

# Consolidated Financial Results Report for the Nine Months ended September 30,2006

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

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

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

### 2. Consolidated operating results (From January 1, 2006 to September 30, 2006)

#### (1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

(The number with parenthesis shows negative figure)

	Sales revenues		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30,2006	264,892	10.2	6,012	253.9	4,789	292.8
September 30,2005	240,306	4.5	1,699	(61.2)	1,219	(70.9)
December 31,2005	325,655	5.7	3,210	(55.7)	2,859	(60.7)

	Net income		Net income per share		Net income per share, fully diluted
	(Millions of yen)	%	(Yen)		(Yen)
September 30,2006	1,318	—	9	91	—
September 30,2005	(137)	—	(1)	(4)	—
December 31,2005	60	(98.3)	0	46	—

(Notes)

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

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

In the area of our group's main business, hamburger restaurants, the company has been focused on its traditional strength of "value", "service", and "family" to improve QSC for further customer satisfaction. Our continuous efforts from the previous year to focus on 1) Value Strategy, 2) Strategic Menu Development, 3) Extended Operating Hours and 4) Strategic Store Development have won positive response from customers, which resulted in increase in both Customer Numbers and Average Check.

To further enhance "100 yen Mac", the foundation of the "Value Strategy", Triangular Chestnut Pie and Flavored Tea Selection have been newly introduced as regular menu.

For "Strategic Menu Development", the company has newly introduced "Chicken Salsa Sandwich", "Pita Mac", and "Roasted Sesame Ebi Filet-O" as 4th flavor menu, all of which had enjoyed a great popularity.

Starting from this summer the company has first implemented 24 hours operation for total of 313 restaurants for "Extended Operating Hours". Based on the through examination of the result, we will now focus on drive-through restaurants, where the greatest advantage of the company exists.

For "Strategic Store Development", the company has opened 49 new restaurants, closed 43 restaurants and remodeled 254 restaurants during this nine months. At the end of the third quarter, the total number of the restaurants is 3,808 (net increase of 6 from the previous fiscal year end).

The company is proactively involved in various social action programs such as food education, food safety activity, and to support Donald McDonald House.

As a result of the activities above mentioned, the company has achieved 2.7% increase of customer numbers comparable of existing restaurants and 6.4% increase of sales comparable. The company has achieved systemwide sales (total sales of McDonald's owned restaurant and franchised restaurant) of 329,559 million yen (8.1% increase from previous year), consolidated sales of 264,892 million yen (10.2% increase from previous year), consolidated ordinary income of 4,789 million yen (292.8% increase from previous year), and consolidated net income of 1,318 million yen. (137 million yen of net loss from previous year).

## (2) Consolidated financial position

(In millions of yen, with fractional amounts discarded)

	Total assets	Net assets	Total equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30,2006	185,918	129,639	69.7	975 03
September 30,2005	184,743	135,247	73.2	1,017 20
December 31,2005	190,370	135,905	71.4	1,022 15

## 【 Consolidated cash flow statement 】

(In millions of yen, with fractional amounts discarded)

(The number with parenthesis shows negative figure)

	Net cash (used in)/provided by operating activities	Net cash (used in)/provided by investing activities	Net cash(used in)/provided by financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
September 30,2006	12,399	(8,235)	(3,892)	11,523
September 30,2005	6,764	(3,840)	(1,150)	10,146
December 31,2005	15,304	(5,783)	(6,657)	11,251

## 【Qualitative information regarding the fluctuation in financial position (consolidated)】

Total assets as of September 30, 2006 was 185,918 million yen, decrease of 4,452 million yen from the last fiscal year end. The main causes for the decrease are as follows:

Decrease in investment securities of 2,207 million yen due to their declined unrealized gain etc.

Decrease in deferred tax assets due to revaluation of land of 1,925 million yen.

As of the end of the third quarter, cash and cash equivalents (hereinafter, "cash") stood at 11,523 million yen, increase of 271 million yen compared with the end of the previous year.

The cash flows situations at the end of the third quarter and the reasons of the changes in each activities are shown below.

(Cash flows provided by operating activities)

Operating activities resulted in a net cash inflow of 12,399 million yen (5,635 million yen of year-on-year increase in cash inflow). This was principally due to 2,833 million yen of increase in net income before tax and 2,086 million yen of impairment loss incurred in this period.

(Cash flows used in investing activities)

Investment activities resulted in a net cash outflow of 8,235 million yen (4,394 million yen of year-on-year increase in cash outflow). This was due to 3,781 million yen of increase in acquisition costs of equipment for remodeling and new openings of restaurants and 318 million yen of increase in costs for information system development.

