

OPEN DOORS

For us at McDonald's, corporate responsibility is about who we are and how we operate in the diverse communities we serve. It's about the doors we open ... for our guests, our employees, our owner/operators, our suppliers and others who are affected by our business. And it's about keeping our own doors open to share what's behind the Golden Arches ... not just what we do well, but our challenges too. We invite you to open this report and engage with us in a discussion about the impacts of our business, our responsibilities and our performance.

Our actions are grounded in what our founder, Ray Kroc, once said ...



... “Whatever we are doing today, we can do better tomorrow.”

THIS IS THE SPIRIT OF THIS REPORT. OPEN. EVOLVING. DETERMINED TO DO MORE.

PROGRESS

NUTRITION INFORMATION INITIATIVE

page 22

We are putting nutrition information right into our customers’ hands by using an iconic approach to display calories, protein, fat, carbohydrates and sodium on our food packaging. Our goal is to have this packaging in place in 20,000 restaurants by the end of 2006.

“This standardized approach to communicating key nutrient values to McDonald’s customers has been done in a way that is simple to understand, which I feel will make it a useful tool for those individuals looking to make more informed menu choices at McDonald’s”

DR. HARVEY ANDERSON
PROFESSOR OF NUTRITIONAL SCIENCES, PHYSIOLOGY AND MEDICAL SCIENCES, FACULTY OF MEDICINE AT THE UNIVERSITY OF TORONTO, MEMBER OF McDONALD’S GLOBAL ADVISORY COUNCIL ON BALANCED, ACTIVE LIFESTYLES
TORONTO, ONTARIO

SUPPORTING SUSTAINABLE FISHERIES

page 34

We have rolled out sustainability guidelines for fisheries worldwide. As a result of this focus, over the past five years, 18,000 metric tons of whitefish have been shifted to fisheries that meet the new criteria. Guidelines used to determine the sustainability of fisheries were developed in partnership with Conservation International.

“Many fisheries worldwide are in trouble and sourcing sustainably is a key challenge for big companies. The criteria used by McDonald’s guide them to the best available

\$60.9 MILLION RAISED FOR CHILDREN’S CHARITIES

page 57

The McDonald’s System, including employees, owner/operators and suppliers, along with the help of customers, raised \$60.9 million dollars worldwide in 2005 in support of Ronald McDonald House Charities as well as other children’s charities.

“Just as we open the door to our businesses each morning, Ronald McDonald House Charities opens the door to opportunities for us to become more involved in our communities. While RMHC is a global organization, its impact is right in our own backyards.”

LINDA DUNHAM
CHAIR OF RONALD



OPEN DOORS: GROWING GLOBALLY

"When it comes to Open Doors, we believe that it's not just a campaign. It's part of everyone's responsibility — and part of everyone's job. This means that we have a plan, and we have actions in place that are putting us into an 'open doors' way of behaving."

ERIC GRAVIER, VICE PRESIDENT, CORPORATE AFFAIRS
AND SUSTAINABLE DEVELOPMENT, MCDONALD'S FRANCE

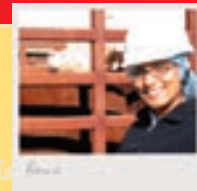
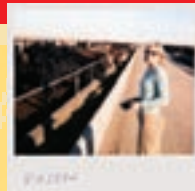
OPEN DOORS

Look for the OPEN DOORS symbol throughout this report. It indicates an inside look at the McDonald's System through the eyes of our employees, owner/operators, suppliers and external partners.

FRANCE 2001

Consumer trust in the company was declining. An outbreak of BSE in Europe had shaken public confidence in the safety of beef. And many saw McDonald's as a symbol of globalization — and a company that communicated only in a crisis and then as little as possible. McDonald's France wanted to change this view. So on March 21, 2001, the company held its first Open Doors Day. Nearly 400 McDonald's restaurants, the main corporate office, three major suppliers and two advertising agencies were open to anyone who wanted to see what went on inside.

What began as a one-time event is expanding to other markets as well — not just as a program, but as a growing mindset. So what better theme for our third Corporate Responsibility Report? If any aspect of our business deserves an open look, it's our efforts to conduct our business responsibly.



OPEN DOORS SPECIAL FEATURE: THE MCDONALD'S CSR FELLOWS "FORK TO FARM" REPORT

USA 2005

In September 2005, we invited six MBA students from the Haas School of Business at the University of California, Berkeley to explore our beef supply chain — the ranches, feedlots and processing facilities that supply burgers to our restaurants. We facilitated their "fork to farm" journey through interviews with our staff and other experts, and we accompanied them on visits to facilities and ranches.

You might ask, "Why fork to farm? Isn't that backward?" Well, actually, no — at least not from our perspective. As a retailer, we work from the front counter back through the supply chain to the farm level. The Fellows approached their work from the same perspective. You'll find their report as a gatefold in the Responsible Purchasing chapter of this report (pages 26 a-g).

CONTENTS¹

3	About This Report
4	Roundtable Conversation with McDonald's Top Management
8	2004 Goals – 2006 Assessment
10	Key Performance Indicators
11	Corporate Profile & Governance
16	PRODUCTS Balanced, Active Lifestyles: Menu Choice; Providing Information; Physical Activity; Marketing and Communications Practices
26	PRODUCTS Responsible Purchasing: Social; Environment; Animal Welfare; Food Safety
26 a-g	SPECIAL FEATURE: <i>CSR Fellows "Fork to Farm" Report</i>
42	PEOPLE Opportunity; Training; Compensation; Employee Satisfaction; Diversity
54	PLACE Community; Ronald McDonald House Charities; Economic Impact; Environment
66	Open for Discussion – Open for Improvement
69	Acknowledgments
70	Timeline



¹ Please refer to page 68 for a content index that organizes information according to the Global Reporting Initiative's (GRI) Draft G3 guidelines for sustainability reporting. We are a registered Organisational Stakeholder of the GRI and support the mission of the GRI to develop globally accepted sustainability reporting guidelines through a global, multi-stakeholder process.

ABOUT THE SCOPE OF THIS REPORT

For this report, we focused on the most relevant issues that we, along with our customers and other major stakeholders, consider the highest priorities. To identify these priorities, we used various source materials, including the Plan to Win (McDonald's global business strategy), consumer research, internal subject-matter leaders, our owner/operators, our suppliers, expert advisory councils, nonprofit organizations and the Ceres Stakeholder Group (explained below). We also took account of the Global Reporting Initiative's Draft G3 Sustainability Reporting Guidelines.

For specific examples and performance measures, we have focused on our nine major markets: Australia, Brazil, Canada, China, France, Germany, Japan,² the United Kingdom and the United States. The designation of "major markets" reflects many factors, including sales, revenues, operating income, number of restaurants and potential for growth. By design, there is representation from all the major geographic sectors where we do business. In 2005, the nine major markets collectively accounted for approximately 75% of total revenues, 82% of total sales and 80% of McDonald's restaurants worldwide.



STAKEHOLDER GUIDANCE: THE CERES STAKEHOLDER GROUP

To further ensure we addressed the right issues in the right way, we engaged the help of Ceres — a coalition of investors, environmental organizations and other public interest groups that work with a select group of companies, including McDonald's, to strengthen their social and environmental programs.

Through Ceres, we established a Ceres Stakeholder Group who encouraged us to report our progress and future efforts in the "OPEN DOORS" spirit. They challenged us to talk about our limits and opportunities for improvement, as well as our achievements. They recommended we take a deeper dive into how we get things done, particularly how we seek to achieve global objectives in our highly decentralized system. And they advised us to report more metrics and goals whenever possible.

You will see a "Ceres Stakeholder Questions and Perspective" at the opening of each chapter of the report and one within the environment section in the Place chapter. In these five locations, the Ceres Stakeholder Group elaborates on the issue and its impacts and importance and asks McDonald's to respond.

The three top issues identified by the Ceres Stakeholder Group are:

- What are we doing to help address current trends in obesity? *page 16*
- How are we using our purchasing power to influence the upstream supply chain? *page 26*
- How are we addressing the System's impacts on climate change? *page 62*

We asked the Ceres Stakeholder Group for their perspective on two other areas as well:

- What is the reality of working at a McDonald's restaurant? *page 42*
- How do our philanthropic efforts align with our business strategy? *page 54*

Ceres has not endorsed or validated the views and information in our report but rather provided guidance on the approach and the substance. We learned a great deal from their input and hope you will see it reflected in the report.

² More than 50% of McDonald's Japan is publicly traded and called McDonald's Holdings Company (of Japan, Ltd.). The remaining portion is owned by McDonald's Corporation. Because we have access to information about McDonald's in Japan, however, relevant data are included in this report.

