Financial Results Report
for the December 2007 Term (Consolidated)

February 7, 2008

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
Please address all communications to:	Shunji Nomura Vice President, Corporate Relations Phone: (03) 6911-6061
Schedule of ordinary annual shareholders' meeting:	March 27, 2008
Schedule of dividends payment:	March 28, 2008
Schedule of annual security report submission:	March 28, 2008

1. Consolidated operating results (From January 1, 2007 to December 31, 2007)

(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, 2007	395,061	11.1	16,733	126.7	15,616	173.6
December 31, 2006	355,696	9.2	7,380	129.9	5,708	99.6

	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, 2007	7,819	404.7	58.81	-	5.9	7.9	4.2
December 31, 2006	1,549	-	11.65	-	1.2	3.0	2.1

(Notes)
1. Gains or losses on investments through equity method accounting:
December 2007 term: 11 million yen December 2006 term: 27 million yen
2. 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	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2007	201,303	133,247	66.1	1,001.50
December 31, 2006	193,206	130,067	67.3	978.25

(Note)
Equity amount (consolidated):
December 2007 term: 133,159 million yen December 2006 term: 130,067 million yen

(3) Consolidated cash flow statement

	Net cash (used in)/provided by operating activities	Net cash (used in)/provided by investing activities	Net cash (used in)/provided by financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
December 31, 2007	24,337	(21,855)	(1,812)	12,005
December 31, 2006	17,469	(12,976)	(4,405)	11,338

2. Dividend

	Annual dividends per share			Dividend Payment	Dividend payout ratio	The ratio of dividend to shareholders' equity
	Interim	Year end	Annual			
	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
December 31, 2006	-	30.00	30.00	3,988	257.5	3.0
December 31, 2007	-	30.00	30.00	3,988	51.0	3.0
December 31, 2008(Estimated)		30.00	30.00	3,988	39.9	-

3. Consolidated forecasts for December 2008 term
(From January 1, 2008 to December 31, 2008)

	Net Sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	Yen
Interim period	201,000	4.3	8,000	13.2	7,300	7,6	4,000	26.5	30.08
Annual	412,000	4.3	19,500	16.5	17,500	12.1	10,000	27.9	75,21

The percentages shown next to net sales, operating income, ordinary income and net income represent changes from the previous year.

4. Others

(1) Changes in significant subsidiary: None

(2) Changes of significant accounting principles, procedures and descriptions for the financial results report (Described in "Changes in the accounting method" in "Important accounting policies")

1. Changes caused by revision of accounting standard: None
2. Others: Yes

(Note) There is a change in "Changes in the method of presentation" in Japanese version of the Financial Results Report (Page 21). In the English version, however, there is no change in the method of presentation (Page 26).

(3)The number of shares outstanding (Common stock)

1. The number of shares outstanding (inclusive of treasury stock)

   December 2007: 132,960,000 shares December 2006: 132,960,000 shares

2. The number of treasury stock

   December 2007: 198 shares December 2006: 198 shares

(Note) Please refer to the page 41 for using the number of shares based on calculating the net income per share.

(Reference) Summary of nonconsolidated results

1. Nonconsolidated operating results
(From January 1, 2007 to December 31, 2007)

(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, 2007	54,553	2.6	786	(42.1)	1,022	(33.2)
December 31, 2006	53,158	4.7	1,358	(13.7)	1,530	41.8

	Net income (loss)		Net income (loss) per share	Net income (loss) per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2007	526	(16.3)	3.96	-
December 31, 2006	628	(20.4)	4.73	-

(2) Nonconsolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2007	141,696	128,436	90.6	965.98
December 31, 2006	142,695	132,601	92.9	997.30

(Notes)
Equity amount (consolidated):

December 2007 term: 128,436 million yen *December 2006 term: 132,601 million yen*

2. Nonconsolidated forecasts for December 2008 term
(From January 1, 2008 to December 31, 2008)

	Net Sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	Yen
Interim period	27,500	3.9	500	29.9	500	3.2	300	(9.0)	2.26
Annual	55,000	0.8	1,000	27.2	1,000	(2.2)	600	14.0	4.51

The percentages shown next to net sales, operating income, ordinary income and net income represent changes from the previous year.

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.

1. Group organization

(1) Description of the group's business

The Group continues to concentrate its management resources on its principal hamburger business. Consolidated sales for 2007 increased by 39,365 million yen, to 395,061 million yen compared to the same period last year. Consolidated ordinary income was 15,616 million yen, up 9,907 million yen year on year. As a result of putting 143 million yen, reversal of allowance for doubtful accounts, and 236 million yen, compensation for relocation, under extraordinary gain, and 1,288 million yen of loss provision for strategic restaurant closure, under extraordinary loss, consolidated net income before taxes became 13,883 million yen and consolidated net income became 7,819 million yen, up 10,511 million and 6,270 million yen from a year earlier, respectively.

(Overview of hamburger restaurant operations)

McDonald's Japan put a special focus on QSC (Trusted quality, speedy and friendly service, clean and comfortable atmosphere) improvement, which is a foundation of restaurant business. From 2004, the company consistently put an effort to increase customer count and made continuous investment. Followings are the major measures taken by the Company in this fiscal year;

1. Introduction of new menus "Mc Griddle", "Mega Mac Series", and "Mac Wrap" etc.
2. Expansion of 24 hours operating restaurants, major number of which are drive through restaurants (1,312 restaurants as of December 31).
3. Introduction of tiered pricing.
4. Remodel of the restaurant to provide comfortable atmosphere for dining occasion (240 restaurants for this fiscal year).
5. Enhancement of investment in human resource development such as Hamburger University which educates more than 13,000 students annually.
6. Expansion of e-marketing promotions based on the cell-phone membership club "Tokusuru Keitai Site" which has over 8 million club members.
7. Expansion of franchised stores (1,072 restaurants as of December 31, increase of 76 stores from the end of last year end).

Store development for the current period is shown below. Among the closed stores, 100 stores were closed based on the strategy to close unprofitable restaurants to improve overall profitability.

Classification	Previous term end	Newly opened	Closed	Classification Change *Note	Current term end
Company-operated stores	2,832	62	(151)	(69)	2,674
Franchised stores	996	25	(18)	69	1,072
Total number of stores	3,828	87	(169)	-	3,746

*Note: The number of classification change is net increase (decrease) of store classification changes between Company-operated stores and franchised stores.

McDonald's Company (Japan), Ltd. is implementing various CSR programs in different areas such as social support, environment, labor and eating habits for the purposes of ‘Give a helping hand to the sound development of children, who carry the future of society’ and ‘Bring good things back to the local community‘.

Specifically saying, McDonald's Company (Japan), Ltd. is proactively participating in CSR activities, such as ‘World Children’s Day’ charity campaign designed to support sick children and their families, environmental measures including energy conservation and recycling, give support to the ‘Y.E.S. program’, an employment-support program for youth promoted by the Ministry of Health, Labor, and Welfare, and support of promoting dietary education.

Through CSR activities, McDonald's Company (Japan), Ltd. is endeavoring to create an environment for each citizen to participate in volunteer & charity activities, so that ‘charity culture’ will firmly take root in Japan.

Regarding the finding this year on franchise restaurants deviating from the company’s hygienic standards, McDonald's Company (Japan), Ltd. Is implementing the following 4 points under the slogan of ‘We will prioritize food safety above anything else’, in order to establish a stronger trusting relationship with customers.

1. Basic knowledge of food management system and enhancement of understanding on its purpose
2. Development of ‘healthy culture that encourage to raise issues and discuss’
3. Enhancement of restaurant operation skill & operation preventive measures
4. Continuous activity on comprehensive food management

As a result of these activities, System-wide sales* were 494,149 million yen, up 52,633 million yen from the previous year and it was record high for the Company for the second consecutive year. The company’s comparable sales achieved 10.2% growth and recorded positive growth for the fourth straight year. The sales of Happy Set, a menu with favorable toy for kids, also set a new record. The number of its sales exceeded 100 million in total this year for the first time.

*: ‘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.

(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, it reported 1,023 million yen in sales, decrease of 207 million yen from previous year, 58 million yen in ordinary income, decrease of 18 million yen from previous year, and 35 million yen in net income, decrease of 6 million yen from previous year.

During the current fiscal year, a new company named The JV Inc. was established by the Company and NTT DoCoMo Inc.(The company acquired 70% of its shares). This company designs and operates promotion activities for members of new membership organization that was established by McDonald's Company (Japan), Ltd. The impact of The JV Inc. is minor for the Group's profit for this fiscal year.

Two anonymous associations with franchisees of McDonald's Japan were resolved this fiscal year and its impact to the Group's profit is immaterial.

(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 Company (Japan), Ltd.

The business for the term shows the following numbers: Sales of 54,553 million yen up by 1,394 million yen, and ordinary income of 1,022 million yen, down by 508 million yen. As a result of reporting reversal of doubtful accounts of 143 million yen and 144 million yen in compensation for restaurant relocation as extraordinary gain, and 330 million yen in loss on disposal of fixed assets as extraordinary loss, net income before taxes marked 980 million yen, down by 349 million yen, and net income is 526 million yen, down by 102 million yen.