(Cash flows used by financing activities)

Financial activities resulted in a net cash outflow of 3,892 million yen (2,742 million yen of year-on-year increase in cash outflow). This was primary due to 2,750 million yen of increase in cash outflow, which was total of 4,000 million yen of decrease in proceeds from net increase in short-term debt and 1,250 million yen of decrease in the payments of long-term debt.

### 3. Consolidated forecasts for December 2006 term

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

Based on the Company's business trend, forecasts for 2006 fiscal year is revised as below.

Please refer to "Revision in Financial Results for the Fiscal Year January 1 - December 31, 2006", which is separately released as of today.

#### 1. Revision of Consolidated Forecast for FY 2006

	Sales revenues	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous forecast (A)	343,000~355,000	3,500~6,000	1,000~2,500
Revised forecast (B)	352,000~356,000	5,000~6,500	1,500~2,500
Change (B-A)	Minimum 9,000 Maximum 1,000	Minimum 1,500 Maximum 500	Minimum 500
% change	Minimum +2.6% Maximum +0.3%	Minimum +42.9% Maximum +8.3%	Minimum +50.0%

(N.b.) Estimated earnings per share (annual) : 11yen 28sen ~ 18yen 80sen

#### 2. Reason for Revision

For the past two years, McDonald's Company, (Japan) Ltd., a subsidiary of McDonald's Holdings (Japan), Ltd., has made various investments to improve QSC and awareness of the employees to further improve customer satisfaction. In addition to those foundation, strategic initiatives such as Value, New Menu Development, Extended Operating Hours, and Store Development, have won customer's great recognition. This synergistic effect has resulted in continuous growth of both Customer Numbers and Average Check.

As a result, the Company enjoys a great trend as above mentioned in "Qualitative Information regarding the fluctuation in financial position (Consolidated)", and revises the range of the forecast as above.

\*Forecast above is created based on the information available as of today. Actual performance may vary from above forecasted figures due to various factors.

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

(Millions of yen)

	As of		As of		Increase (Decrease)		As of	
	September 30,2006	%	December 31,2005	%	Amount	Growth rate	September 30,2005	%
<b>(Assets)</b>								
<b>I Current assets</b>								
1. Cash and deposits	11,523		11,251		271	2.4	10,146	
2. Accounts receivable - trade	7,262		8,403		(1,140)	(13.6)	5,961	
3. Inventories	2,663		2,858		(194)	(6.8)	2,741	
4. Deferred tax assets	1,148		1,148		—	—	788	
5. Others	4,877		4,983		(106)	(2.1)	4,873	
6. Allowance for doubtful accounts	(80)		(80)		—	—	(73)	
Total current assets	27,394	14.7	28,564	15.0	(1,170)	(4.1)	24,437	13.2
<b>II Fixed assets</b>								
<b>1. Tangible fixed assets</b>								
(1) Buildings and structures	39,239		38,940		298	0.8	37,966	
(2) Machinery	7,729		8,589		(860)	(10.0)	8,747	
(3) Tools, appliances and fixtures	6,507		4,597		1,910	41.6	4,618	
(4) Land	17,187		16,820		366	2.2	16,820	
(5) Construction in progress	612		61		551	897.9	233	
Total tangible fixed assets	71,276	38.4	69,009	36.3	2,266	3.3	68,386	37.0
<b>2. Intangible fixed assets</b>								
(1) Goodwill	1,278		1,327		(48)	(3.7)	1,164	
(2) Others	3,815		3,993		(178)	(4.5)	3,768	
Total intangible fixed assets	5,094	2.7	5,321	2.8	(227)	(4.3)	4,933	2.7
<b>3. Investments and other assets</b>								
(1) Investments in securities	4,700		6,908		(2,207)	(32.0)	6,284	
(2) Long-term loans receivable	50		68		(17)	(26.3)	74	
(3) Deferred tax assets	4,585		3,615		969	26.8	4,328	
(4) Deferred tax assets due to revaluation of land	—		1,925		(1,925)	(100.0)	1,925	
(5) Rent deposits and guarantees	68,038		69,898		(1,860)	(2.7)	70,261	
(6) Others	5,851		6,131		(279)	(4.6)	5,268	
(7) Allowance for doubtful accounts	(1,072)		(1,074)		1	(0.1)	(1,157)	
Total investments and other assets	82,153	44.2	87,474	45.9	(5,321)	(6.1)	86,986	47.1
Total fixed assets	158,524	85.3	161,805	85.0	(3,281)	(2.0)	160,305	86.8
<b>Total assets</b>	<b>185,918</b>	<b>100.0</b>	<b>190,370</b>	<b>100.0</b>	<b>(4,452)</b>	<b>(2.3)</b>	<b>184,743</b>	<b>100.0</b>

(Notes)

Increases (Decrease) shows the difference between September 30, 2006 and December 31, 2005.