Q&A:

Roundtable with McDonald's Management

Moderator

KELLIE A. MCELHANEY, *Executive Director, Center for Responsible Business, Haas School of Business, University of California, Berkeley, John C. Whitehead Distinguished Faculty, Fellow in Corporate Responsibility*

Kellie teaches courses on corporate social responsibility (CSR) and consults with several Fortune 500 companies in developing an integrated CSR strategy, bridging her academic focus with the practitioner world. She is a member of the UN Global Compact Faculty and was recently named a 2005 Faculty Pioneer for Institutional Impact by the biennial report, *Beyond Grey Pinstripes*. Kellie holds a Ph.D. from the University of Michigan, a M.A. from Ohio University and a B.A. from the University of North Carolina, Chapel Hill. Kellie is also the faculty advisor for the CSR Fellows (pages 26 a-g).

"While I am proud of what McDonald's is today, I am more proud of what we can be."

I recognize that we have both the opportunity and responsibility to do more to serve our customers and communities in even more responsible ways.

Business, like life, is a journey. We are never finished. The dialogue continues in each case, as it should, because we continue to listen to our stakeholders and adapt to the evolving changes in the world in which we live."

JIM SKINNER
ADDRESSING THE BUSINESS
FOR SOCIAL RESPONSIBILITY
CONFERENCE,
NOVEMBER 2005

On April 24, 2006, seven members of our senior management team gathered at McDonald's home office in Oak Brook, IL, to discuss corporate responsibility and what it means for the company today and our direction for the future. The discussion was moderated by Kellie McElhaney from the Haas School of Business, University of California, Berkeley and attended by employees from our Oak Brook office. The following is a shortened version of the transcript, edited for content and readability.

KELLIE MCELHANEY: Welcome to the management roundtable on corporate responsibility for McDonald's leadership team. When I look at McDonald's and your stats — serving more than 50 million people per day in more than 100 countries, with \$20.5 billion in annual revenue — I'm left with a rather obvious question. Why are we here to talk about corporate responsibility?

JIM SKINNER: Corporate responsibility is very important to any success that we have. We're fortunate at McDonald's, because our founder, Ray Kroc, left a legacy for us to live by and that was that we give back to the communities that have given so much to us. So for us doing the right things and doing things right is natural. As we become bigger we have more responsibility — and certainly it's integral to how our customers view our business. In all the things we do that touch our customers and touch our communities, we are the leaders, particularly in our industry. Everybody looks to us to provide that leadership and to challenge the way we go about getting it done. So not only do we have a responsibility to our customers and our communities and our own business model, we have some accountability and responsibility to the rest of the industry.

KELLIE MCELHANEY: How does corporate responsibility get integrated into your day-to-day business operations?

MIKE ROBERTS: It's not just about revenue. It's also about responsibility in every area of the world. Our responsibility is to be active in the communities, whether that's support of Ronald McDonald House Charities, whether it's Little League or soccer. Our operators, as a part of their commitment to the brand and upholding our standards, take that very seriously. We're committed to operating responsibly — listening to our

councils, which have been set up to advise us in the areas of nutrition, animal welfare and beef safety — so that we can do the right things in every area that we do business, whether it's supply chain or marketing or hiring practices or creating more opportunity for our people or in the way we market our brand. This is about who we are, and that's why it's such a pleasure to be a part of this team and a part of this company.

MARY DILLON: We know that today consumers are more often making choices based on their perceptions about a company's social responsibility performance. That's important for us to understand because it could make a difference in a customer's choice of whether to visit our restaurants or not. We know that when customers know more about how socially responsible we are, it makes them more likely to come back.

KELLIE MCELHANEY: How do you see corporate social responsibility play out in the restaurants?

JEFF STRATTON: It goes all the way from the farm right to the restaurant. We work to make sure that rigorous food safety standards are upheld in all of our restaurants. Training, food safety and quality, the development of our food and our menu — it all ties in, because many of our suppliers consider themselves extensions of our family, and so they have the same rigorous approach to this as we do inside the company.

KELLIE MCELHANEY: Can you speak more to the supply chain and was it more of a push strategy or a pull strategy?

FRANK MUSCHETTO: If we look at our supply chain, there are several important strategic pillars. One of them is our commitment to social responsibility and that addresses an array of items, starting with things like food quality and



Jim Skinner

Frank Muschetto

Ken Barun

JIM SKINNER, Chief Executive Officer

MIKE ROBERTS, President and COO

KEN BARUN, President & CEO, RMHC & McDonald Charities, Corporate Senior Vice President

MARY DILLON, Executive Vice President and Global Chief Marketing Officer

RICH FLOERSCH, Executive Vice President and Chief Human Resources Officer

FRANK MUSCHETTO, Senior Vice President and Chief Purchasing Officer

JEFF STRATTON, Corporate Executive Vice President and Chief Restaurant Officer

food safety. Also very important is the issue of sustainable food supply. It's something we've been working on for the last five years, and we're proud to talk about the sustainable programs we have in place relative to fish and other products. Our commitment to social responsibility also includes animal welfare. Our standards for how animals are treated are absolutely world class.

JIM SKINNER: Ray Kroc liked to say that we had principles when we were poor and we're certainly going to have them when we're successful and we're rich. Ray and Fred Turner set the highest quality standards possible, so those suppliers had to jump that hurdle. They had to be able to deliver that and it went on and on and on. Any time you look at any one of our suppliers around the world today, those expectations continue. We look at taste and quality first, not efficiency, not cost.

FRANK MUSCHETTO: The profile of the suppliers that we select is consistent with several attributes that we identified years ago that we felt support what McDonald's is about. One of them is about their commitment to corporate responsibility. If they don't have it, if it's not endemic to their business, if it's not strategic to the business, forget it. While we have some very notable names in our supplier community, Kraft, Coke, just to name a couple, I'm just as proud of some of the entrepreneurial, smaller companies that have that same high level of standards.

JEFF STRATTON: One of the other examples that we've used in a lot of our discussions with people around the company is the toy business. Last year, over a billion toys were produced for distribution through McDonald's Happy Meals, and I believe that not one child spent a night in the hospital. This record is due to our high safety standards for the design and manufacturing of our toys. We do a tremendous amount of work on the safety and security side and the supply chain side and also audit facilities in countries such as China and Vietnam that produce a lot of these toys. Auditing helps make sure we hold those suppliers accountable.

MIKE ROBERTS: There's a change occurring with customers. Customers expect corporations to be very active in this area. Customers want to know what the company stands for, what are the values of the leadership team and are they executed in the restaurants. They expect that as a part of who they're going to do business with. It's important to our business and the momentum that we're building that they know more about us.

KELLIE MCELHANEY: Do you sometimes feel alone in the industry?

JEFF STRATTON: As issues arise, many of our competitors and other companies that we do business with look to McDonald's to lead, and I think we've done that in many areas. We have to act like a leader, and that means that we have to pull together the industry to talk about an issue that could affect us all. I think we are more proactive on that than ever. In Asia, we just pulled together many of our suppliers along with our competitors and our competitors' suppliers to talk about the avian influenza issue. We were the nucleus of putting that together, and we did it with the United Nations, with their support and their participation. We take leadership very seriously.

"We work to make sure that rigorous food safety standards are upheld in all of our restaurants. Training, food safety and quality, the development of our food and our menu — it all ties in, because many of our suppliers consider themselves extensions of our family, and so they have the same rigorous approach to this as we do inside the company." — JEFF STRATTON

FRANK MUSCHETTO: But this story is typically not well known outside the four walls of our offices, although I will tell you that in dealing with the various areas of the scientific community, government, academia, as well as within the industry, McDonald's impact is more well known. Now, it's great that they know. But the challenge that we have is how to tell our story in a way so our customers can start appreciating how much we've actually delivered, because I could cite chapter and verse where we have helped lift the standards of a food system in a country.

RESPONSIBILITY INTEGRATED

	PLAN TO WIN VISION	OUR RESPONSIBILITY
PEOPLE	Our well-trained employees will proudly provide fast, friendly and accurate service with a smile, in a way that delights our customers.	We have a responsibility to maintain a work environment where everyone feels valued and accepted, to provide training and other opportunities for personal and professional growth and to promote job satisfaction.
PRODUCTS	We will serve food and beverages people prefer to enjoy regularly.	We have a responsibility to provide a relevant variety of quality product choices that our customers trust and to partner with suppliers that operate ethically and meet our social responsibility standards.
PLACE	Our restaurants and drive-thrus will be clean, relevant and inviting to the customers of today and tomorrow.	We have a responsibility to manage our business by integrating environmental considerations into daily operations and by constantly seeking ways to add value to the community.
PRICE	We will be the most efficient provider so that we can be the best value to the most people.	We have a responsibility to maintain our values and high standards as we provide food that is affordable to a wide range of customers.
PROMOTION	All of our marketing and communications will be relevant to our customers and consistent with our Brand.	We have a responsibility to maintain and build trust with all our stakeholders by ensuring that our marketing and communications efforts are truthful and appropriate.