(Analysis of the Group's operating results)

Millions of yen		Year ended December 31 2006	%	Year ended December 31 2007	%	Year-on-year Change
System-wide sales	Notes 1	441,516		494,149		52,633
Sales						
Company-operated restaurant sales	Notes 1	325,730		361,956		36,226
Franchise revenue		28,355		32,554		4,199
Others		1,610		549		(1,060)
Total sales		355,696	100.0	395,061	100.0	39,365
Cost of sales						
Cost of sales for company operated restaurant		290,033	81.6	309,358	78.3	19,324
Raw material	Notes 2	106,317	29.9	116,616	29.5	10,298
Labor	Notes 3	98,724	27.8	104,589	26.5	5,865
Others		84,992	23.9	88,152	22.3	3,160
Cost of franchise revenue		19,221	5.4	21,251	5.4	2,030
Cost of others sales		794	0.2	410	0.1	(384)
Total cost of sales		310,049	87.2	331,020	83.8	20,970
Gross profit		45,646	12.8	64,040	16.2	18,394
Selling, general and administrative expenses	Notes 4					
Advertising and selling expense		17,332	4.8	24,262	6.2	6,930
Labor		12,044	3.4	12,665	3.2	620
Others		8,889	2.5	10,379	2.6	1,489
Total selling, general and administrative expenses		38,266	10.7	47,307	12.0	9,041
Operating income		7,380	2.1	16,733	4.2	9,352
Nonoperating income		1,108	0.3	1,492	0.4	384
Nonoperating expenses		2,780	0.8	2,609	0.6	(170)
Ordinary income		5,708	1.6	15,616	4.0	9,907
Extraordinary gain		167	0.0	380	0.1	212
Extraordinary loss	Notes 5	2,503	0.7	2,112	0.6	(391)
Net income before taxes and other adjustments		3,372	0.9	13,883	3.5	10,511
Net income		1,549	0.4	7,819	2.0	6,270

Notes 1: Systemwide sales and product sales

Please refer to the "3. Operation Results and Financial Position (1) Overview of hamburger restaurant operations" for details of strategy.

Systemwide sales was 494,149 million yen, increase of 52,633 million yen or 11.9%, total sales was 395,061 million yen, increase of 39,365 million yen or 11.1%.

Notes 2: Raw material

Raw material cost was 116,616 million yen, increase of 10,298 million yen or 9.7% from previous year in conjunction with sales increase. Sales ratio decreased by 0.4 points year-on-year, although raw material costs increased, mainly due to the impact of tiered pricing introduction.

Notes 3: Labor

To further increase customer number and to handle the extended operating hours including 24 hours operation, the company increased investment in its labor, both part-timer and salaried.

As a result, labor cost was 104,589 million yen, increase of 5,865 million yen or 5.9% from previous year. Sales ratio decreased by 1.3 points year-on year. This was caused by the improvement in productivity although hourly wages were u for part-timer.

Notes 4: Selling, general and administrative expenses

As to the Selling, general and administrative expense, please refer Notes “consolidated income statement”.

Notes 5: Extraordinary loss

As to the Extraordinary loss, please refer Notes “consolidated income statement”.

(2) Financial position

(Analysis of the Group's financial position)

Millions of yen		December 31 2006	%	December 31 2007	%	Year-on-year Change
Assets						
Current assets		30,115	15.6	32,143	16.0	2,027
Fixed assets		163,090	84.4	169,159	84.0	6,069
1 Tangible fixed assets	Notes 1	76,452	39.6	81,615	40.5	5,163
2 Intangible fixed assets	Notes 2	5,420	2.8	9,785	4.9	4,364
3 Investments and other assets		81,217	42.0	77,758	38.6	(3,458)
Total assets		193,206	100.0	201,303	100.0	8,096
Liabilities						
Current liabilities		59,979	31.1	64,599	32.1	4,619
Non-current liabilities		3,158	1.6	3,455	1.7	296
Total liabilities		63,138	32.7	68,055	33.8	4,916
Shareholders' equity						
Total shareholders' equity		130,067	67.3	133,247	66.2	3,180
Total liabilities and shareholders' equity		193,206	100.0	201,303	100.0	8,096

Notes

Notes 1: Tangible assets

Tangible assets as of fiscal year end were 81,615 million yen, increase of 5,163 million yen from previous year end. The main reason is the increase in store equipment due to the introductions of new menu and investment to restaurant to further improve QSC.

Notes 2: Intangible assets

Intangible assets as of fiscal year end were 9,785 million yen, increase of 4,364 million yen from previous year end. The main reason is increase in software of 5,585 million yen for the restructure of infrastructure to further improve overall efficiency.

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 12,005 million yen, increase of 5.9% from previous year term.

(Net cash provided by operating activities)

Operating activities during the period resulted in a net cash inflow of 24,337 million yen, increase of 6,867 million yen from previous year term. This was mainly due to the year-on-year increase in the net income before taxes of 10,511 million yen On the other hand, 2,292 million yen of loss on assets impairment was recognized last fiscal year and the changes in accrued liability decreased by 1,933 million yen from the previous year. There is no notes payable as of the end of this fiscal year and changes in notes payable decreased by 10,583 million yen from the previous year and changes in other liability increased by 10,963 million yen from the previous year.

(Net cash used in investing activities)

Investing activities during the period resulted in a net outflow of 21,855 million yen, increase of 8,878 million yen from previous year term. This was primarily the result of 8,597 million yen of increased outlays, year-on-year, for the acquisition of cooking appliances for new menus and acquisition of restaurant equipment for implementation of remodeling and refreshing at existing restaurants and new restaurants.

(Net cash used in financing activities)

Financing activities during the period resulted in a net outflow of 1,812 million yen, decrease of 2,592 million yen from previous year term. This was principally due to net increase in short-term loans of 2,500 million yen year-on-year.

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

	2003	2004	2005	2006	2007
Equity ratio	67.8%	73.4%	71.4%	67.3%	66.1%
Equity ratio based on market prices	130.3%	153.6%	133.3%	136.5%	123.3%
Years required to redeem liabilities	0.6 years	8.4 years	0.3 years	0.2 years	0.2 years
Interest-coverage ratio	47.6 times	18.6 times	1,638.1 times	2,189.6 times	1,627.1 times

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 2008

The Company will continue to focus on our core hamburger business. McDonald's Japan is going to achieve a sustainable growth by further improvement in QSC&V and through following activities;

1. Increase in customer number during peak time
2. Enhancement in human resource investment
3. Expansion of 24 hour operation
4. Enrichment of Menu

Based on the above activity, we expect to record in 2008, 412,000 million yen in sales, 19,500 million yen in operating income, 17,500 million yen in ordinary income, and 10,000 million yen in net income on a consolidated basis.

(4) 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.

The Company's basic policy is to make annual dividend once in the year end from retained earnings its decision making is made at annual shareholders' meeting.
For this fiscal year, the Company is planning to make a dividend of 30 yen per share (same amount as in last year) based on the above policy.

(5) 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, 2006.

(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. Contracts may be terminated prematurely due to the lessor's circumstances, making the closure of some restaurants unavoidable even where they are profitable.

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" (kensetsukyouryokukin)] is returned as separate sums over several years up to a maximum 20 years.

The current balance of security deposit and security money is 64,064 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.

(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, periodic maintenance of store equipment, development of food management manual, employees’ training, 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 and these are the risk elements that could affect the Group's operating results.

（Note） An hygiene management procedures developed by NASA to produce space food.

(General food safety crisis)

The company's business may be affected by general hygiene problems such as BSE and avian influenza and other hygiene rumors in society. 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.

