

Consolidated Financial Results Report for the Three Months ended March 31, 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 first quarter results report

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

2. Consolidated operating results (From January 1, 2006 to March 31, 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)	%
March 31, 2006	86,036	4.7	2,411	(19.9)	2,096	(29.7)
March 31, 2005	82,144	8.8	3,011	78.5	2,984	74.4
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)
March 31, 2006	22	(98.8)	0	17	—
March 31, 2005	1,923	243.2	14	47	—
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 previous fiscal year, McDonald's Japan developed and implemented a strategy focused on "value", "service", and "family", which are the areas of traditional strength of the company, for the group's cores business, hamburger restaurant business.

The company successfully achieved the primary objective of the strategy, the recovery of the company's lost market share, by taking various measures to offer the best value beyond customers' expectations based on the McDonald's global strength, which brought about a significant increase of 12.3% in guest count from the previous year.

This fiscal year, in addition to the strategy focused on "value", "service", and "family", we are promoting "strategic product development", "strategic restaurant development", "enhancement of restaurant operations", and "more economical and efficient business development".

As a part of "strategic product development", we developed "EBI Filet-O" based on the menu planning policies of "tasteful", "uniqueness of McDonald's", and "suits Japanese consumers' taste". The product gained remarkable popularity and was re-launched as a regular menu item soon after its first promotion. We plan to introduce such new products in sequence.

As for restaurant developments, 10 new traditional (standard) restaurants were opened while 5 existing traditional and 13 satellite (restaurants offering a limited menu variety) restaurants were closed down. Accordingly, the total store count declined by 8 from the last fiscal year end to 3,794 as of the end of the 1st quarter. During this same quarter, 119 existing restaurants were remodeled.

The above business activities resulted in an increase in sales of existing restaurants by 0.8% compared to the same period of the previous year as well as an increase in guest counts of existing restaurants by 6.9%. System-wide sales (total sales of company-operated and franchised restaurants) was 107,561 million yen (up 2.3% over the same quarter last year), the group's consolidated sales was 86,036 million yen (up 4.7%), and consolidated ordinary income was 2,096 million yen (down 29.7%).

The group also posted extraordinary losses of 2,086 million yen due to the adoption of asset-impairment accounting rules from this fiscal year.

(Reference information)

Reference information is disclosed for the following reason.

McDonald's Company (Japan), Ltd., our subsidiary, introduced new working hours administration, which calculates working time by the minute, from August 2005. The effect of the introduction of new working hours administration etc. was disclosed on the adjusted consolidated semi-annual financial results for 2005 which was announced on September 30, 2005.

From the standpoint of financial disclosure to the market, we decided to disclose financial position and operating results after inclusion of the effect of the introduction of new working hours administration etc. Thus, figures in March 31, 2005 below include the effect of the introduction of new working hours administration etc.

	Sales revenues		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31,2006	86,036	4.7	2,411	(10.0)	2,096	(21.0)
March 31,2005	82,144	8.8	2,679	58.9	2,652	55.1

	Net income		Net income per share		Net income per share, fully diluted
	(Millions of yen)	%	(Yen)		(Yen)
March 31,2006	22	(97.5)	0	17	—
March 31,2005	918	63.9	6	91	—

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share	
	(Millions of yen)	(Millions of yen)	%	(Yen)	
March 31,2006	183,164	128,842	70.3	969	03
March 31,2005	191,477	137,792	72.0	1,036	34
December 31,2005	190,370	135,905	71.4	1,022	15

【 Consolidated cash flow statement 】

	Net cash (used in)/provided by operating activities	Net cash (used in)/provided by investing activities	Net cash(used in)/provided by financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31,2006	15	(3,205)	2,360	10,421
March 31,2005	3,487	(2,147)	2,667	12,363
December 31,2005	15,304	(5,783)	(6,657)	11,251

[Qualitative information regarding the fluctuation in financial position (consolidated)]

Total assets as of March 31, 2006 was 183,164 million yen, decrease of 7,206 million yen from last fiscal year end. The main causes for the decrease are as follows:

Decrease in fixed assets of 2,086 million yen due to the application of impairment accounting

Decrease in rent deposits and guarantees due to collection etc. of 986 million yen.

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

As of the end of first quarter, cash and cash equivalents (hereinafter, “cash”) stood at 10,421 million yen (an decrease of 7.4% compared with the previous fiscal year end).

(Cash flows provided by operating activities)

Operating activities during the period resulted in a net cash inflow of 15 million yen (99.5% year-on-year decrease).

This was principally due to decrease in other current liabilities of 6,387 million yen. This is caused by the payment of royalty to McDonald's Corporation for the second-half of 2005 and payment of salaries payable arising from the introduction of new working hours administration.

(Cash flows used in investing activities)

Investment activities during the period resulted in a net cash outflow of 3,205 million yen (49.3% year-on-year increase). This was primarily the result of outlays for the acquisition of equipment for new openings and remodeling of stores for the amount of 3,712 million yen.