MISSION & VALUES

McDonald's mission is to be our customers' favorite place and way to eat — with inspired people who delight each customer with unmatched quality, service, cleanliness and value every time.

THE FOLLOWING CORE VALUES GUIDE OUR ACTIONS AS WE STRIVE TO ACHIEVE OUR MISSION:

We are committed to our people and to providing opportunity, as well-trained employees are the key to our success.

We believe in the "three-legged stool" — the collaboration of our owner/operators, employees, and suppliers working together — because each leg of the stool must be strong for the system to succeed.

We believe in openness, in operating our business with honesty and integrity, and in holding ourselves to high ethical standards.

We are committed to well-being and to encouraging balance by providing choice in food and beverage offerings for our diverse customers.

We believe in giving back to the communities in which we do business and to supporting Ronald McDonald House Charities and other charities that promote the health and well-being of children.

We are committed to growing our business on behalf of our shareholders, who provide the capital necessary for our company to grow and should realize an attractive return on their investments.

KEN BARUN: One of the things that I'm very, very proud of when it comes to charity, that Ray Kroc said, is we have to continue to give back to communities where we do business. Most people don't realize that we give back in communities where we don't do business, and that really cuts through a lot for me. It doesn't matter if there are Arches up in that country or not. If there are children in need, if there are families in need and we can play a part in solving some problems or helping get over some challenges for them, then we're going to do that. Right now in the world, there are 6,000 families at this very moment staying in Ronald McDonald Houses, which the McDonald's System helps support. That's about 20,000 people right this very minute, and that's repeated day in and day out, 365 days a year.

KELLIE MCELHANEY: How does social responsibility affect McDonald's and its people?

RICH FLOERSCH: It has a direct impact in terms of our ability to be able to compete for some of the best talent. How companies treat their employees, how committed they are to their development and how they can look at their management team and believe them to be an ethical management team — these things are very important to prospective employees and also for our current employees. To our own employees, the kind of pride that people would have around that will have a direct impact on their level of commitment to McDonald's, their level of engagement and consequently their level of performance on the job, so it makes all the business sense in the world.

KELLIE MCELHANEY: That's great. It's a pipeline issue. In our incoming MBA class right now, 37% of them said that they came to Haas in part for our strength in corporate social responsibility. I never thought I'd see those kinds of numbers in my lifetime, and here they are. It was 25% last year, so it's still going up. I think you're right to weave this into your recruiting and your hiring. This is all great information. How are you communicating these initiatives with your customers?

MIKE ROBERTS: This is an important priority for us, and we're working on it. How do you tell your story and how do you do it in a way that's reflective of the humility and the curiosity that we all embrace? When you're creating 40 to 50 new products a year, a major part of our marketing spend is about launching those products. Yet today's consumers want to know as much about a company's values and behaviors as they do about your new food news. Those markets that have done this successfully now have a steady state of 20% of their marketing spend as a part of telling their story. So we're relooking at our approach.

RICH FLOERSCH: Communicating about the opportunity at McDonald's is one of my priorities. Instead of senior management talking about these things, let's get real people at the store level — the restaurant managers, the men and women who work in our restaurants, owner/operators, the people who own our restaurants — these are the people who should be talking about the opportunity McDonald's offers. Also, external



Jeff Stratton

recognition about how McDonald's is a great place to work is really something that's going to dispel the myths that are out there about jobs at McDonald's. We have just seen now in the U.K. they're taking McJobs head on with their McFlexibility program. Saying, "This is what a job offers at McDonald's — flexibility."

MIKE ROBERTS: And we should talk about another aspect of the ways we engage with the world at large, like our partnerships. Very few companies have as many advisory councils as we do of outside experts lending their credibility and their advice to how we govern.

KEN BARUN: It was interesting with the Global Advisory Council. Many of those members are very high profile — scientists, people in the food industry, experts who are looking at obesity and nutrition. Their comment to us has generally been, "I think I'll be part of this because you have a great impact on a lot of people. If I can help influence McDonald's while communicating these messages to the public, I'd like to be involved."

MARY DILLON: Advocating for balanced, active lifestyles is something that has been a terrific leadership move on the part of McDonald's, and it was a function of our own realization as well as expertise and advice from our external Global Advisory Council. We did three things. One is offering more choice on our menu. The second, started by our European team, is putting nutrition information on packaging. The third is advocating for physical activity which, we've done all around the world and spent a tremendous amount of resources on.

KELLIE MCELHANEY: Jim, what do you see as the future of CSR for McDonald's?

JIM SKINNER: For us at McDonald's, it's a way of life and it's a continuum — the processes that we have in place around supply chain and opportunity for employment and food safety and all of the things that we do that are so important to our communities and giving back through Ronald McDonald House Charities. It is something that we expect to continue, and we want to contribute at a very high level.

KELLIE MCELHANEY: What are the other issues McDonald's is facing?

MARY DILLON: Well, there's no question childhood obesity is on people's minds. At McDonald's, and as a mother, I take this issue very seriously. It's about not only what kids are eating, but their relative lack of activity. So it's important that we take leadership stances to educate and act on both sides of this equation. Encouraging balance is an important ongoing responsibility — making sure that we offer choice, that we have the right information available to parents as they're making decisions and certainly, supporting and celebrating activity with kids.

KELLIE MCELHANEY: It strikes me, since I've known McDonald's you've been held responsible for a wide variety of things. I'd like to know what aren't companies responsible for, because at the end of the day you can't be all things to all people.

JIM SKINNER: One thing that we're not responsible for is your personal responsibility. It is my personal responsibility for the way I behave in my life. Now, what we are responsible for is making sure that we allow enough choice and opportunity for you to choose McDonald's and feel good about it. It's a small distinction, and it's very difficult to communicate because everybody wants to blame us, but I think we have to be very clear about the fact that we all have our own individual responsibility.

KELLIE MCELHANEY: Obviously the seven of you around this table are going to leave a tremendous legacy. Jim, what do you want your legacy to be?

JIM SKINNER: I do have three very specific expectations of my tenure. Long-term, sustainable growth. Talent management and leadership development, because it's about the people. A better process of reaching down into the organization of high potentials and giving them the opportunity to be developed on the leadership side and on the management side. And balanced, active lifestyles, which I took as a personal challenge, not because we wanted to just move ourselves out of the target zone, but because we wanted to be part of the solution. All three legs of our stool, which are our employees, our owner/operators and our suppliers will benefit. That's the legacy that I would like to leave.

"It doesn't matter if there are Arches up in that country or not. If there are children in need, if there are families in need and we can play a part in solving some problems or helping get over some challenges for them, then we're going to do that." — KEN BARUN

KELLIE MCELHANEY: I think with this leadership in place and the strategy that is linked directly to your business you're on a great trajectory, and I wish you a lot of luck in seizing the opportunity. Thank you for your time.

"Today, consumers expect more from corporations. They are relying less on governments to lead, and instead, they're looking to companies for positive change. Retail is not just about revenue—it's about responsibility."

MIKE ROBERTS
ADDRESSING MCDONALD'S
SYSTEM AT 2006
WORLDWIDE OWNER/
OPERATOR CONVENTION,
ORLANDO, FLORIDA

PERFORMANCE SNAPSHOT: REPORTING ON GOALS FROM 2004 WORLDWIDE CORPORATE RESPONSIBILITY REPORT

STATUS KEY: ∅ No progress + Some progress ++ Good progress +++ Excellent progress ● Met goal

	2004 GOALS	STATUS	SELF-ASSESSMENT
PRODUCTS: Balanced Active Lifestyles <i>page 16</i>	Add choice to our menu, particularly new choices for kids and more fruit and vegetable items.	+++ +	For adults, more choices added, especially salads We have made progress in offering a selection of side and beverage choices on our Happy Meal Menu, including fruit and vegetables, milk and water. Ongoing product innovation will include expanded side and beverage choices in addition to new entrees.
	Increase employee awareness of balanced, active lifestyles through education and training programs on food quality, nutrition and fitness.	+	Developed and distributed a crew training video in seven languages on "it's what i eat and what i do". Distributed materials encouraging balanced, active lifestyles to McDonald's managers from 46 countries at the 2005 Manager's Peak Convention. Europe has introduced training for both crew and management on balanced, active lifestyles, and a global e-learning module is under development.
	Explore new ways to deliver nutrition and balanced, active lifestyle information to our customers.	+++	Announced global nutrition information initiative for many packaging items, to be phased in at 20,000 restaurants by year-end 2006.
	Champion programs that bring fun, practical physical activity options to people's every-day lives — focusing particularly on walking.	++	Introduced global "it's what i eat and what i do" initiative. Leveraged Olympic and global sponsorships including Olympic Day Run. In the U.S., more than 15 million stepometers were distributed and Passport to Play was launched.
	Demonstrate leadership in our marketing and communications practices with our customers.	++	We have continued to assess and evolve our marketing and advertising standards. We have also introduced additional training and accountability for those whose work involves brand related communications and/or use of McDonald's trademarks.