(Millions of yen)

	As of		As of		Increase (Decrease)		As of	
	September 30,2006	%	December 31,2005	%	Amount	Growth rate	September 30,2005	%
<b>(Liabilities)</b>								
<b>I Current liabilities</b>								
1. Notes and accounts payable	17,988		16,953		1,035	6.1	13,953	
2. Short-term loans payable	3,500		3,500		—	—	9,000	
3. Accounts payable - other	8,794		14,760		(5,965)	(40.4)	8,842	
4. Accrued expenses payable	8,347		8,164		182	2.2	7,194	
5. Accrued income taxes payable	1,673		185		1,488	802.9	202	
6. Allowance for employee bonuses	3,709		1,143		2,566	224.3	2,946	
7. Others	9,204		6,733		2,470	36.7	4,599	
Total current liabilities	53,217	28.6	51,441	27.0	1,776	3.5	46,738	25.3
<b>II Long-term liabilities</b>								
1. Long-term loans payable	500		500		—	—	500	
2. Employees' retirement benefits	1,556		1,347		209	15.6	1,092	
3. Reserve for directors' retirement allowances	70		50		20	40.8	43	
4. Deposit received for guarantees	340		1,126		(786)	(69.8)	1,121	
5. Deferred tax liabilities due to revaluation of land	508		—		508	—	—	
6. Others	85		—		85	—	—	
Total long-term liabilities	3,061	1.7	3,023	1.6	37	1.2	2,757	1.5
<b>Total liabilities</b>	<b>56,278</b>	<b>30.3</b>	<b>54,464</b>	<b>28.6</b>	<b>1,813</b>	<b>3.3</b>	<b>49,496</b>	<b>26.8</b>
<b>(Shareholders' equity)</b>								
<b>I Common stock</b>								
—	—		24,113	12.7	—	—	24,113	13.0
<b>II Additional paid-in capital</b>								
—	—		42,124	22.1	—	—	42,124	22.8
<b>III Retained earnings</b>								
—	—		68,832	36.2	—	—	68,634	37.2
<b>IV Revaluation account for land</b>								
—	—		(2,806)	(1.5)	—	—	(2,806)	(1.5)
<b>V Unrealized gain on other securities</b>								
—	—		3,641	1.9	—	—	3,182	1.7
<b>VI Treasury stock</b>								
—	—		(0)	(0.0)	—	—	(0)	(0.0)
Total shareholders' equity	—	—	135,905	71.4	—	—	135,247	73.2
<b>Total liabilities and shareholders' equity</b>	<b>—</b>	<b>—</b>	<b>190,370</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>184,743</b>	<b>100.0</b>
<b>(Net assets)</b>								
<b>I Shareholders' Equity</b>								
1. Common stock	24,113	13.0	—	—	—	—	—	—
2. Additional paid-in capital	42,124	22.6	—	—	—	—	—	—
3. Retained earnings	66,162	35.6	—	—	—	—	—	—
4. Treasury stock	(0)	(0.0)	—	—	—	—	—	—
Total Shareholders' equity	132,399	71.2	—	—	—	—	—	—
<b>II Revaluation &amp; Exchange difference</b>								
1. Unrealized gain on other securities	2,480	1.3	—	—	—	—	—	—
2. Revaluation account for land	(5,240)	(2.8)	—	—	—	—	—	—
Total revaluation & exchange difference	(2,760)	(1.5)	—	—	—	—	—	—
Total equity	129,639	69.7	—	—	—	—	—	—
<b>Total liabilities and shareholders' equity</b>	<b>185,918</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

(Notes)

Increases (Decrease) shows the difference between September 30, 2006 and December 31, 2005.