(Cash flows used by financing activities)

Financial activities during the period resulted in a net inflow of 2,360 million yen (11.5% year-on-year decrease). This was principally due to proceeds from the issuance of new short-term debt of 6,000 million yen and payments of cash dividends of 3,639 million yen.

(Reference information)

Figures in March 31, 2005 include the effect of the introduction of new working hours administration etc. There is no change in consolidated cash flow statement.

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31,2006	183,164	128,842	70.3	969 03
March 31,2005	191,477	136,787	71.4	1,440 11

3. Consolidated forecasts for December 2006 term

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

At this point, there is no change as to the consolidated forecast for the fiscal year.

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

(Millions of yen)

	As of March 31,2006		As of December 31,2005		Increase (Decrease)		As of March 31,2005	
	Amount	%	Amount	%	Amount	Growth rate	Amount	%
(Assets)								
I Current assets								
1. Cash and deposits	10,421		11,251		(830)	(7.4)	12,363	
2. Accounts receivable - trade	7,721		8,403		(681)	(8.1)	7,492	
3. Inventories	2,709		2,858		(148)	(5.2)	2,609	
4. Deferred tax assets	1,148		1,148		—	0.0	788	
5. Others	4,867		4,983		(116)	(2.3)	4,811	
6. Allowance for doubtful accounts	(80)		(80)		—	0.0	(55)	
Total current assets	26,788	14.6	28,564	15.0	(1,776)	(6.2)	28,010	14.6
II Fixed assets								
1. Tangible fixed assets								
(1) Buildings and structures	37,885		38,940		(1,055)	(2.7)	37,726	
(2) Machinery	7,979		8,589		(610)	(7.1)	9,047	
(3) Tools, appliances and fixtures	4,284		4,597		(312)	(6.8)	5,347	
(4) Land	16,950		16,820		129	0.8	16,820	
(5) Construction in progress	54		61		(6)	(10.9)	152	
Total tangible fixed assets	67,153	36.7	69,009	36.3	(1,855)	(2.7)	69,094	36.1
2. Intangible fixed assets								
(1) Goodwill	1,322		1,327		(4)	(0.4)	1,077	
(2) Others	3,967		3,993		(26)	(0.7)	3,834	
Total intangible fixed assets	5,290	2.9	5,321	2.8	(31)	(0.6)	4,911	2.6
3. Investments and other assets								
(1) Investments in securities	5,790		6,908		(1,118)	(16.2)	7,150	
(2) Long-term loans receivable	62		68		(6)	(8.9)	94	
(3) Deferred tax assets	4,300		3,615		685	18.9	4,006	
(4) Deferred tax assets due to revaluation of land	—		1,925		(1,925)	(100.0)	1,925	
(5) Rent deposits and guarantees	68,911		69,898		(986)	(1.4)	71,462	
(6) Others	6,005		6,131		(126)	(2.1)	5,978	
(7) Allowance for doubtful accounts	(1,139)		(1,074)		(65)	6.1	(1,157)	
Total investments and other assets	83,931	45.8	87,474	45.9	(3,543)	(4.1)	89,460	46.7
Total fixed assets	156,375	85.4	161,805	85.0	(5,430)	(3.4)	163,466	85.4
Total assets	183,164	100.0	190,370	100.0	(7,206)	(3.8)	191,477	100.0

(Millions of yen)

	As of		As of		Increase (Decrease)		As of	
	March 31,2006	%	December 31,2005	%	Amount	Growth rate	March 31,2005	%
(Liabilities)								
I Current liabilities								
1. Notes and accounts payable	15,639		16,953		(1,313)	(7.7)	15,206	
2. Short-term loans payable	9,500		3,500		6,000	171.4	12,500	
3. Accounts payable - other	8,375		14,760		(6,385)	(43.3)	7,559	
4. Accrued expenses payable	8,032		8,164		(132)	(1.6)	7,074	
5. Accrued income taxes payable	318		185		133	71.8	1,517	
6. Allowance for employee bonuses	3,279		1,143		2,135	186.7	3,021	
7. Others	5,462		6,733		(1,271)	(18.9)	4,047	
Total current liabilities	50,607	27.6	51,441	27.0	(833)	(1.6)	50,927	26.6
II Long-term liabilities								
1. Long-term loans payable	500		500		—	0.0	500	
2. Employees' retirement benefits	1,377		1,347		30	2.3	943	
3. Reserve for directors' retirement allowances	56		50		6	13.3	107	
4. Deposit received for guarantees	1,131		1,126		4	0.4	1,206	
5. Deferred tax liabilities due to revaluation of land	508		—		508	—	—	
6. Others	140		—		140	—	—	
Total long-term liabilities	3,714	2.1	3,023	1.6	690	22.8	2,757	1.4
Total liabilities	54,322	29.7	54,464	28.6	(142)	(0.3)	53,685	28.0
(Shareholders' equity)								
I Common stock	24,113	13.2	24,113	12.7	—	0.0	24,113	12.6
II Additional paid-in capital	42,124	23.0	42,124	22.1	—	0.0	42,124	22.0
III Retained earnings	64,866	35.4	68,832	36.2	(3,966)	(5.8)	70,695	36.9
IV Revaluation account for land	(5,240)	(2.9)	(2,806)	(1.5)	(2,433)	86.7	(2,806)	(1.4)
V Unrealized gain on other securities	2,978	1.6	3,641	1.9	(663)	(18.2)	3,665	1.9
VI Treasury stock	(0)	(0.0)	(0)	(0.0)	—	0.0	(0)	(0.0)
Total shareholders' equity	128,842	70.3	135,905	71.4	(7,063)	(5.2)	137,792	72.0
Total liabilities and shareholders' equity	183,164	100.0	190,370	100.0	(7,206)	(3.8)	191,477	100.0