	2004 GOALS	STATUS	SELF-ASSESSMENT
PRODUCTS: Responsible Purchasing <i>page 26</i>	Build capacity in suppliers to establish systems that ensure ethical practices to help suppliers achieve our socially responsible supply vision.	++	We have participated in Project Kaleidoscope to test ways to sustain compliance based on dynamic, internal management systems and ongoing worker input. Several major suppliers have demonstrated leadership and self-management by adopting their own programs equivalent to ours, including external monitoring.
	Implement a validation process for our antibiotics policy.	●	We have developed a certification system with direct poultry suppliers.
	Maintain the effectiveness and quality of audits conducted under our animal welfare program and work collaboratively with industry to develop approaches that extend good animal welfare practices to the farm level.	● +	Annual audits are done globally for meat (beef, pork and poultry) processing plants. We have made some progress in working with industry. McDonald's Europe has farm-level animal welfare standards in its Agricultural Assurance Program. McDonald's USA has joined a pork animal welfare coalition that is implementing farm-level animal welfare standards and auditing.
	Continue the refinement and implementation of our environmental guidelines on fish sourcing.	+++	Environmental fish guidelines piloted and rolled out globally. Through these guidelines, 18,000 metric tons of whitefish have been shifted from unsustainable sources.
	Expand the pilot test of our environmental scorecard to include additional suppliers. Explore opportunities for encouraging actions that support sustainable agriculture at the farm level.	++ +	Pilot program completed. Scorecard currently being rolled out in the U.K. and Australia. To encourage sustainability at the farm level, we have engaged with the Sustainable Agriculture Initiative in Europe. In other markets, we have been unable to find similar collaborative efforts.

	2004 GOALS	STATUS	SELF-ASSESSMENT
PEOPLE: Opportunity; Diversity; Learning for Life <i>page 42</i>	Systematically identify talent in our organization and offer opportunities for advancement.	++	CEO Jim Skinner has named talent management and leadership development as one of his three top company priorities. Leadership Institute launched.
	Educate employees about social responsibility, major issues that affect our business and relevant workplace issues.	+	We have increased our communications to restaurants, but have much further to go. We have social responsibility communication materials available at employee conventions, and we have increased the amount of relevant social responsibility content on our external and internal websites.
	Continue the increased dialogue between top management and employees worldwide.	++	In addition to regular management town hall meetings, which are webcast, increased opportunities for communication between employees and top management have been developed, such as conferences for restaurant managers, and top management interactive webcasts and web log conversations.
	Continue exploring better ways to measure the business results of our training programs.	++	As part of McDonald's Restaurant Operations Improvement Program (ROIP), we will be adding global measures for effective training.
	Develop an education and training program for field staff and managers to implement McDonald's Restaurant Operations Improvement Program (ROIP).	+++	A training program has been developed and launched in 18 countries worldwide, as ROIP is being integrated into the global business.

	2004 GOALS	STATUS	SELF-ASSESSMENT
PLACE: Giving Back; Economic Impact; Environment <i>page 54</i>	Control energy use.	++	Energy management tools were utilized in our top markets to monitor and control energy efficiency within the restaurants. In addition, best practices are shared to learn from leadership within the System. Energy data from eight of our top nine markets show that energy use remained constant, per transaction count, from 2004 to 2005.
	Seek innovative packaging that comes from renewable or recycled sources.	0	We have maintained a ratio of 83% renewable material-based packaging, 31.5% of which is recycled content. Despite testing of innovative materials, we have not yet identified any breakthrough materials for packaging that are commercially viable.
	Develop sustainable forestry guidelines for all wood-based products.	+	McDonald's Europe has adopted a forestry policy for consumer packaging. A global policy is being developed.
	Continue McDonald's annual World Children's Day and increase the amount raised by the System to support Ronald McDonald House Charities and other children's charities.	●	World Children's Day in 2005 raised around \$23.6 million. Planning is underway for 2006. To support RMHC, in 2005 McDonald's set a goal to raise \$50 million for our 50th anniversary. We surpassed this goal by raising, with the help of employees, owner/operators, suppliers and customers, \$60.9 million.
	Encourage local markets to expand program sponsorships, including those in the area of physical activity, fitness and sports.	+++	There is very good momentum and focus of local markets supporting our grassroots physical activity programs.
	Develop a corporate volunteerism program.	0	At the corporate home office, though we have not developed a formal volunteer program, we do provide workplace flexibility and encourage corporate staff to give back.

MEASURING PERFORMANCE: KEY PERFORMANCE INDICATORS (KPIs)

To develop these KPIs, we considered which areas were most important to our key stakeholders. We also consulted the Global Reporting Initiative's Draft G3 Sustainability Reporting Guidelines.

To ensure corporate responsibility was integrated into our core business operations, we paired the key issues we identified with established metrics currently being used to manage the McDonald's business. Where such metrics did not exist, we worked with subject-matter leaders to develop new, relevant metrics.

We are still at the foundational stage of developing KPIs. Our internal data systems do not, at this point, allow us to report all metrics exactly as we would like. As we improve these systems and gain experience and feedback, we expect the KPIs to evolve.

The methodologies behind the KPIs and the figures reported are explained in more detail in the appropriate chapter.

McDONALD'S KEY PERFORMANCE INDICATORS ³	2004	2005
BALANCED, ACTIVE LIFESTYLES		
OFFERING MENU CHOICE		
Average # of items, per market menu, that contain at least 1 serving of fruit or vegetables	n/a	6.4
Average # of items, per market menu, that contain at least 1/2 a serving of fruit or vegetables	n/a	9.8
PROVIDING NUTRITION INFORMATION		
% of markets providing nutrition information:		
In-restaurant (i.e. trayliners, nutrition brochures)	100%	100%
Out-of-restaurant (i.e. websites)	100%	100%
RESPONSIBLE SUPPLY SYSTEM		
SUPPLIER SOCIAL ACCOUNTABILITY (WORLDWIDE)		
% of food, packaging and tier-1 equipment suppliers that have affirmed our Code of Conduct	57.0%	89.0%
ENVIRONMENTAL IMPACTS OF CONSUMER PACKAGING ⁴ (NOT INCLUDING BRAZIL)		
Amount of packaging used, by weight, per transaction count	n/a	0.14 lbs.
% of packaging material that is made from recycled paper	n/a	31.5%
ANIMAL WELFARE (WORLDWIDE)		
# of supplier meat (beef, pork and poultry) processing plants audited	534	521
PEOPLE⁵		
OPPORTUNITY		
% of company-operated restaurant managers, started as crew members	n/a	63.6%
% of non-restaurant staff above administrative level, started as crew members	n/a	18.4%
% of operations staff at consultant level or above, started as crew members	n/a	31.5%
% of worldwide top management team who started as crew members	n/a	42.0%
EMPLOYEE TRAINING & DEVELOPMENT		
% of crew members satisfied that they receive the training needed to do a good job (NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN)	79.4%	80.6%
% of managers who feel the person they report to supports their professional development (NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN, U.K.)	80.3%	81.6%
EMPLOYEE SATISFACTION (NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN)		
% of crew who would recommend working at McDonald's to a friend	82.2%	83.2%
% of crew who feel valued as a McDonald's employee	76.5%	79.1%
% of managers who would recommend working at McDonald's to a friend	80.8%	81.6%
% of managers who feel proud to work for McDonald's	82.0%	83.5%
MANAGEMENT OPPORTUNITIES FOR WOMEN		
% of company-operated restaurant managers who are women	n/a	44.0%
% of mid-management office staff who are women	n/a	39.9%
% of mid-management operations staff who are women	n/a	31.5%
% of worldwide top management team who are women	n/a	15.3%
SOCIAL TAXES		
Total social taxes paid by McDonald's ⁶	\$345.3m	\$382.3m
PLACE		
PHILANTHROPIC ACTIVITIES (WORLDWIDE)		
Total raised by the McDonald's System, including employees, owner/operators and suppliers, and with the help of customers, for RMHC & other charities ⁷	n/a	\$60.9m
Total corporate cash & in-kind contributions	\$9.2m	\$13.3m
LOCAL ECONOMIC IMPACTS (NOT INCLUDING JAPAN)		
Total capital expenditures (investments in new and existing restaurants)	\$0.94 b	\$1.14 b
RESTAURANT-LEVEL ELECTRICAL ENERGY USE (NOT INCLUDING CHINA, U.S.)		
Kilowatt hours used per transaction count (TC), resulting from electrical energy use in company-operated restaurants ⁸	0.85 kwh/TC	0.85 kwh/TC
GREENHOUSE GAS EMISSIONS (NOT INCLUDING CHINA, U.S.)		
CO ₂ emissions (in tons) resulting from electrical energy use in company-operated restaurants ⁹	591,000	643,800

³ Except as otherwise indicated, figures are for our nine major markets: Australia, Brazil, Canada, China, France, Germany, Japan, the U.K. and the U.S.