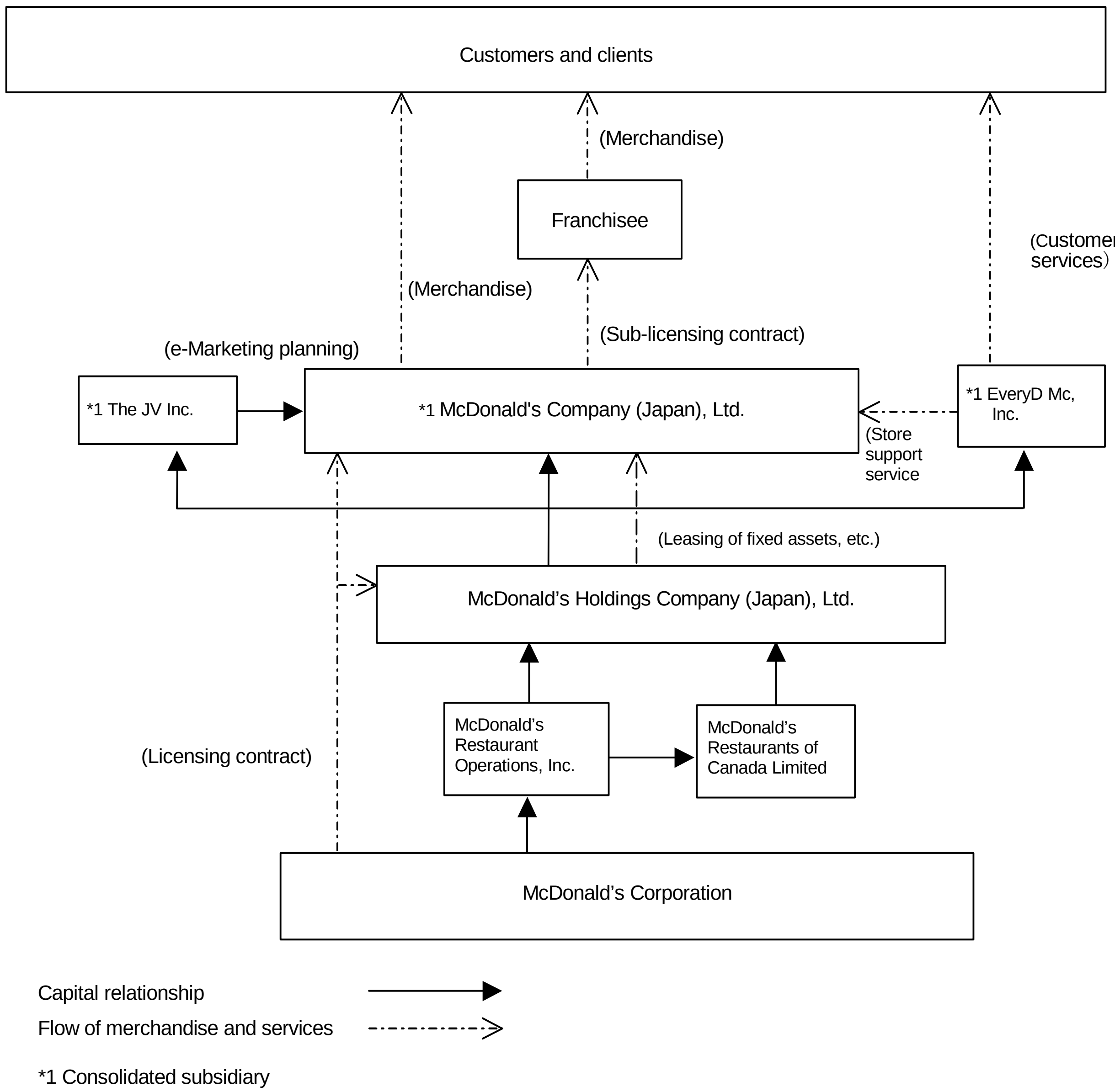
(Personal data protection)

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

2. Group business relationships

(Group relationship diagram)

The business relationships described above for the fiscal year ended December 2007 are shown in diagram form below.



During the current fiscal year, The Company established a new company named The JV Inc. and acquired 70% of its shares. The JV Inc. designs and operates promotion activities for members of new membership organization that was established by McDonald's Company (Japan), Ltd. Two anonymous associations with franchisees of McDonald’s Japan were resolved this fiscal year and its impact to the Group’s profit is immaterial.

3. 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.

On top of improved QSC&V (trusted quality, speedy and pleasant service, clean and comfortable atmosphere, added value), the Company continued initiatives such as 100 yen menu enhancement, introduction of strategic new products, expansion of 24 hours operation restaurants, remodel to pursue comfort for target demography. The Company will continue the effort to further strengthen the foundation.

(EveryD Mc, Inc.)

Primary objectives of EveryD Mc, Inc. are to maximize the profit of McDonald's Holdings as a group through comprehensive communication with McDonald's Company, major client, and clarifying its role within the group.

(The JV Inc.)

The JV Inc. aims to provide new services to interface the Osaifu-Keitai and McDonald's restaurant for the newly established membership club in place of current service provided by McDonald's Company (Japan), Ltd.’s "Tokusuru Keitai Site" service. The JV Inc. tries to provide the service in comfort, safe, and stable manner and promote further development in digital lifestyle market in Japan and help to develop McDonald's Japan’s growth. The company seeks to be an opinion leader and tries to contribute to overall digital market development.

(4) Issues facing the Company

The Company plans to continue focusing management resources on its principal hamburger restaurant business. It strives to enhance people's acknowledgement of 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. The Company also proactively supports social contribution activities with good corporate citizenship such as pursuing food safety, enhancing food education activities, and supporting Donald McDonald House Charities.

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(5) Improvement and Situation of Internal Controls

Please refer to the Corporate Governance Report - "Basic policies and conditions of internal controls" for the details of this part.

(6) Other significant matters to the Company

Not applicable.

4. Consolidated financial statements

(1). Consolidated balance sheet

Millions of yen	Notes	December 31, 2006	%	December 31, 2007	%	Year-on-year change
(Assets)						
Current assets						
Cash and deposits		11,338		12,005		
Accounts receivable - trade		8,440		9,050		
Securities	2	250		-		
Inventories		2,559		2,871		
Deferred tax assets		1,845		2,555		
Others		5,756		5,729		
Allowance for doubtful accounts		(75)		(69)		
		30,115	15.6	32,143	16.0	2,027
Fixed assets						
Tangible fixed assets	4					
Buildings and structures		93,288		94,728		
Accumulated depreciation		50,894		50,094		
		42,394		44,634		
Machinery and equipment		19,815		21,363		
Accumulated depreciation		10,314		10,690		
		9,501		10,673		
Tools, appliances and fixtures		20,749		21,932		
Accumulated depreciation		13,577		13,811		
		7,172		8,120		
Land	6	17,277		17,277		
Construction in progress		106		910		
		76,452	39.6	81,615	40.5	5,163
Intangible fixed assets						
Goodwill		1,271		1,387		
Others		4,149		8,398		
		5,420	2.8	9,785	4.9	4,364
Investments and other assets						
Investments in securities	1	4,968		3,784		
Long-term loans		37		19		
Deferred tax assets		2,583		2,613		
Leasing and guarantee deposits		67,441		64,064		
Others	1,2	7,251		8,111		
Allowance for doubtful accounts		(1,064)		(835)		
		81,217	42.0	77,758	38.6	(3,458)
Total fixed assets		163,090	84.4	169,059	84.0	6,069
Total assets		193,206	100.0	201,303	100.0	8,096

Millions of yen	Notes	December 31, 2006	%	December 31, 2007	%	Year-on-year change
(Liabilities)						
Current liabilities						
Notes and accounts payable	5	19,497		12,596		
Short-term loans payable		3,000		5,000		
Accounts payable-other		12,171		19,605		
Accrued expenses		9,965		9,830		
Income taxes payable		883		5,996		
Allowance for bonuses		1,694		2,021		
Others	2,5	12,768		9,549		
		59,979	31.1	64,599	32.1	4,619
Non-current liabilities						
Long-term loans payable		500		500		
Allowance for employees' retirement benefits		1,653		2,007		
Allowance for directors' retirement benefits		77		99		
Deferred tax liabilities due to land revaluation	6	508		508		
Others		420		340		
		3,158	1.6	3,455	1.7	296
		63,138	32.7	68,055	33.8	4,916
(Net assets)						
Shareholders' equity						
Common stock		24,113	12.5	24,113	12.0	
Additional paid-in capital		42,124	21.8	42,124	20.9	
Retained earnings		66,393	34.3	70,224	34.9	
Treasury stock		(0)	(0.0	(0)	(0.0)	
		132,631	68.6	136,462	67.8	3,830
Revaluation & Translation Adjustment						
Unrealized gain on other securities		2,639	1.4	1,937	1.0	
Gain/loss on deferred hedge		38	0.0	1	0.0	
Revaluation account for land	6	(5,240)	(2.7)	(5,240)	(2.6)	
		(2,563)	(1.3)	(3,302)	(1.6)	(738)
Minority interests				88	0.0	88
Total equity		130,067	67.3	133,247	66.2	3,180
Total liabilities and shareholders' equity		193,206	100.0	201,303	100.0	8,096

2. Consolidated income statement

Millions of yen	Notes	Year ended December 31, 2006	%	Year ended December 31, 2007	%	Year-on-year change
Sales		355,696	100.0	395,061	100.0	39,365
Cost of sales		310,049	87.2	331,020	83.8	20,970
Gross profit		45,646	12.8	64,040	16.2	18,394
Selling, general and administrative expenses	1,6	38,266	10.7	47,307	12.0	9,041
Operating income		7,380	2.1	16,733	4.2	9,352
Nonoperating income						
Interest income		83		100		
Dividend income		108		37		
Equity in earnings of affiliated companies		27		11		
Revenue from unredeemed gift certificates		116		238		
Insurance proceeds		139		109		
Closure-related compensation		173		588		
Others		459		407		
		1,108	0.3	1,492	0.4	384
Nonoperating expenses						
Interest expenses		16		22		
Loss on disposal of fixed assets at stores		2,593		2,176		
Provision for allowance for doubtful accounts		58		-		
Others		111		410		
		2,780	0.8	2,609	0.6	(170)
Ordinary income		5,708	1.6	15,616	4.0	9,907
Extraordinary gains						
Reversal of allowance for doubtful accounts		-		143		
Compensation for relocation of stores		167		236		
		167	0.0	380	0.1	212
Extraordinary losses						
Loss on disposal of fixed assets	2	79		408		
Impairment loss	3	2,292		46		
Loss on contract termination		-		369		
Loss on store closure	4	-		1,288		
Loss on recall of campaign	5	131		-		
		2,503	0.7	2,112	0.6	(391)
Net income before taxes		3,372	0.9	13,883	3.5	10,511
Current tax expenses		827		6,297		
Deferred tax expenses		995		(231)		
		1,823	0.5	6,065	1.5	4,242
Minority interests in loss		-		1	0.0	1
Net income		1,549	0.4	7,819	2.0	6,270

