this amount for dividends is restricted. |
| 8. Revaluation of land As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity. Revaluation method: As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax. Date of revaluation: December 31, 2001 Differential between book value and post-revaluation market value of revalued land at end of term (3,846) | | 8. Revaluation of land As per the Law Regarding the Revaluation of Land (Public Law No. 34, March 31, 1998), land used for business purposes is revalued and any valuation differential is recorded under shareholders' equity. Revaluation method: As per Article 2-3 of the Implementation Order for the Revaluation of Land (Public Ordinance No. 119, March 31, 1998), the calculation was carried out using a rational adjustment based on the valuation amount for property tax. Date of revaluation: December 31, 2001 Differential between book value and post-revaluation market value of revalued land at end of term (4,037) |

(Nonconsolidated statement of income - related)

| Millions of yen | December 31, 2004 | December 31, 2005 |
|---|-------------------|---|
| 1. There is no selling expense for the year. Primary items and amounts included under general and administrative expenses are as follows: | | 1. There is no selling expense for the year. Primary items and amounts included under general and administrative expenses are as follows: |
| (1) Directors' salaries | 204 | (1) Directors' salaries |
| (2) Provision for directors' retirement allowances | 22 | (2) Provision for directors' retirement allowances |
| (3) Expenses for subcontracted operations | 706 | (3) Outsourcing expenses |
| (4) Securities listing maintenance expenses | 293 | (4) Cost of preferential treatment to the shareholders |
| (5) Cost of preferential treatment to the shareholders | 518 | |
| 2. Breakdown of losses from removal of fixed assets | | 2. Breakdown of losses from removal of fixed assets |
| Buildings | 91 | Buildings |
| Structures | 3 | Structures |
| Tools, appliances and fixtures | 4 | Software |
| Software | 336 | |
| | <u>436</u> | |
| 3. Transactions with affiliated companies include the following | | 3. Transactions with affiliated companies include the following |
| Sales to affiliates | 50,888 | Sales to affiliates |
| Interest received | 159 | Interest received |
| 4. Breakdown of gain on sales of fixed assets are as follows: | | 4. |
| Land | 6 | |
| Buildings | <u>20</u> | |
| | 26 | |
| 5. Breakdown of losses related to closing of regional offices | | 5. |
| Restoration costs | 41 | |
| Disposal of fixed assets | 18 | |
| Cancellation penalty fee | <u>21</u> | |
| Total | 81 | |

(Marketable and investment securities)

There are no shares of subsidiaries or affiliates for which a market value exists as of December 31, 2004 and December 31, 2005.

(Deferred taxes)

1. Breakdown of primary causes of deferred tax assets and liabilities

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| Deferred tax assets | | |
| Enterprise taxes payable | - | 60 |
| Amount denied as special retirement allowances for directors | 17 | - |
| Excess over limit of allowance for doubtful accounts | 460 | 430 |
| Depreciation expenses | 258 | 261 |
| Loss carried forward | 4,087 | 3,526 |
| Others | 454 | 245 |
| | 5,227 | 4,524 |
| Deferred tax liabilities | | |
| Unrealized gains or losses on other securities | (2,732) | (2,498) |
| McCard miscellaneous income | (53) | - |
| Others | (323) | (83) |
| | (3,109) | (2,581) |
| Total deferred tax assets – net | 2,168 | 1,942 |

2. Causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting

| December 31, 2004 | | December 31, 2005 | |
|---|---------|---|---------|
| The detailed information about causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting in this fiscal year is shown below: | | The detailed information about causes of differences between legal effective tax rates and actual corporate tax rate after the application of tax-effect accounting in this fiscal year is shown below: | |
| Legal effective tax rate | 42.05% | Legal effective tax rate | 40.69% |
| <adjustment> | | <adjustment> | |
| Expenses not deductible for tax purposes (such as entertainment expenses) | 0.27% | Expenses not deductible for tax purposes (such as entertainment expenses) | 0.22% |
| Incomes not included for tax purposes (such as interests receivable) | (2.22%) | Incomes not included for tax purposes (such as interests receivable) | (4.41%) |
| Per capita rate of inhabitant tax | 1.02% | Per capita rate of inhabitant tax | 0.70% |
| Past adjustments | (5.99%) | Others | 0.10% |
| Effects of tax rate change | 3.25% | Income tax and others accompanying adoption of tax effect accounting | 37.30% |
| Others | (0.68%) | | |
| Income tax and others accompanying adoption of tax effect accounting | 37.70% | | |

(Per share-related financial information)

| Yen | December 31, 2004 | December 31, 2005 |
|---|-------------------|---|
| Shareholders' equity per share | 1,075.04 | Shareholders' equity per share 1,048.42 |
| Net loss per share | 5.11 | Net loss per share 5.94 |
| No amounts for fully diluted earnings per share have been shown because the Company had neither bonds with warrants nor convertible bonds outstanding in the year to December 2004. | | No amounts for fully diluted earnings per share have been shown because the Company had neither bonds with warrants nor convertible bonds outstanding in the year to December 2005. |

(Note)

Net loss per share is calculated based on the following information.

| Millions of yen | December 31, 2004 | December 31, 2005 |
|--|-------------------|-------------------|
| Net Income (loss) | 680 | 790 |
| Income not available to common shares | - | - |
| Income (loss) available to common shares | 680 | 790 |
| Average number of common shares outstanding (thousands shares) | 132,959 | 132,959 |

(Important matters occurring subsequent to report period)

Not applicable

7. Change in the board of directors

1. Change of representative director

Not applicable

2. Change of other directors

Not applicable