⁴ Consumer packaging does not include pre-packaged items such as salad dressing packets.

⁵ Data for restaurant employees are for company-operated stores.

⁶ Social taxes support government programs that may benefit company employees (retirement, health, unemployment).

⁷ Inclusive of a portion of the corporate contribution funds noted below.

⁸ U.S. data are available only for 2005 and, if included, would skew 2004 and 2005 comparability. U.S. 2005 data for company-operated restaurants represent 1.20 kWh per transaction count.

⁹ U.S. data are available only for 2005 and, if included, would skew 2004 and 2005 comparability. U.S. 2005 data for company-operated restaurants represent 173,168 tons of CO₂.

McDONALD'S IS A GLOBAL FAMILY OF LOCAL RESTAURANTS

- About 30,770 McDonald's locations in 118 countries.
- More than 73% of McDonald's restaurants are owned and operated locally by approximately 5,920 independent local men and women around the world.

This innovative structure allows restaurant staff to serve the needs of today's busy families with high quality ingredients and great service at convenient locations — all within a global framework that ensures high safety, quality and accountability standards.

THE THREE-LEGGED STOOL

Honorary Chairman Fred Turner characterized McDonald's operations as a **three-legged stool, the legs being our employees, owner/operators and suppliers**. As with a stool, all three are essential, and all three have to be strong and balanced to succeed.



LEG 1

EMPLOYEES

The McDonald's experience starts with our people. Together with our franchisees, we employ more than 1.5 million people around the world. Approximately 421,000 are our own employees (about 97% of them in our company-operated restaurants).

We take seriously the responsibility to promote fair, safe, healthful working conditions, effective management policies, diversity and inclusiveness in our restaurants.

We pride ourselves on the opportunity available within the McDonald's System. Opportunity is seen in the fact that 42 percent of our worldwide top management — including our CEO, the Chief Restaurant Officer, the President of McDonald's Europe, the President of McDonald's APMEA (Asia Pacific, Middle East, and Africa) and all three of the U.S. Division Presidents — started their McDonald's careers serving customers.



LEG 2

OWNER/OPERATORS

Our relationships with owner/operators are the key to our success, as they help to ensure the right balance between local autonomy with our worldwide quality and service standards.

Our owner/operators live and work where our customers do. They know the local business environment and are deeply connected with the interests and concerns of their communities.

Owner/operators develop and implement their own business plans, make their own purchases of goods and services, hire and manage their own employees¹¹ and reap the benefits of their own success. They set their own wage scales, decide what non-mandated benefits they will provide and make their own decisions about who to hire and promote.

In addition to ensuring that all McDonald's restaurants worldwide conform to a strict set of quality, service, cleanliness and safety standards, we collaborate with owner/operators to support responsible business practices.

WE ARE PROUD OF OUR FAMILY'S SUCCESS

- Our restaurants serve more than 50 million people around the world every day.
- McDonald's revenues (sales by company-operated restaurants and fees paid by franchisees and affiliates) totaled \$20.5 billion in 2005, +7% more than 2004.



LEG 3

SUPPLIERS

McDonald's is a consumer with a very large shopping cart. In 2005, worldwide restaurants' purchases of food, paper and toys — by far our largest expenditure categories — totaled approximately \$18.3 billion. In terms of expenditures, beef is our largest purchase, followed by chicken, packaging and dairy products, including cheese. Since 2002, our global expenditures for chicken products and produce have increased, reflecting, in part, new menu offerings like meal-sized salads.

We are well aware of the responsibilities and opportunities that come with this level of purchasing power and how our procurement policies can affect producer industries and their own employees. We are constantly exploring new ways to exercise this influence responsibly. When it comes to our suppliers, we fully expect them to share our values and commitments and have implemented numerous programs to encourage this.

¹⁰ In addition to McDonald's restaurants, we operate Boston Market and Chipotle Mexican Grill in the U.S. and own a minority interest in Pret a Manger, which is based in the U.K.. In 2005, these other brands accounted for somewhat less than 7% of total revenues. Because they represent such a relatively small fraction of our business and function quite autonomously, this report concerns only the policies, performance and operations of brand McDonald's, except in the area of financial performance.

¹¹ Company policies related to employees do not cover our independent owner/operators or their employees.

LOCAL RESTAURANTS, GLOBAL STRUCTURE

McDonald's is organized by geographic segment or Area of the World (AOW): North America, Europe, Latin America and a segment comprising the Asia/Pacific, Middle East and Africa (APMEA). There is also a segment for the non-McDonald's brands.

France, Germany and the U.K. account for more than 60% of Europe's revenues. Brazil accounts for more than 40% of Latin America's revenues. And Australia, China and Japan account for nearly 50% of APMEA's revenues. Together with the U.S. and Canada, we designate these countries as our "major markets."

LISTENING TO OUR SYSTEM

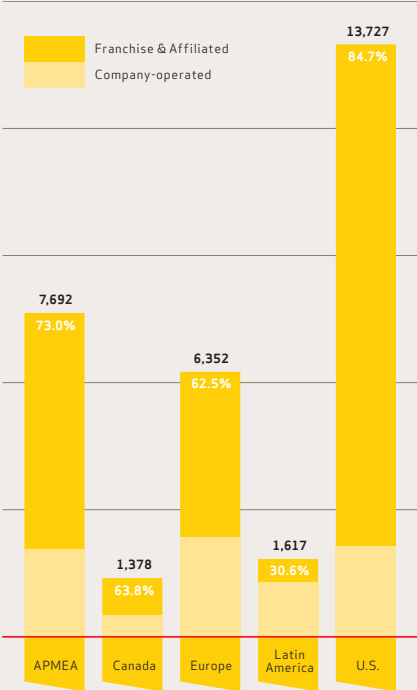
In order to be successful as a business, we must listen. We simply cannot succeed without hearing from our customers, restaurant staff and suppliers around the world about what matters to them.

In North America and Europe, there are **independent owner/operator councils** to provide feedback on corporate policies and programs and initiate proposals for improvements. **Local cooperatives**, consisting of owner/operators and company staff, jointly make decisions on such matters as expenditures for local advertising and plans for rolling out local promotions. In the U.S., we also benefit from the counsel of **owner/operator diversity organizations**.

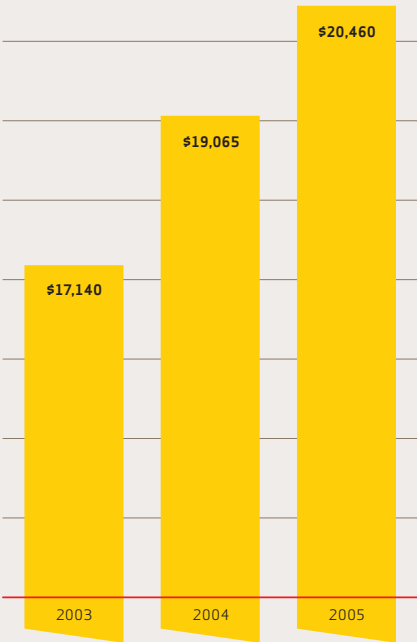
We also have **supplier councils** for certain overarching priorities, like quality assurance and safety. These councils have been a vehicle for collaboration on our global Animal Welfare Guiding Principles and initiatives to strengthen system firewalls against bovine spongiform encephalopathy (BSE).

The McDonald's System is decentralized. But we also recognize the need to maintain a system in which everyone adheres to the same core values, principles and standards. We balance these in an approach we call "freedom within the framework." Local businesses — owner/operators and restaurant managers — have the flexibility and responsibility to develop programs that respond to the diversity of our customers and local market conditions.

LOCATION AND OWNERSHIP OF MCDONALD'S RESTAURANTS



REVENUES, 2003-2005



BETTER, NOT JUST BIGGER

We are seeking to grow by being better, rather than just bigger by attracting more customers more often to our existing restaurants. To achieve this, since early 2003, our worldwide operations have been aligned around a global strategy called the **Plan to Win**. The Plan proceeds from our brand mission to “*be our customers’ favorite place and way to eat.*” It centers on the five basics of an exceptional customer experience — **People, Products, Place, Price and Promotion**. Each P has its own vision, specific objectives and key performance measures. This reflects an approach to long-term, sustainable, profitable growth.