3. Consolidated statement of shareholders' Equity

(Millions of yen)

Year ended December 31, 2006	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance at December 31, 2005	24,113	42,124	68,832	(0)	135,070
Cash dividends			(3,988)		(3,988)
Net income			1,549		1,549
Acquisition of treasury stock				(0)	(0)
Changes in items except shareholders' equity					－
Total change in the term	－	－	(2,439)	(0)	(2,439)
Balance at December 31, 2006	24,113	42,124	66,393	(0)	132,631

Year ended December 31, 2006	Revaluation & Translation Adjustment				Grand total
	Unrealized gain on other securities	Gain/loss on deferred hedge	Revaluation account for land	Total	
Balance at December 31, 2005	3,641	－	(2,806)	834	135,905
Cash dividends					(3,988)
Net income					1,549
Acquisition of treasury stock					(0)
Changes in items except shareholders' equity	(1,002)	38	(2,433)	(3,398)	(3,398)
Total change in the term	(1,002)	38	(2,433)	(3,398)	(5,837)
Balance at December 31, 2006	2,639	38	(5,240)	(2,563)	130,067

(Millions of yen)

Year ended December 31, 2007	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance at December 31,2006	24,113	42,124	66,393	(0)	132,631
Cash dividends			(3,988)		(3,988)
Net income			7,819		7,819
Changes in items except shareholders' equity					―
Total change in the term	―	―	3,830	―	3,830
Balance at December 31, 2007	24,113	42,124	70,224	(0)	136,462

Year ended December 31, 2007	Revaluation & Translation Adjustment				Minority Interests	Grand total
	Unrealized gain on other securities	Gain/loss on deferred hedge	Revaluation account for land	Total		
Balance at December 31, 2006	2,639	38	(5,240)	(2,563)	―	130,067
Cash dividends						(3,988)
Net income						7,819
Changes in items except shareholders' equity	(702)	(36)	―	(738)	88	(650)
Total change in the term	(702)	(36)		(738)	88	3,180
Balance at December 31, 2007	1,937	1	(5,240)	(3,302)	88	133,247

4. Consolidated statement of cash flows

Millions of yen	Year ended December 31, 2006	Year ended December 31, 2007	Year-on-year change
Net cash provided by operating activities			
Net income before taxes	3,372	13,883	
Depreciation	8,958	10,012	
Impairment loss	2,292	46	
Increase (decrease) in allowances	942	467	
Unredeemed gift certificates in current and previous years	(116)	(238)	
Interest and dividend income	(191)	(138)	
Interest expenses	16	22	
Equity in losses (earnings) of unconsolidated companies	(27)	(11)	
Loss on disposal of fixed assets	1,979	1,867	
Decrease (increase) in accounts receivable - trade	(37)	(601)	
Decrease (increase) in inventories	298	(312)	
Decrease (increase) in goodwill from acquisition of franchised stores	37	(116)	
Decrease (increase) in other assets	(1,587)	(512)	
Increase (decrease) in accounts payable	359	1,498	
Increase (decrease) in notes payable	2,184	(8,399)	
Increase (decrease) in accrued expenses payable	1,791	(142)	
Increase (decrease) in other current liabilities	(2,793)	8,170	
Others	13	(4)	
	17,493	25,491	7,998
Interest and dividend income received	113	43	
Interest expenses paid	(7)	(14)	
Payment for income tax	(129)	(1,183)	
	17,469	24,337	6,867
Net cash used in investment activities			
Payments for purchase of restaurant equipment	(14,233)	(22,831)	
Proceeds from sales of restaurant equipment	698	1,803	
Income from redemption of investment securities at maturity	416	250	
Payments for rent deposits and guarantees	(1,987)	(1,685)	
Proceeds from returned rent deposits and guarantees	4,237	4,824	
Proceeds from collection of loans and advances	36	17	
Payments for development of information systems	(1,627)	(4,157)	
Others	(516)	(286)	
	(12,976)	(21,855)	(8,878)
Net cash used in financing activities			
Net increase (decrease) in short-term debt	(500)	2,000	
Payments of dividends	(3,904)	(3,902)	
Proceeds from stock issuance to minority shareholders	-	90	
Payments for purchase of treasury stocks	(0)	-	
	(4,405)	(1,812)	2,592
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)	(1)
Increase (decrease) in cash and cash equivalents	86	666	580
Cash and cash equivalents at beginning of term	11,251	11,388	86
Cash and cash equivalents at end of term ***Notes**	11,338	12,005	666

Accounting policy

Item	December 31, 2006	December 31, 2007
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: 3 Name of consolidated subsidiary: McDonald's Company (Japan), Ltd. EveryD Mc, Inc. The JV Inc. During the current fiscal year, a new company named The JV Inc. was established and the company acquired 70% of its shares. This company designs and operates promotion activities for members of new membership organization that was established by McDonald's Company (Japan), Ltd.
	(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:1 Name of nonconsolidated subsidiary: Same as December 31, 2006 (Reason for exclusion from consolidation) Same as December 31, 2006
2. Item relating to application of the equity method	(1) Number of affiliates accounted for by the equity method: 2 2 anonymous associations	(1) Number of affiliates accounted for by the equity method: None 2 anonymous associations were the company's equity method affiliates in previous year, but they were resolved during this fiscal year.
	(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) The Company did not apply the equity method to its nonconsolidated subsidiary Same as December 31, 2006
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, 2006
4. Items related to accounting standards		
(1) Standards and methods of valuation for important assets	i. Marketable and investment securities (a) Bonds held to maturity: cost amortization method (straight line)	i.. Marketable and investment securities (a) Bonds held to maturity: Same as December 31, 2006
	(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: Quoted securities: Same as December 31, 2006 Unquoted securities Same as December 31, 2006
	ii. Inventories: Food materials and supplies: valued at cost, computed on a periodic average basis	ii. Inventories: Same as December 31, 2006

Item	December 31, 2006	December 31, 2007
(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, 2006
	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, 2006
	iii. Long-term prepaid expenses: Straight-line method	iii. Long-term prepaid expenses: Same as December 31, 2006
(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, 2006
	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, 2006
	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. 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.	iii. Employees' retirement benefits Same as December 31, 2006
	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, 2006
(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, 2006
(5) Important hedge accounting methods	(1) Accounting method Appropriated methods.	(1) Accounting method Same as December 31, 2006
	(2) Hedging methods and items hedged: Hedging methods: exchange contract Items hedged: expected future imports	(2) Hedging methods and items hedged: Same as December 31, 2006
	(3) Policy related to hedging: McDonald's Japan hedges foreign currency risks in accordance with its internal rules. Exchange contract is executed within the amount of imported inventories under normal operating cycle.	(3) Policy related to hedging: Same as December 31, 2006
	(4) Method of evaluating the effectiveness of hedging: Accumulated amount of changes in cash flow between items hedged and hedging methods are matched quarterly to evaluate the effectiveness of hedging.	(4) Method of evaluating the effectiveness of hedging: Same as December 31, 2006

Item	December 31, 2006	December 31, 2007
(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, 2006
5. 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 withdraw able 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, 2006

Changes in the representation policy

December 31, 2006	December 31, 2007
（Accounting Standard for Impairment of Fixed Assets） Accounting Standard for Impairment of Fixed Assets ("Opinion concerning establishment of Accounting Standard for Impairment of Fixed assets" by the Business Accounting Deliberation Council on August 9, 2002) and "Guidance for the application of Accounting Standard for Impairment of Fixed assets" (The 6th Application Principle of the Accounting Standards on October 31, 2003) have been adopted from this term.　Operating income increased by 219 million yen, ordinary income increased by 398 million yen, and net income before taxes decreased by 1,836 million yen. The amounts of accumulated loss on impairment are deducted directly from each applicable assets based on the revised interim financial statement regulations.	—
(Accounting Standard for Net Assets of Balance Sheet） Accounting Standard for Net Assets of Balance Sheet (The 5th Accounting Standards on December 9, 2005) and "Guidance for the application of Accounting Standard for Net Assets of Balance Sheet" (The 8th Application Principle of the Accounting Standards on December 9, 2005) have been adopted from the current term. Total amount of conventional shareholders' equity was 130,029 million yen. Due to corporate law regarding financial statements, Net Assets of Balance Sheet was shown based on the revised regulation.	—

Changes in the method of presentation

December 31, 2006	December 31, 2007
(Consolidated Interim balance sheet) Due to being immaterial, “Deposits received” is included in “Others” in the Non-current liabilities section of consolidated balance sheet.　For reference, the amount of the account for the fiscal year is 325 million yen.	—
(Consolidated Interim statement of income) “Closure-related compensation” 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 123 million yen.	—

Notes

(Consolidated balance sheet - related)