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

(Millions of yen)

	Nine months ended September 30 2006		Nine months ended September 30 2005		Increase (Decrease)		Year ended December 31 2005	
	Amount	%	Amount	%	Amount	Growth rate	Amount	%
<b>I Sales revenues</b>	264,892	100.0	240,306	100.0	24,585	10.2	325,655	100.0
<b>II Cost of sales revenues</b>	230,999	87.2	213,515	88.9	17,484	8.2	288,362	88.5
<b>Gross profit on sales</b>	33,892	12.8	26,790	11.1	7,101	26.5	37,292	11.5
<b>III Selling, general and administrative</b>	27,879	10.5	25,091	10.4	2,787	11.1	34,082	10.5
<b>Operating income</b>	6,012	2.3	1,699	0.7	4,313	253.9	3,210	1.0
<b>IV Non-operating income</b>	813	0.3	991	0.4	(178)	(18.0)	1,398	0.4
<b>V Non-operating expenses</b>	2,037	0.8	1,471	0.6	565	38.4	1,748	0.5
<b>Ordinary income</b>	4,789	1.8	1,219	0.5	3,569	292.8	2,859	0.9
<b>VI Extraordinary gains</b>	167	0.1	252	0.1	(84)	(33.5)	298	0.1
<b>VII Extraordinary losses</b>	2,153	0.8	1,501	0.6	652	43.4	3,014	1.0
<b>Net income(loss) before taxes</b>	2,803	1.1	(30)	(0.0)	2,833	—	143	0.0
<b>Tax expenses</b>	1,484	0.6	107	0.1	1,377	—	82	0.0
<b>Net income(loss)</b>	1,318	0.5	(137)	(0.1)	1,455	—	60	0.0

(Notes)

Increases (Decreases) shows the difference between September 30, 2006 and September 30, 2005.

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

	<b>Nine months ended September 30 2006</b>	Nine months ended September 30 2005	Year ended December 31 2005
<b>I Net cash (used in)/provided by operating activities</b>			
Net income(loss) before taxes	2,803	(30)	143
Depreciation and amortization	6,633	6,527	8,742
Loss on impairment	2,086	—	—
Increase (decrease) in allowances	2,864	1,547	(70)
Gain on unredeemed gift certificates in current and previous years	(87)	(202)	(270)
Interest and dividend income	(169)	(164)	(182)
Interest expenses	12	16	19
Equity in losses (earnings) of affiliated companies	(23)	(14)	(7)
Loss on disposal of fixed assets	1,590	1,140	1,648
Decrease (increase) in accounts receivable - trade	1,140	1,800	(640)
Decrease (increase) in inventories	194	(19)	(136)
Decrease (increase) in goodwill from acquisition of franchise stores	38	(100)	(263)
Decrease (increase) in other assets	818	1,515	688
Increase (decrease) in accounts payable	(873)	(741)	1,219
Increase (decrease) in notes payable	1,908	(1,430)	(391)
Increase (decrease) in accrued expenses payable	175	546	1,514
Increase (decrease) in other current liabilities	(6,559)	(3,657)	3,304
Others	13	12	10
<b>Subtotal</b>	<b>12,567</b>	<b>6,745</b>	<b>15,326</b>
Proceeds from interest and dividend income	111	135	138
Payment of interest expenses	(5)	(8)	(9)
Payment of income tax	(273)	(108)	(150)
<b>Total</b>	<b>12,399</b>	<b>6,764</b>	<b>15,304</b>

(Millions of yen)

	<b>Nine months ended September 30 2006</b>	Nine months ended September 30 2005	Year ended December 31 2005
<b>II Net cash (used in)/provided by investing activities</b>			
Payments for purchase of restaurant equipment	(9,174)	(5,392)	(7,255)
Proceeds from sales of restaurant equipment	467	626	725
Proceeds from redemption of investment securities at maturity	216	—	—
Payments for rent deposits and guarantees	(1,386)	(1,035)	(1,761)
Proceeds from returned rent deposits and guarantees	3,135	2,817	3,853
Proceeds from collection of loans receivable	19	14	35
Payments for development of information systems	(1,160)	(842)	(1,315)
Others	(352)	(30)	(65)
<b>Total</b>	<b>(8,235)</b>	<b>(3,840)</b>	<b>(5,783)</b>
<b>III Net cash (used in)/provided by financing activities</b>			
Proceeds from net increase in short-term debt	—	4,000	(1,500)
Payments of long-term debt	—	(1,250)	(1,250)
Payments of dividends	(3,892)	(3,900)	(3,907)
Payments for purchase of treasury stocks	(0)	—	—
<b>Total</b>	<b>(3,892)</b>	<b>(1,150)</b>	<b>(6,657)</b>
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	(0)	17	32
<b>V Increase (decrease) in cash and cash equivalents</b>	271	1,790	2,895
<b>VI Cash and cash equivalents at beginning of term</b>	11,251	8,355	8,355
<b>VII Cash and cash equivalents at end of term</b>	11,523	10,146	11,251