Our alignment behind the Plan to Win has driven consistently strong financial results. We are committed to continue to drive sales by further improving operations and enhancing our customers’ experience.

THE CONTINUING PURSUIT OF EXCELLENCE

We are committed to continuously improving customer satisfaction. Achievement of this mission requires consistent outstanding restaurant operations — safe, high-quality food; quick, friendly, accurate service and a clean, welcoming restaurant environment. To provide these, we must stay ahead of the curve by implementing stringent standards that strive to not only meet but exceed what is required and expected.

We initiated the **Restaurant Operations Improvement Process (ROIP)** in 2002 to help improve restaurant performance and accountability as related to our quality, service, cleanliness (QSC) and people practice standards. The standards have been broken down into specific procedures and are organized into 12 systems that deliver the experience our customers expect.

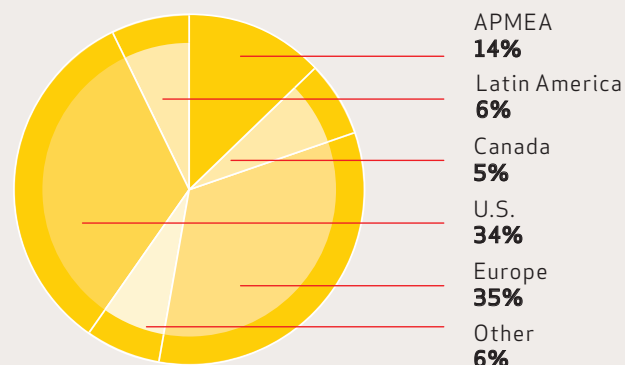
Initially launched in the U.S., ROIP has since been introduced in 16 additional countries so that it now covers countries representing 84% of our revenues worldwide. By the end of 2006, coverage will have been extended to restaurants representing more than 94% of worldwide revenues.

Under ROIP, both company-operated and franchised restaurants are subject to **periodic onsite reviews of their performance**. The reviews identify strengths and opportunities for improvement and provide the basis for training and other action plans.

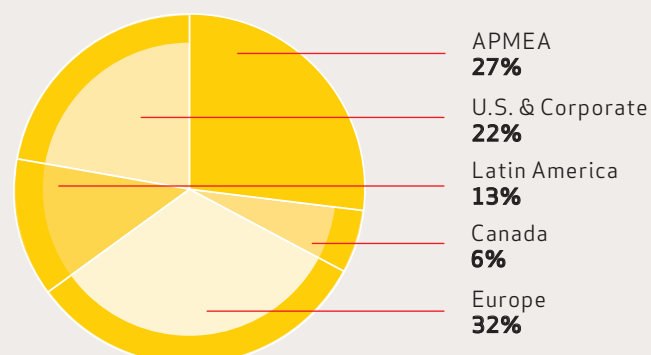
In addition to these periodic reviews, we score every restaurant based on a **mystery shopper program** — unannounced, anonymous visits by trained personnel who rate the restaurant’s QSC performance according to their experience as customers. We also get input from our own staff at each restaurant by way of an annual **employee satisfaction survey**.

Some business units around the world include a restaurant measure based on customer comment. For example, in the U.S., customers can provide feedback via a toll-free number (1-800-244-6227). In 2006, we plan to establish a standard code for the different types of customer comments we receive and incorporate customer feedback into our ROIP restaurant performance measures on a global basis.

2005 REVENUES



DISTRIBUTION OF COMPANY EMPLOYEES



Corporate responsibility begins at the top. At McDonald's, the concept of good corporate governance dates back to our founder, Ray Kroc. Over the years, we have established policies and standards in line with his vision of "a solid, permanent, constructive ethical program that will be in style years from now even more than it is today."

The Standards of Business Conduct are available online at www.csr.mcdonalds.com/standards.html



PROMOTING GOOD GOVERNANCE AND ETHICAL CONDUCT

Our Board of Directors and top management work to ensure the company's integrity in all its dealings with shareholders. Our commitment is codified in policies, standards and codes, including our **Corporate Governance Principles, Code of Conduct for the Board of Directors, and Code of Ethics for our CEO and Senior Financial Officers.**

In 1994, the Board of Directors made the then-innovative decision to include a summary of our governance principles in proxy statements for the annual Shareholders Meetings. Since then, most companies have followed suit. Our Corporate Governance Principles have evolved over time in response to changing views of best practices and shareholder expectations. The Board is committed to reviewing these Principles at least once a year, with a view toward continuous improvement.

The Principles include provisions designed to ensure independent oversight of the company's assets and business affairs. They require that a substantial majority of our Board members be independent i.e., "free of any relationship with the Company or its management that may impair, or appear to impair, the Director's ability to make independent judgments."¹²

STANDARDS OF BUSINESS CONDUCT

For McDonald's employees worldwide, the overall framework for ethical business practices is our **Standards of Business Conduct.**¹³ They apply to all our salaried employees worldwide, including restaurant managers. First published more than 40 years ago, the Standards have been repeatedly revised to reflect the changing business environment. The most recent major revision was completed in 2003.

Although no written code can provide rules for handling every ethical issue that might arise or incorporate all the laws and policies that apply to our worldwide business, the Standards establish a foundation in our core values, provide an orientation to ethical business conduct, offer guidance in a wide range of issue areas, and identify resources for questions and concerns.

At the heart of the Standards are three basic principles — personal accountability, open communication and action in the best interests of the System. Employees are asked to recognize that only they, individually, acting according to these principles and exercising good judgment, can "keep the shine on our Arches by doing the right things in the right way"

¹² There are currently 14 members of the Board of Directors, 12 of whom are independent. The two management members are the CEO and the President. The Board Chairperson is an independent Director.

¹³ Although company policies related to employees do not cover our independent owner/operators or their employees, certain expectations in the Standards of Business Conduct parallel expectations for our owner/operators and, hence, the employees who are their agents. They include, for example, compliance with all applicable laws and regulations and provisions for a safe work environment.

COMPLIANCE PROGRAM FOR THE STANDARDS

The Standards are a guiding policy implemented by a Corporate Compliance Officer who reports directly to the General Counsel.

Under the Standards, employees are responsible for raising questions or issues and for reporting known violations by way of a toll-free **Business Integrity Line** staffed 24-hours-a-day, seven days a week. Translators are available for employees who speak languages other than English. Employees may report anonymously and are assured that no attempt will be made to identify them. Retaliation against employees who raise concerns is prohibited and cause for disciplinary action.

When employees receive the Standards, they are asked to sign a form certifying that they have read and agree to abide by them. They are subsequently asked to re-certify on an annual basis. The response rate is 98% or better in virtually all countries. Certifications are kept on file and subject to review by internal auditors.

Another important part of the compliance program is **training to help employees fully understand and apply the Standards in their daily work**. The training program consists of a series of required online courses, each with a verification process. It includes:

- The philosophy of the Standards, employees' responsibilities and the resources available.
- Protecting confidential information and records management.
- "E-compliance" associated with e-mail and web-based communications.
- Anti-trust policy, for employees responsible for supplier purchasing and pricing.
- Anti-corruption laws for employees and third-party agents, especially those conducting international business, to support compliance with the Foreign Corrupt Practices Act.

POLITICAL CONTRIBUTIONS POLICY

In March 2006, our Board of Directors adopted a Political Contributions Policy under which political contributions made in the U.S. will be reported semi-annually on mcdonalds.com.

THE FUTURE

One of our aims is to further develop and maintain an effective business conduct compliance program. This will involve ongoing actions to keep employees aware of the tone at the top and the expectations for them. We also look toward extending our training program to reach employees worldwide and to providing additional guidance and training that will help them integrate the Standards of Business Conduct and related policies into their daily business activities.

RESPONSIBLE CORPORATE STEWARDSHIP

At McDonald's, we take seriously the responsibility that comes with being a major player in the global food industry. While the issues we face are constantly evolving, we make every effort to assess potential opportunities and risks, stakeholder interests, sources of relevant expertise, resources and all other relevant factors. And while situations and circumstances vary from country to country and month to month, we adhere to several basic principles:

- **We always keep the customer in mind.**
- **We seek opportunities for leadership in our industry where we believe we can make a significant difference.**
- **We seek to learn from experts.**
- **We seek ongoing improvement.**
- **We seek to continually collaborate, whether with our owner/operators and suppliers or outside organizations.**

OVERSIGHT AND COORDINATION OF CORPORATE RESPONSIBILITY

Consistent with our policy to act as locally as possible, our local and regional business units play a role in both developing and implementing corporate responsibility policies and strategies.

The Board of Directors has a standing **Corporate Responsibility Committee**. It acts in an advisory capacity to the Board and to management on policies and strategies.