Millions of yen December 31, 2006		December 31, 2007	
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	213		
2. Securities in the amount of 250 million yen and “other” assets in investments and other assets in the amount of 1,160 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 423 million yen.		2. “Other” assets in investments and other assets in the amount of 1,510 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 445 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.	1,128	Toys"R"Us-Japan, Ltd.	952
(2) Guarantees provided for employees' mortgages from banks:	6	(2) Guarantees provided for employees' mortgages from banks:	3
4. Reductions of tangible fixed assets from gains on insurance claims were 110 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 93 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen.	
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.		5. —	
Notes payable	1,942		
Notes payable - plant and equipment	981		
6. 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		6. 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	(4,114)	Differential between book value and post-revaluation market value of revalued land at end of term	(3,922)

(Consolidated statement of income - related)

Millions of yen	December 31, 2006		December 31, 2007	
1.	Primary items and amounts included under selling, general and administrative expenses		Primary items and amounts included under selling, general and administrative expenses	
	(1)Advertising expenses	8,263	(1)Advertising expenses	9,363
	(2)Sales promotion expenses	9,068	(2)Sales promotion expenses	14,899
	(3)Salaries	5,543	(3)Salaries	5,941
	(4)Bonuses	1,824	(4)Bonuses	2,008
	(5)Provision for bonuses	1,212	(5)Provision for bonuses	1,411
	(6)Pension expenses	628	(6)Pension expenses	386
	(7)Provision for directors' retirement allowances	27	(7)Provision for directors' retirement allowances	27
	(8)Rent on real estate	905	(8)Rent on real estate	919
	(9)Depreciation	1,289	(9)Depreciation	1,315
	(10)Outside services expenses	2,910	(10)Outside services expenses	4,175
	(11)Investigation and research expenses	440	(11)Investigation and research expenses	414
2.	Breakdown of losses on disposal of fixed assets		Breakdown of losses on disposal of fixed assets	
	Buildings and structures	20	Buildings and structures	122
	Machinery and equipment	33	Machinery and equipment	228
	Tools, appliances and fixtures	11	Tools, appliances and fixtures	31
	Software	14	Software	24
	Total	79	Total	408

3. Impairment loss (December 31, 2006)

Impairment loss was recognized during interim 2006 term
Breakdown of impairment loss by assets type are as follows:

Intended use	Assets type	Region	Amount
Restaurants in operation	Building and structures etc.	Kanto	1,784
Same as above	Same as above	Hokkaido and Tohoku	337
Same as above	Same as above	Other	170
		Total	2,292

Calculations of impairment losses were conducted by grouping assets and grouping assets are the certain regional area that we monitor its revenue and expense continuously, mainly managerial accounting unit. Group assets that generates operating loss continuously and off-chance to recover their book value are considered to be impaired, and the book value was written down to recoverable level. That write-down (2,292 million yen) was reported as an impairment loss and shown in the extraordinary loss.

Breakdown of impairment loss by assets type are as follows:

Buildings and structures	1,487
Machinery	373
Tools, appliances and fixtures	171
Lease assets	240
Others	19
Total	2,292

The recoverable value of the group assets was calculated by utility value and it was calculated by discounting future cash flow at 5.2% rate.

3. Impairment loss (December 31, 2007)

Impairment loss was recognized during interim 2006 term
Breakdown of impairment loss by assets type are as follows:

Intended use	Assets type	Region	Amount
Restaurants in operation	Building and structures etc.	Kanto	42
Same as above	Same as above	Other	3
		Total	46

Calculations of impairment losses were conducted by grouping assets and grouping assets are the certain regional area that we monitor its revenue and expense continuously, mainly managerial accounting unit. Group assets that generates operating loss continuously and off-chance to recover their book value are considered to be impaired, and the book value was written down to recoverable level. That write-down (46 million yen) was reported as an impairment loss and shown in the extraordinary loss.

Breakdown of impairment loss by assets type are as follows:

Buildings and structures	35
Machinery	5
Tools, appliances and fixtures	3
Lease assets	1
Total	46

The recoverable value of the group assets was calculated by utility value and it was calculated by discounting future cash flow at 5.6% rate.

Millions of yen	December 31, 2006			December 31, 2007	
4.	—		4.	During this year, McDonald’s Japan Company, Inc, the subsidiary of the company, strategically closed unprofitable restaurants. “Loss on store closure” in extraordinary losses was loss on disposal of fixed assets and de-arching costs etc. due to this strategic closure.	
5.	"Loss on recall of campaign premiums" in extraordinary losses arose due to the recall of premiums used for promotion of our subsidiary, McDonald’s Japan, in August part of which appeared to be faulty.		5.	—	
6.	R&D expenses in selling, general and administrative expenses	335	6.	R&D expenses in selling, general and administrative expenses	414

(Consolidated statement of shareholders' equity)

December 31, 2006

1. Type and number of outstanding shares and treasury stock

	December 31, 2006	Increase	Decrease	December 31, 2007
Outstanding shares				
Common stock	132,960,000	–	–	132,960,000
Total	132,960,000	–	–	132,960,000
Treasury stock				
Common stock	148	50	–	198
Total	148	50	–	198

Note: Increase in common stocks is due to the purchase of odd stocks.

2. Type and number of warrant

Not applicable

3. Dividend

(1) Amount of dividend paid

Resolution	Type of share	Total amount of dividend (million yen)	Dividend per share (yen)	Reference date	Effective date
Regular general shareholders meeting March 27, 2006	Common stock	3,988	30	2005/12/31	2006/3/28

(2) Amount which reference date is in the current year but effective date is in the following year(forecast)

Resolution (forecast)	Type of share	Total amount of dividend (million yen)	Resource	Dividend per share (yen)	Reference date	Effective date
Regular general shareholders meeting March 27, 2007	Common stock	3,988	Retained earnings	30	2006/12/31	2007/3/28

December 31, 2007

1. Type and number of outstanding shares and treasury stock

	December 31, 2006	Increase	Decrease	December 31, 2007
Outstanding shares				
Common stock	132,960,000	—	—	132,960,000
Total	132,960,000	—	—	132,960,000
Treasury stock				
Common stock	198	—	—	198
Total	198	—	—	198

2. Type and number of warrant

Not applicable

3. Dividend

(1) Amount of dividend paid

Resolution	Type of share	Total amount of dividend (million yen)	Dividend per share (yen)	Reference date	Effective date
Regular general shareholders meeting March 27, 2007	Common stock	3,988	30	2006/12/31	2007/3/28

(2) Amount which reference date is in the current year but effective date is in the following year (forecast)

Resolution (forecast)	Type of share	Total amount of dividend (million yen)	Resource	Dividend per share (yen)	Reference date	Effective date
Regular general shareholders meeting March 27, 2008	Common stock	3,988	Retained earnings	30	2007/12/31	2008/3/28

(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 2006 and 2007.

(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, 2006	December 31, 2007
Buildings and structures		
Acquisition cost	2	1
Accumulated depreciation	1	0
Accumulated impairment loss	-	-
Net leased property	1	0
Machinery and equipment		
Acquisition cost	8,573	8,672
Accumulated depreciation	4,204	4,730
Accumulated impairment loss	159	145
Net leased property	4,209	3,795
Tools, appliances and fixtures		
Acquisition cost	4,481	3,901
Accumulated depreciation	2,083	2,442
Accumulated impairment loss	75	68
Net leased property	2,322	1,389
Total		
Acquisition cost	13,057	12,575
Accumulated depreciation	6,288	7,174
Accumulated impairment loss	234	217
Net leased property	6,534	5,186

(2) Equivalent amount of unearned lease payments

Millions of yen	December 31, 2006	December 31, 2007
Due within one year	2,415	1,937
Due after one year	4,191	3,234
Total	6,606	5,171
Account balance of impairment loss for leased assets	171	88

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

Millions of yen	December 31, 2006	December 31, 2007
Lease rents	2,933	2,603
Reversal of impairment loss for lease assets account	69	81
Equivalent depreciation	2,218	2,182
Equivalent amount of interest paid	156	144
Impairment loss for lease assets	240	1

(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, 2006	December 31, 2007
Unexpired leases		
Within 1 year	337	337
More than 1 year	898	561
Total	1,235	1,235

(Marketable and investment securities)

1. Quoted bonds which are being held to maturity

Millions of yen	December 31, 2006			December 31, 2007		
	Current value	Book value	Unrealized gain (loss)	Current value	Book value	Unrealized gain (loss)
Bonds whose market values not exceed amounts recognized on the consolidated balance sheet						
JGB	250	249	(0)	-	-	-
Total	250	249	(0)	-	-	-

2. Other quoted securities

Millions of yen	December 31, 2006			December 31, 2007		
	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	120	4,570	4,449	120	3,386	3,266
Total	120	4,570	4,449	120	3,386	3,266

3. Major investment securities without market prices

Millions of yen	December 31, 2006	December 31, 2007
Other securities		
Unlisted stocks (excluding OTC stocks)	56	56

4. 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, 2007				
JGB	-	-	-	-
	-	-	-	-
December 31, 2006				
JGB	250	-	-	-
	250	-	-	-

(Derivatives)
I. Items related to the status of transactions

December 2006 term and December 2007 term
1. Transaction details

Derivative transactions used by the Company consist of forward foreign exchange contracts. The forward foreign exchange contracts with importers for food materials are carried out based on the decision made by McDonald’s Company (Japan), Ltd. The forward foreign exchange contracts with financial institutions for inventories 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 etc at McDonald’s Company (Japan), Ltd. and its franchisees. The Company uses hedge accounting for the derivatives. The detail for accounting treatment is described in “Accounting policy”.