(2). Consolidated statement of income (Condensed)

(Millions of yen)

	Three months ended March 31 2006		Three months ended March 31 2005		Increase (Decrease)		Year ended December 31 2005	
	Amount	%	Amount	%	Amount	Growth rate	Amount	%
I Sales revenues	86,036	100.0	82,144	100.0	3,892	4.7	325,655	100.0
II Cost of sales revenues	74,871	87.0	69,360	84.4	5,510	7.9	288,362	88.5
Gross profit on sales	11,165	13.0	12,784	15.6	(1,618)	(12.7)	37,292	11.5
III Selling, general and administrative expenses	8,754	10.2	9,772	11.9	(1,018)	(10.4)	34,082	10.5
Operating income	2,411	2.8	3,011	3.7	(600)	(19.9)	3,210	1.0
IV Non-operating income	249	0.3	266	0.3	(17)	(6.5)	1,398	0.4
V Non-operating expenses	563	0.7	293	0.4	269	91.7	1,748	0.5
Ordinary income	2,096	2.4	2,984	3.6	(887)	(29.7)	2,859	0.9
VI Extraordinary gains	128	0.1	284	0.4	(156)	(54.8)	298	0.1
VII Extraordinary losses	2,096	2.4	10	0.0	2,085	—	3,014	1.0
Net income(loss) before taxes	128	0.1	3,258	4.0	(3,129)	(96.0)	143	0.0
Tax expenses	106	0.1	1,334	1.7	(1,228)	(92.1)	82	0.0
Net income(loss)	22	0.0	1,923	2.3	(1,900)	(98.8)	60	0.0

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

	Three months ended March 31 2006	Three months ended March 31 2005	Year ended December 31 2005
I Net cash (used in)/provided by operating activities			
Net income(loss) before taxes	128	3,258	143
Depreciation and amortization	2,176	2,169	8,742
Loss on impairment	2,086	—	—
Increase (decrease) in allowances	2,243	1,493	(70)
Gain on unredeemed gift certificates in current	(29)	(67)	(270)
Interest and dividend income	(19)	(17)	(182)
Interest expenses	3	5	19
Equity in losses (earnings) of affiliated companies	(3)	(3)	(7)
Loss on disposal of fixed assets	384	209	1,648
Decrease (increase) in accounts receivable - trade	681	245	(640)
Decrease (increase) in inventories	148	111	(136)
Decrease (increase) in goodwill from acquisition of franchise stores	(5)	(13)	(263)
Decrease (increase) in other assets	294	741	688
Increase (decrease) in accounts payable	67	1,005	1,219
Increase (decrease) in notes payable	(1,381)	(1,924)	(391)
Increase (decrease) in accrued expenses payable	(134)	430	1,514
Increase (decrease) in other current liabilities	(6,387)	(4,071)	3,304
Others	—	(3)	10
Subtotal	253	3,566	15,326
Proceeds from interest and dividend income	1	19	138
Payment of interest expenses	(1)	(1)	(9)
Payment of income tax	(237)	(97)	(150)
Total	15	3,487	15,304

(Millions of yen)

	Three months ended March 31 2006	Three months ended March 31 2005	Year ended December 31 2005
II Net cash (used in)/provided by investing activities			
Payments for purchase of restaurant equipment	(3,712)	(2,614)	(7,255)
Proceeds from sales of restaurant equipment	233	149	725
Payments for rent deposits and guarantees	(278)	(206)	(1,761)
Proceeds from returned rent deposits and guarantees	1,205	932	3,853
Proceeds from collection of loans receivable	6	3	35
Payments for development of information systems	(664)	(411)	(1,315)
Others	4	(0)	(65)
Total	(3,205)	(2,147)	(5,783)
III Net cash (used in)/provided by financing activities			
Proceeds from net increase in short-term debt	6,000	7,500	(1,500)
Payments of long-term debt	—	(1,250)	(1,250)
Payments of dividends	(3,639)	(3,582)	(3,907)
Total	2,360	2,667	(6,657)
IV Effect of exchange rate changes on cash and cash equivalents	(0)	0	32
V Increase (decrease) in cash and cash equivalents	(830)	4,007	2,895
VI Cash and cash equivalents at beginning of term	11,251	8,355	8,355
VII Cash and cash equivalents at end of term	10,421	12,363	11,251