At the global management level, several groups provide leadership on particular types of corporate responsibility issues. For example:

- **Worldwide Corporate Relations Council:** aligns all communications and external affairs for McDonald's globally; oversees and advises on our corporate responsibility efforts.
- **Quality Assurance (QA) Board:** QA directors in each of our major geographic sectors and senior-level supply chain and food safety specialists lead the development and execution of our worldwide food quality strategies, including food safety and responsible purchasing initiatives.
- **Corporate Citizenship and Issues Management Department:** provides corporate staff leadership, coordination and support for our global corporate responsibility policies and programs.
- **Safety, Security and Social Accountability Department:** develops and monitors our System standards relating to the safety and integrity of our products, including our Code of Conduct for Suppliers.

PRODUCTS:

Balanced Active Lifestyles

Offering Menu Choice
Providing Nutrition Information
Promoting Physical Activity
Marketing and Communicating Responsibly

OPEN DOORS

CERES STAKEHOLDER QUESTIONS AND PERSPECTIVE:

What role do you play in the obesity crisis and how are you addressing this responsibility?

Concerns about obesity trends are growing – and justifiably so. In most developed countries, obesity rates have risen dramatically in the last decade, and there is no end in sight. Debate centers on the causes and solutions. Is the problem due mostly to increasingly sedentary lifestyles, the abundance of cheap food or a combination? Can it be solved by government regulation or will it require a multi-faceted collaboration by government, NGOs, health professionals and private sector companies? And considering all this, what is the consumer's responsibility?

McDonald's has been a prime target in the obesity debate. So we asked them to take a deep dive into their approach to the issue, particularly their nutrition information initiative. Why are they focusing on providing information about the nutritional values of their food products and how does this fit into their overall approach? How do they view their responsibility and what, in their view, are its limits?

“McDonald’s has long played a leadership role in providing nutrition information. Now, with the Nutrition Information Initiative, McDonald’s is taking a creative and scientifically sound approach to communicating nutrition information, making it more clear and even more accessible for consumers.”

DR. LOUIS SULLIVAN. PRESIDENT EMERITUS, MOREHOUSE SCHOOL OF MEDICINE, FORMER U.S. SECRETARY OF HEALTH AND HUMAN SERVICES, CLINICAL PROFESSOR OF MEDICINE, UNIVERSITY OF CALIFORNIA AT SAN FRANCISCO, MEMBER OF MCDONALD’S GLOBAL ADVISORY COUNCIL ON BALANCED LIFESTYLES





A GLOBAL COMMITMENT ... A LOCAL APPROACH

The societal trends cited in the Ceres Stakeholder Questions and Perspective underline a fundamental opportunity for McDonald's. We began in the 1950s as a burger destination, at a time when customer expectations and needs about nutrition and balanced lifestyles were different than they are today. Consumer expectations are changing. We are evolving along with our customers by providing a wider array of options that will enable us to best serve their needs for the next 50 years as well as we have for the past 50.

Research, innovation and collaboration across many sectors are required to address these societal trends. Our aim is twofold: to **continue our efforts to be part of the solution** and to **build on our leadership role in the industry**.

To this end, we are very focused on our **Balanced, Active Lifestyles (BAL)** efforts, which provide our customers with the tools to make informed lifestyle choices for themselves and their families.

We at McDonald's love to talk about numbers, and our "billions served" signs have become almost as iconic as the Golden Arches themselves. Here are some numbers you don't see every day.

IN 2005 ALONE, OUR WORLDWIDE RESTAURANTS SERVED:

- 433 million pounds of vegetables, including 304 million pounds of mixed greens, 102 million pounds of tomatoes and 9 million pounds of carrots.
- 181 million pounds of fruit, including 34 million pounds of apples in the U.S. alone.
- 34 million pounds of apples served in the U.S. makes McDonald's the restaurant industry's leading purchaser of apples in the country.
- 16 million gallons of fruit juice.



LEADERSHIP STARTS WITH LISTENING

Our balanced, active lifestyles efforts are based on what our customers want and informed by the latest scientific findings in the fields of health and nutrition. To achieve our goal to continuously improve:

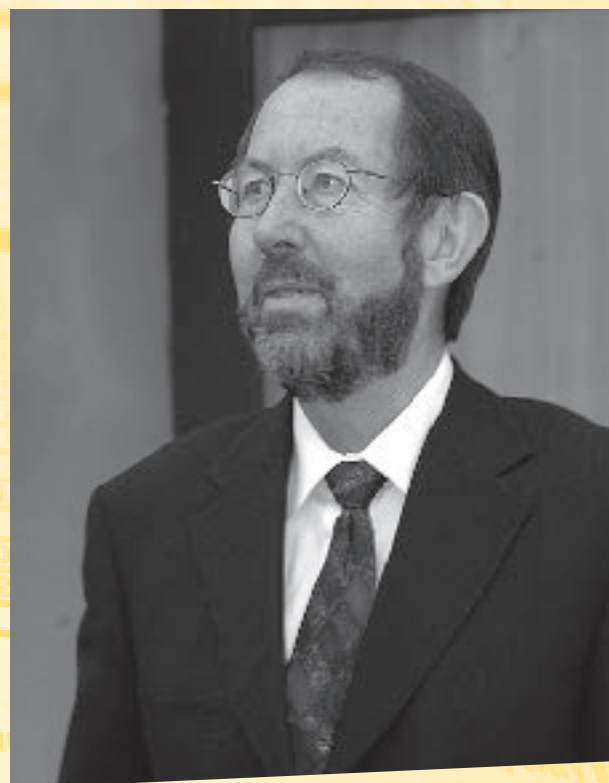
- **We're listening to our customers.** Their needs, interests and opinions about health and nutrition are important to us. We recently formed a Global Moms Panel to give us feedback on how best to serve the needs of moms and families around the world.
- **We're listening to independent experts on health and nutrition.** At the corporate level, a Global Advisory Council of top academic researchers and fitness experts from around the world advises us on a diverse range of BAL issues, including many of the major initiatives reported here.
- **We're listening to regional specialists to help guide our local initiatives.** For example, in Europe, a team of independent food specialists — the Nutritionist Steering Group — advises a cross-functional task force of senior-level corporate decision-makers about BAL programs. In Australia, McDonald's benefits from advice and recommendations from The Food Group of Australia — a team of accredited practicing dietitians.
- **We're listening to other individuals and organizations with expertise in BAL issues.** We actively seek out the opinions and insights of organizations like the World Health Organization, the International Olympic Committee, other non-governmental organizations (NGOs), health professionals, scientific researchers, educators and nutrition and fitness experts.

Raised on a farm in Alberta, Canada, Dr. Harvey Anderson grew up understanding the importance of properly feeding the animals on which his family depended. This ultimately led him to a career in human nutrition science. Dr. Anderson is currently Professor of Nutritional Sciences, Physiology and Medical Sciences at the University of Toronto. He first worked with McDonald's in the late 80s and early 90s. He has been a member of the McDonald's Global Advisory Council for Balanced, Active Lifestyles since its founding in 2003.

"As nutritionists, we talk about 'energy balance,' a concept that most people still don't understand. For the average person, it's simply maintaining body weight by having input equal output. We also talk about the importance of lifestyle, and we translate that into acts of increased activity, like getting on a treadmill. McDonald's says, 'Yes, that's a part of it, but action is also about doing things. Don't just sit there – do something.'"

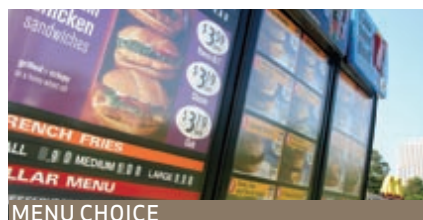
"There's a lot of skepticism out there, but McDonald's really does care about the health of children and the consumer – that's one aspect. The other aspect is the quality of the food. Serving more than 45 or 50 million meals a day with such an outstanding food safety record is extraordinary.

"When I sign up with any company as a scientific advisor, I tell them up front that if in two years I don't see we're having any impact, I'm done. I wouldn't be with McDonald's if I didn't fully believe they care."

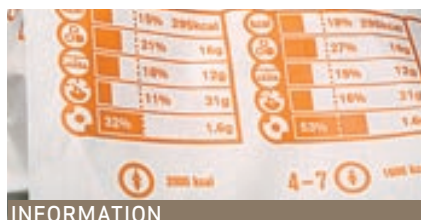


WE AIM TO BE A LEADER IN SUPPORTING WELL-BEING FOR CHILDREN AND FAMILIES ... EVERYWHERE WE DO BUSINESS

Based on everything we learn from our customers, independent experts, regional specialists and third-party organizations, we continue to develop and refine our three-pronged BAL program consisting of **Menu Choice, Information and Physical Activity**.