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 and McDonald’s Company (Japan), Ltd. 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, 2006				December 31, 2007			
Category and type	Amount of contract etc.	Over one year	Market value	Unrealized gain (loss)	Amount of contract etc.	Over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions								
Exchange contract transactions								
Buying contracts								
U.S. Dollar	29,242	8,792	31,457	2,215	48,102	18,329	49,315	1,213
	29,242	8,792	31,457	2,215	48,102	18,329	49,315	1,213

(Note)
Market value calculation method
The end-of-term market value is calculated using prices in the futures market.
Derivative transaction using hedge accounting is excluded.

(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 participated in the Yogashi Employees Pension Fund, but this Pension Fund was accepted its dissolution by The Ministry of Health, Labor and Welfare on June 28, 2007 and dissolved on the same day.

2. Matters relating to retirement benefit liabilities

Millions of yen	December 31, 2006	December 31, 2007
(1) Retirement benefit liabilities	(19,532)	(19,767)
(2) Pension assets	25,588	25,201
(3) Unaccrued pension benefit liabilities (1) + (2)	6,055	5,434
(4) Unrecognized actuarial gains or losses	(4,096)	(3,100)
(5) Net amount shown on consolidated balance sheet (3) + (4)	1,958	2,334
(6) Prepaid pension expenses	3,611	4,341
(7) Allowance for retirement benefits (5) – (6)	(1,653)	(2,007)

3. Matters relating to retirement benefit expenses

Millions of yen	December 31, 2006	December 31, 2007
(1) Current service costs	1,571	1,650
(2) Interest expense	382	351
(3) Expected earnings on pension fund assets	(343)	(364)
(4) Expensing of differences based on actuarial calculations	(99)	(165)
(5) Subtotal	1,511	1,473
(6) Additional retirement funds	6	14
(7) Total retirement benefit expenses	1,518	1,488

4. Assumptions underlying the calculation of retirement benefit liabilities

	December 31, 2006	December 31, 2007
(1) Discount rate	1.8%	1.6%
(2) Expected rate of return	1.5%	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	8 years	8 years

(Stock option)

December 2006 term and December 2007 term

Not applicable

(Deferred taxes)

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

Millions of yen	December 31, 2006	December 31, 2007
Deferred tax assets		
Enterprise taxes payable	195	670
Excess over limit of allowance for bonuses	1,234	1,060
Allowance for directors' retirement	32	41
Excess over limit of allowance for doubtful accounts	461	366
Excess over limit of allowance for retirement benefits	818	661
Valuation loss on food products and supplies	320	326
Depreciation expenses	1,088	799
Loss carried forward	2,975	2,513
Impairment loss	889	585
Others	277	1,341
Total	8,292	8,367
Valuation allowance	(157)	(194)
Grand total	8,135	8,172
Deferred tax liabilities		
Unrealized gains or losses on other securities	(1,810)	(1,329)
Gain from establishment of pension plan assets	(1,595)	(1,592)
Gift Card miscellaneous income	(26)	(14)
Reserve for special depreciation	(112)	(4)
Labor insurance	(85)	-
Others	(76)	(63)
Total	(3,706)	(3,003)
Total deferred tax assets – net	4,428	5,168

In addition to the above figures, there are deferred tax assets and liabilities for “revaluation for land” account as follows.

December 31, 2006

Deferred tax assets for revaluation for land	2,433 million yen
Valuation allowance	(2,433) million yen
Deferred tax liabilities for revaluation for land	(508) million yen
Total deferred tax liabilities-net	(508) million yen

December 31, 2007

Same as December 31, 2006

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

December 31, 2006		December 31, 2007	
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	40.69%	Legal effective tax rate	40.69%
<adjustment>		<adjustment>	
Expenses not deductible for tax purposes (such as entertainment expenses)	6.03%	Expenses not deductible for tax purposes (such as entertainment expenses)	1.41%
Incomes not included for tax purposes (such as interests receivable)	(0.82%)	Incomes not included for tax purposes (such as interests receivable)	(0.16%)
Per capita rate of inhabitant tax	2.10%	Per capita rate of inhabitant tax	0.52%
Tax rate variance of subsidiaries	0.57%	Tax rate variance of subsidiaries	1.28%
Valuation allowance	4.67%	Valuation allowance	0.26%
Others	0.82%	Others	(0.31%)
Income tax and others accompanying adoption of tax effect accounting	54.06%	Income tax and others accompanying adoption of tax effect accounting	43.69%

(Segment information)

Business segment information

For the year ended December 2006 (January 1 – December 31, 2006) and 2007 (January 1 – December 31, 2007), 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 2006 (January 1 – December 31, 2006) and 2007 (January 1 – December 31, 2007), the Company had no consolidated subsidiaries domiciled outside Japan. Accordingly, there is no geographical segment information.

Overseas sales

For the year ended December 2006 (January 1 – December 31, 2006) and 2007 (January 1 – December 31, 2007), the Company had no sales outside Japan, therefore this section is omitted.

(Transaction with related parties)

December 2006 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-tem borrowings	500

The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

(2) Directors and major individual shareholders, etc.

Not applicable

Reference (Transaction with related parties)

December 2006 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 transactions	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	11,037	Accounts payable - other	5,725
							Accrued Income etc.	1,599	Others (current assets)	825
							Advertising expenses and salaries of seconded staff etc.	930	Others (current liabilities)	307
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

Policies regarding transaction conditions

1. 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).
2. The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

(2) Directors and major individual shareholders, etc.

Not applicable

(Transaction with related parties)

December 2007 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-tem borrowings	500

The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

(2) Directors and major individual shareholders, etc.

Not applicable

Reference (Transaction with related parties)

December 2007 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 transactions	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	4	Licensing consent based on a licensing contract	Royalties	12,353	Accounts payable - other	6,347
							Accrued Income etc.	1,773	Others (current assets)	898
							Advertising expenses and salaries of seconded staff etc.	1,031	Others (current liabilities)	495
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

Policies regarding transaction conditions

1. 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).
2. The interest rate applied in the borrowings from McDonald's Restaurant Operations, Inc. is based on the market rate of interest.

(2) Directors and major individual shareholders, etc.

Not applicable

(Business combination-related financial information)

Not applicable

(Per share-related financial information)

Yen	December 31, 2006		December 31, 2007
Shareholders' equity per share	978.25	Shareholders' equity per share	1,001.50
Net loss per share	11.65	Net loss per share	58.81
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 2006.		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 2007.	

(Note)
Net earning per share is calculated based on the following information.

Millions of yen	December 31, 2006	December 31, 2007
Net income	1,549	7,819
Income not available to common stockholders	-	-
Income available to common stockholders	1,549	7,819
Average number of common shares outstanding (thousands shares)	132,959	132,959

(Important matters occurring subsequent to report period)

Not applicable

5. Nonconsolidated Financial Statements

1. Nonconsolidated balance sheet

Millions of yen	Notes	December 31, 2006	%	December 31, 2007	%	Year-on-year change
Current assets						
Cash and deposits		449		200		
Accounts receivable - trade	4	4,874		5,453		
Securities	1	250		-		
Prepaid expenses		2,241		2,276		
Deferred tax assets		45		47		
Short-term loans receivable	4	15,500		17,500		
Others		105		269		
		23,468	16.4	25,747	18.2	2,279
Fixed assets						
Tangible fixed assets	3					
Buildings		60,690		54,971		
Accumulated depreciation		42,471		39,972		
		18,218		14,999		
Structures		6,662		6,256		
Accumulated depreciation		4,792		4,720		
		1,870		1,536		
Tools, appliances and fixtures		82		81		
Accumulated depreciation		80		81		
		1		0		
Land	5	17,277		17,277		
		37,367	26.2	33,813	23.9	(3,554)
Intangible fixed assets						
Leaseholds		729		729		
Software		3,409		7,621		
Telephone subscription rights		48		47		
		4,188	2.9	8,398	5.9	4,209
Investments and other assets						
Investments in securities		4,626		3,443		
Shares of affiliated companies		1,160		1,370		
Investments in affiliated companies		217		-		
Long-term loans receivable		17		11		
Claims in bankruptcy and substantial bankruptcy		848		752		
Long-term prepaid expenses		1,203		1,319		
Deferred tax assets		1,891		1,926		
Leasing and guarantee deposits		67,441		64,064		
Others	1	1,320		1,668		
Allowance for doubtful accounts		(1,057)		(819)		
		77,671	54.5	73,737	52.0	(3,934)
Total fixed assets		119,227	83.6	115,948	81.8	(3,279)
Total assets		142,695	100.0	141,696	100.0	(998)

Millions of yen	Notes	December 31, 2006	%	December 31, 2007	%	Year-on-year change
Current liabilities						
Accounts payable - trade		623		640		
Short-term loans payable		3,000		5,000		
Accounts payable - other	4	4,998		5,991		
Accrued expenses payable		58		194		
Income taxes payable		55		78		
Others		42		40		
		8,778	6.2	11,946	8.5	3,167
Long-term liabilities						
Long-term loans payable relating to affiliates		500		500		
Allowance for directors' retirement		36		45		
Guarantee deposits received		270		259		
Deferred tax liability due to revaluation	5	508		508		
		1,315	0.9	1,313	0.9	(1)
		10,094	7.1	13,260	9.4	3,165
Shareholders' equity						
Common stock		24,113	16.9	24,113	17.0	
Additional paid-in capital		42,124	29.5	42,124	29.7	
Retained earnings						
Legal income reserves		253		253		
Carried forward retained earnings		68,712		65,249		
		68,965	48.3	65,502	46.2	
Treasury stock		(0)	(0.0)	(0)	(0.0)	
		135,202	94.7	131,740	92.9	(3,462)
Revaluation & Translation adjustment						
Unrealized gain on other securities		2,639	1.9	1,937	1.4	
Revaluation account for land	5	(5,240)	(3.7)	(5,240)	(3.7)	
		(2,601)	(1.8)	(3,303)	(2.3)	(702)
Total shareholders' equity		132,601	92.9	128,436	90.6	(4,164)
Total liabilities and shareholders' equity		142,695	100.0	141,696	100.0	(998)

2. Nonconsolidated statement of income

Millions of yen	Notes	Year ended December 31, 2006	%	Year ended December 31, 2007	%	Year-on-year change
Sales	3	53,158	100.0	54,553	100.0	1,394
Cost of sales		49,724	93.5	51,287	94.0	1,563
Gross profit on sales		3,434	6.5	3,265	6.0	(168)
Selling, general and administrative expenses	1	2,075	3.9	2,479	4.6	403
Operating income		1,358	2.6	786	1.4	(572)
Nonoperating income						
Interest income	3	264		318		
Dividend income		204		37		
Compensation for interruption of business at stores		121		335		
Management service fee income	3	-		204		
Others		123		120		
		714	1.3	1,015	1.9	301
Nonoperating expenses						
Interest expenses		16		23		
Provision for allowance for doubtful accounts		58		-		
Loss on disposal of fixed assets at stores		453		485		
Amortization of idle software		-		86		
Others		14		183		
		542	1.0	779	1.4	237
Ordinary income		1,530	2.9	1,022	1.9	(508)
Extraordinary gains						
Reversal of allowance for doubtful accounts		-		143		
Compensation for relocation of stores		80		144		
		80	0.1	288	0.5	208
Extraordinary losses						
Loss on disposal of fixed assets	2	58		330		
Loss on repayment of received compensation	4	222		-		
		281	0.5	330	0.6	49
Income before taxes and other adjustments		1,330	2.5	980	1.8	(349)
Corporate, inhabitant and enterprises taxes		8		9		
Deferred taxes		692		444		
		701	1.3	454	0.8	(247)
Net Income		628	1.2	526	1.0	(102)

Breakdown of cost of sales

Millions of yen	Notes	Year ended December 31, 2006	%	Year ended December 31, 2007	%	Year-on-year change
Rent		44,615	89.7	46,270	90.2	1,655
Depreciation and amortization		5,109	10.3	5,016	9.8	(92)
Cost of sales		49,724	100.0	51,287	100.0	1,563

3. Nonconsolidated Statements of Shareholders' Equity

(Millions of yen)

Year ended December 31, 2006	Shareholders' equity							
	Common stock	Additional paid-in capital		Retained earnings			Treasury stock	Total
		Capital reserve	Total additional paid-in capital	Legal income reserve	Other retained earnings	Total retained earnings		
					Carried forward retained earnings			
Balance at December 31, 2005	24,113	42,124	42,124	253	72,072	72,325	(0)	138,562
Cash dividends					(3,988)	(3,988)		(3,988)
Net income					628	628		628
Acquisition of Treasury Stock							(0)	(0)
Changes in items except shareholders' equity, net								–
Total change in the term	–	–	–	–	(3,359)	(3,359)	(0)	(3,360)
Balance at December 31, 2006	24,113	42,124	42,124	253	68,712	68,965	(0)	135,202

Year ended December 31, 2006	Revaluation & Translation Adjustment			Grand total
	Unrealized gain on other securities	Revaluation account for land	Total	
Balance at December 31, 2005	3,641	(2,806)	834	139,397
Cash dividends				(3,988)
Net income				628
Acquisition of Treasury Stock				(0)
Changes in items except shareholders' equity, net	(1,002)	(2,433)	(3,436)	(3,436)
Total change in the term	(1,002)	(2,433)	(3,436)	(6,796)
Balance at December 31, 2006	2,639	(5,240)	(2,601)	132,601

(Millions of yen)

Year ended December 31, 2007	Shareholders' equity							
	Common stock	Additional paid-in capital		Retained earnings			Treasury stock	Total
		Capital reserve	Total additional paid-in capital	Legal income reserve	Other retained earnings	Total retained earnings		
					Carried forward retained earnings			
Balance at December 31, 2006	24,113	42,124	42,124	253	68,712	68,965	(0)	135,202
Cash dividends					(3,988)	(3,988)		(3,988)
Net income					526	526		526
Changes in items except shareholders' equity, net								—
Total change in the term	—	—	—	—	(3,462)	(3,462)	—	(3,462)
Balance at December 31, 2007	24,113	42,124	42,124	253	65,249	65,502	(0)	131,740

Year ended December 31, 2007	Revaluation & Translation Adjustment			Grand total
	Unrealized gain on other securities	Revaluation account for land	Total	
Balance at December 31, 2006	2,639	(5,240)	(2,601)	132,601
Cash dividends				(3,988)
Net income				526
Changes in items except shareholders' equity, net	(702)	—	(702)	(702)
Total change in the term	(702)	—	(702)	(4,164)
Balance at December 31, 2007	1,937	(5,240)	(3,303)	128,436

Significant accounting policies

Item	December 31, 2006	December 31, 2007
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, 2006
	(2) Shares in subsidiaries and affiliates: Valued at cost using the periodic average method	(2) Shares in subsidiaries and affiliates: Same as December 31, 2006
	(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, 2006 Unquoted securities Same as December 31, 2006
2. Major depreciable assets and methods of depreciation	(1) Tangible fixed assets: straight-line method Years of useful life for principal assets: Buildings: 2 – 40 years Structures: 2 – 50 years Tools, appliances and fixtures: 2 - 20 years	(1) Tangible fixed assets: straight-line method . Same as December 31, 2006
	(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, 2006
	(3) Long-term prepaid expenses: Straight-line method	(3) Long-term prepaid expenses: Same as December 31, 2006
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, 2006
	(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) -
	(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, 2006
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, 2006

Changes in the representation policy

December 31, 2006	December 31, 2007
（Accounting Standard for Impairment of Fixed Assets） Accounting Standard for Impairment of Fixed Assets ("Opinion concerning establishment of Accounting Standard for Impairment of Fixed assets" by the Business Accounting Deliberation Council on August 9, 2002) and "Guidance for the application of Accounting Standard for Impairment of Fixed assets" (The 6th Application Principle of the Accounting Standards on October 31, 2003) have been adopted from this term. There is no PL impact for the company arising from this standard	-
(Accounting Standard for Net Assets of Balance Sheet） Accounting Standard for Net Assets of Balance Sheet (The 5th Accounting Standards on December 9, 2005) and "Guidance for the application of Accounting Standard for Net Assets of Balance Sheet" (The 8th Application Principle of the Accounting Standards on December 9, 2005) have been adopted from the current term. Total amount of conventional shareholders' equity was 132,601 million yen. Due to corporate law regarding financial statements, Net Assets of Balance Sheet was shown based on the revised regulation.	-

Notes

(Nonconsolidated balance sheet - related)

Millions of yen December 31, 2006		December 31, 2007	
1.Securities in the amount of 250 million yen, and "other" assets in investments and other assets in the amount of 1,160 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 423 million yen of McDonald's Company (Japan) Ltd., a consolidated subsidiary		1."Other" asset in investments and other assets in the amount of 1,510 million yen is 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 445 million yen of McDonald's Company (Japan) Ltd., a consolidated subsidiary	
2.Contingent liabilities		2.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.	1,128	Toys"R"Us-Japan, Ltd.	952
(2) Guarantees provided for employees' mortgages from banks:	6	(2) Guarantees provided for employees' mortgages from banks:	3
(4) Liabilities (security deposits held) assumed by McDonald's Company (Japan), Ltd. at the time of corporate separation:	43	(3) Liabilities (security deposits held) assumed by McDonald's Company (Japan), Ltd. at the time of corporate separation:	19
3.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.		3.Reductions of tangible fixed assets from gains on insurance claims were 68 million yen, and reductions of tangible fixed assets from expropriation were 110 million yen.	
4.Note to affiliated companies		4.Note to affiliated companies	
Assets and liabilities at affiliated companies included in other items		Assets and liabilities at affiliated companies included in other items	
Accounts receivable	4,874	Accounts receivable	5,345
Short-term loans	15,500	Short-term loans	17,500
Accounts payable - other	4,986	Accounts payable - other	5,940
5.Revaluation of land		5.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	(4,114)	Differential between book value and post-revaluation market value of revalued land at end of term	(3,922)

(Nonconsolidated statement of income - related)

Millions of yen	December 31, 2006		December 31, 2007	
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	190		(1)Directors' salaries	384
(2)Provision for directors' retirement allowances	13		(2)Provision for directors' retirement allowances	12
(3)Outsourcing expenses	595		(3)Outsourcing expenses	708
(4)Cost of preferential treatment to the shareholders	572		(4)Cost of preferential treatment to the shareholders	713
	224		(5)Cost of stock administration	235
			(6)Tax and dues	146
2. Breakdown of losses from removal of fixed assets			2. Breakdown of losses from removal of fixed assets	
Buildings	24		Buildings	114
Structures	0		Structures	0
Software	34		Software	215
	58			330
3. Transactions with affiliated companies include the following			3. Transactions with affiliated companies include the following	
Rental income	52,927		Rental income	54,335
Interest received	182		Management service fee income	204
			Interest received	218
4. The amount of loss on repayment of received compensation in extraordinary losses is due to the adjustment of the compensation for interruption of business at stores which were included in the Company's income statement in the previous term but should have been attributed to the McDonald's Company (Japan), Ltd.			4. -	

(Nonconsolidated statement of shareholders' equity)

December 31, 2006

Type and number of treasury stock

	December 31, 2005	Increase	Decrease	December 31, 2006
Treasury stock				
Common stock (note)	148	50	―	198
Total	148	50	―	198

Note: Increase in treasury stock is due to the acquisition of fractional shares.

December 31, 2007

Type and number of treasury stock

	December 31, 2006	Increase	Decrease	December 31, 2007
Treasury stock				
Common stock (note)	198	―	―	198
Total	198	―	―	198

(Marketable and investment securities)

There are no shares of subsidiaries or affiliates for which a market value exists as of December 31, 2006 and December 31, 2007.

(Deferred taxes)

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

Millions of yen	December 31, 2006	December 31, 2007
Deferred tax assets		
Enterprise taxes payable	30	29
Amount denied as special retirement allowances for directors	14	18
Excess over limit of allowance for doubtful accounts	426	331
Depreciation expenses	295	439
Loss carried forward	2,975	2,510
Others	206	201
Subtotal	3,949	3,530
Valuation allowance	(157)	(171)
Total	3,792	3,358
Deferred tax liabilities		
Unrealized gains or losses on other securities	(1,810)	(1,329)
Others	(44)	(55)
Total	(1,854)	(1,384)
Total deferred tax assets – net	1,942	1,974

In addition to the above figures, there are deferred tax assets and liabilities for “revaluation for land” account as follows.

December 31, 2006

Deferred tax assets for revaluation for land	2,433 million yen
Valuation allowance	(2,433) million yen
Deferred tax liabilities for revaluation for land	(508) million yen
Total deferred tax liabilities-net	(508) million yen

December 31, 2007
Same as December 31, 2006

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

December 31, 2006		December 31, 2007	
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	40.69%	Legal effective tax rate	40.69%
<adjustment>		<adjustment>	
Expenses not deductible for tax purposes (such as entertainment expenses)	4.20%	Expenses not deductible for tax purposes (such as entertainment expenses)	6.26%
Incomes not included for tax purposes (such as interests receivable)	(4.59%)	Incomes not included for tax purposes (such as interests receivable)	(1.34%)
Per capita rate of inhabitant tax	0.67%	Per capita rate of inhabitant tax	0.96%
Valuation allowance	11.85%	Valuation allowance	1.47%
Others	(0.09%)	Others	(1.72%)
Income tax and others accompanying adoption of tax effect accounting	52.72%	Income tax and others accompanying adoption of tax effect accounting	46.32%

(Per share-related financial information)

Yen	December 31, 2006		December 31, 2007	
	Shareholders' equity per share	997.30	Shareholders' equity per share	965.98
	Net loss per share	4.73	Net loss per share	3.96
	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 2006.		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 2007.	

(Note)
Net income per share is calculated based on the following information.

Millions of yen	December 31, 2006	December 31, 2007
Net Income	628	526
Income not available to common shares	-	-
Income available to common shares	628	526
Average number of common shares outstanding (thousands shares)	132,959	132,959

(Important matters occurring subsequent to report period)

Not applicable

6. Others

(1) Change in the board of directors

This section will be disclosed as “addition of announcement of financial statement” later.

(2) Sales

The Group derives its revenue from the development of company-operated McDonald’s hamburger restaurants and from royalties paid by franchised restaurants. The Composition of sales, sales of company-operated restaurants by geographic region, and number of company-operated restaurants are shown below.

Sales

(1) Sales results by division

	December 31, 2006		December 31, 2007	
Millions of yen	**Amount**	**Percentage of total (%)**	**Amount**	**Percentage of total (%)**
Company-operated store sales				
Sandwiches	132,479	37.2	149,615	37.9
Desserts	91,262	25.7	104,795	26.5
Drinks	75,012	21.1	76,310	19.3
Breakfasts	11,386	3.2	14,294	3.6
Breakfast desserts	9,013	2.5	9,876	2.5
Others	6,576	1.8	7,063	1.8
	325,730	91.5	361,956	91.6
Franchise revenue	28,355	8.0	32,554	8.2
Others	1,610	0.5	549	0.1
	355,696	100.0	395,061	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. *Sandwiches consists of burgers including hamburgers, cheeseburgers, Big Macs, Salad Dishes, Teriyaki Mcburgers, etc.*
4. *Sales amounts shown under franchise revenue include royalties, rental fees, sales promotion expenses, and proceeds from the sale of stores.*
5. *“Others” sales consists of revenue from service fees related to restaurants support business etc*

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

Millions of yen	December 31, 2006 No. of stores	Amount	Percentage of total (%)	December 31, 2007 No. of stores	Amount	Percentage of total (%)
Hokkaido	62	6,154	1.9	46	6,118	1.7
Aomori	15	1,426	0.4	15	1,587	0.4
Iwate	17	1,328	0.4	17	1,553	0.4
Miyagi	44	4,773	1.5	40	5,454	1.5
Akita	14	1,202	0.4	14	1,393	0.4
Yamagata	11	1,461	0.3	0	768	0.2
Fukushima	27	2,366	0.7	30	3,012	0.8
Ibaraki	78	7,693	2.4	77	8,878	2.5
Tochigi	50	4,403	1.4	53	5,338	1.5
Gunma	51	4,488	1.4	50	5,159	1.4
Saitama	154	15,637	4.8	147	18,036	5.0
Chiba	137	16,034	4.9	126	17,826	4.9
Tokyo	409	59,856	18.4	415	66,615	18.4
Kanagawa	256	30,846	9.5	233	35,149	9.7
Niigata	29	2,710	0.8	0	249	0.1
Toyama	23	2,239	0.7	21	2,695	0.7
Ishikawa	20	1,865	0.6	20	2,209	0.6
Fukui	15	1,579	0.5	11	1,582	0.4
Yamanashi	27	2,426	0.7	23	2,727	0.8
Nagano	52	4,210	1.3	51	4,771	1.3
Gifu	49	4,790	1.5	48	5,364	1.5
Shizuoka	80	8,091	2.5	66	8,938	2.5
Aichi	215	22,027	6.8	201	25,455	7.0
Mie	45	4,092	1.3	45	4,573	1.3
Shiga	49	4,702	1.4	45	5,270	1.5
Kyoto	76	8,984	2.8	73	10,012	2.8
Osaka	257	33,002	10.1	252	36,460	10.1
Hyogo	119	14,416	4.4	116	16,086	4.4
Nara	33	3,602	1.1	30	3,899	1.1
Wakayama	21	2,078	0.6	20	2,294	0.6
Tottori	2	255	0.1	5	470	0.1
Shimane	3	370	0.1	7	730	0.2
Okayama	27	3,511	1.1	26	3,928	1.1
Hiroshima	45	5,561	1.7	42	6,221	1.7
Yamaguchi	16	1,553	0.5	15	1,735	0.5
Tokushima	12	1,619	0.5	11	1,732	0.5
Kagawa	23	2,742	0.8	23	3,107	0.9
Ehime	29	2,801	0.9	30	3,219	0.9
Kochi	0	406	0.1	0	0	0.0
Fukuoka	91	10,509	3.2	85	11,621	3.2
Saga	12	1,005	0.3	13	1,208	0.3
Nagasaki	14	1,416	0.4	8	1,399	0.4
Kumamoto	34	4,015	1.2	33	4,132	1.1
Oita	20	2,468	0.8	21	3,018	0.8
Miyazaki	16	1,599	0.5	17	1,916	0.5
Kagoshima	18	2,228	0.7	17	2,385	0.7
Okinawa	35	5,169	1.6	36	5,641	1.6
	2,832	325,730	100.0	2,674	361,956	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.

4. All stores in Yamagata, Niigata, and Kochi are franchised stores as of the end of year.