Offer a diverse range of relevant, high quality food and beverage choices, in varied portion sizes, and served in a clean and courteous environment.



Offer user-friendly nutrition and other information to help people achieve their well-being goals.



Promote simple, fun ways for children and families to incorporate activity into their everyday lives.



Above. Menu Choice advertisements from France (top) and Italy.

SERVING THE CHANGING NEEDS OF OUR CUSTOMERS

Many think of the Golden Arches as a place for classics such as a Big Mac or our world-famous French fries, which have remained favorites with customers around the world thanks to their high-quality basic ingredients like meat, fish, bread, vegetables and dairy and the fact that they just plain taste good. Today, however, we offer a far **broad selection of food and beverages** to meet the diverse needs and preferences of our customers around the world. And based on our strong sales performance, it would appear that our customers are responding.

We've successfully introduced new meal-sized salad selections in Australia, Brazil, Canada, Japan, several European countries and the U.S. We've begun to offer fresh fruit bags in Europe, whole apples in Australia and Brazil and Apple Dippers (bags of sliced apples with optional caramel sauce) in Canada and the U.S. In addition, yogurt desserts with fruit are available in the majority of our nine major markets.

At the regional and local levels, the concept of choice gets even more customer-focused. In Brazil, for example, coconut water is on the menu. Our restaurants serve rice burgers in Taiwan and porridge in the U.K..



EXPANDING MENU CHOICES

Developing an appropriate key performance indicator (KPI) for menu choice is new territory. We decided to start with a focus on the foods that experts around the world generally agree people should eat more often — fruits and vegetables. Specifically, the reference used for the development of this KPI was a report prepared by an international panel of experts as part of the development of the World Health Organization (WHO)/Food and Agriculture Organization (FAO) Global Strategy on Diet, Physical Activity and Health.

KEY PERFORMANCE INDICATORS	2005
Average # of items, per market menu, that contain at least 1 serving of fruit or vegetables	6.4
Average # of items, per market menu, that contain at least 1/2 a serving of fruit or vegetables	9.8

The WHO/FAO experts' report calls for a minimum of 400 grams of fruits and vegetables per day. As five is the number of daily servings recommended by various nutrition authorities, including the Department of Health in the U.K. and the Produce for Better Health coalition in the U.S., we determined a serving size by dividing the daily recommended amount (400g) by the daily recommended number of servings (5) to obtain 80 grams as a serving size.

To calculate the KPIs, we then conducted a comprehensive review of the menus in our nine major markets, as of June 2006, including core and promotional items. In this review, items that contained half and full serving sizes of fruit or vegetables were identified. This total number, for half and full serving sizes, was then divided by nine to obtain an average for each of the nine major market's menus. Because we offer both full meal and side dish offerings, as well as vegetables on sandwiches, we have included both full and half serving sizes for our KPIs.

McDONALD'S CHEESEBURGER WINS THE QUALITY TEST

In 2005, Stiftung Warentest, an independent consumer rights foundation, tested 19 burgers of various kinds from quick-service restaurant chains and food companies in Germany.



The foundation analyzed the burgers from various perspectives, including:

- Look, taste, smell and structure of all elements
- Appropriateness for three separate age groups: children, young people and adults
- Nutritional value per portion
- Combination with other products such as french fries and salads
- Microbiological content
- Packaging
- Extent of legal and nutritional information as provided to customers

It rated the McDonald's cheeseburger #1. "Tastes like a burger should," Stiftung Warentest said. "Beefy and grilled ... Also appropriate for children ... With salad and apple juice spritzer, it is a well-balanced principle meal."

Left. The Rice Burger, made of Kalubi beef or spicy chicken, served on a toasted rice patty, was such a hit in Taiwan that it will be expanded to other Asian markets this year.

Below. An advertisement communicates Happy Meal menu choice in Canada.



PROMOTING CHILDREN'S CHOICES

Our Happy Meals were originally designed to provide portion sizes suitable for young children, and that's still the case today. They also deliver essential nutrients growing children need — protein, calcium, iron and B vitamins, among others.

Today, under our balanced, active lifestyles strategy, **we are striving to increase Happy Meal options.** In a growing number of our major markets, customers may mix and match their main course, side, beverage and dessert choices to create Happy Meals tailored especially for their children's individual needs and preferences.

For example, McDonald's France offers a choice of five sandwiches, three side dishes, ten beverages and two desserts. Sides include carrot sticks, as well as two types of French fried potatoes. Beverages include bottled water (both flavored and unflavored), two juice options and a soft drink with no added sugar. And, for dessert, customers may choose a drinkable applesauce or a yogurt drink.

Happy Meal choices in the U.K. also include items such as carrot sticks, bottled water, juice and soft drinks (two types) with no sugar added, along with a fruit bag side or dessert and semi-skimmed organic milk. McDonald's Brazil offers a choice of four main courses: Hamburger, Cheeseburger, McNuggets (4) and Grilled Cheese Sandwich, carrots sticks or French fries, four beverages, including a fruit drink or coconut water, and as an addition, a whole apple or fresh fruit salad.

CHEF BRIAN FERGUSON
McDONALD'S AUSTRALIA

OPEN DOORS



Brian Ferguson came to Australia from Ireland as an ambitious 18-year-old cook and soon became a banquet chef for one of Melbourne's most prestigious hotels. He joined McDonald's Australia, as Director of Product Development, in 2002, bringing with him extensive experience in the hospitality and airline industries.

"I came to McDonald's not knowing much about the quick-service industry. And I was gobsmacked by what I saw. I've been in the industry for 35 years and worked at many five-star establishments, but I have honestly never seen people work as cleanly, safely and efficiently as in a McDonald's restaurant.

"If the public believes in what we're doing, it allows us to then lift the bar a little higher. When we launched Salads Plus in Australia, and it was very well accepted, it spurred us on to experiment with other things. Before then, I don't think a lot of people believed that McDonald's could produce a fresh, crisp and tasty salad. With continued customer support, we had the foundation to try and achieve greater things."

Right. McDonald's Japan uses a code on packaging that allows customers to access nutrition information via web-enabled cell phones. (Inset) An explanation of the icons McDonald's is using to present nutrition information.



"People often ask me why I collaborate with McDonald's. If I can continue to help influence McDonald's to introduce more fruits and vegetables, as has happened over the last few years, it can be a powerful platform to make a difference by providing these options for more than 50 million customers a day."

DEAN ORNISH, M.D.
FOUNDER AND PRESIDENT,
PREVENTIVE MEDICINE
RESEARCH INSTITUTE,
CLINICAL PROFESSOR OF
MEDICINE, UNIVERSITY OF
CALIFORNIA, SAN FRANCISCO



Dr. Ornish consults and advises McDonald's on food and nutrition.

ENHANCING CUSTOMER KNOWLEDGE

In a move we hope will revolutionize the industry, we began a major roll out of printing nutrition information directly on much of our packaging in early 2006 – the first major restaurant company to do so. We believe that our customers should have the same easy access to key nutrition information at McDonald's as they do when they shop in the grocery store. This will make it easier for our customers to make food choices that are right for them and their families.

OUR NUTRITION INFORMATION INITIATIVE

When it came to implementation, we wanted to make sure we did it right, so we spent a lot of time doing research and consulting with our Global Advisory Council on Balanced, Active Lifestyles, the McDonald's Europe Nutritionist Steering Group, and other independent experts and government officials on what to say and how to say it. Then we spoke with our customers to find out the format they preferred to convey nutrition information quickly and simply.

The result puts essential nutrition information right into our customers' hands, in a format that enables them to grasp, at a glance, how the food can fit into a balanced diet.

- The format focuses on the five elements experts agree are most relevant to consumer understanding of nutrition – calories, protein, fat, carbohydrates and sodium.
- For each of these elements, the percentage of the daily recommended intake the product provides is indicated.
- The format is icon-based and can be understood independent of language. And although it provides a global model, the format is flexible enough to adapt to local needs, customs and menus.

In some markets, we will also be including nutrition information in the local government's format, as well as our own. For example, McDonald's Europe will be one of the first restaurant companies to use the new pan-European nutrition reference values – the Guideline Daily Amounts (GDAs). In the U.S. and Canada, the packaging will include the official nutrition facts panel that is required for packaged foods, along with our unique icons and bar chart.

The new packaging debuted in February 2006, in our restaurants at the Olympic Winter Games in Torino. By the end of 2006, we expect to have it in more than 20,000 of our restaurants worldwide.

A COMMITMENT TO NUTRITION EDUCATION

Concurrent with the packaging rollout, additional information will be added to our regional and local websites and in-restaurant materials to educate customers about the nutrition information format and how they can apply it in their daily lives.

In 2004, some McDonald's regions around the world began printing nutrition information about popular menu items on their trayliners. For example, in 2005, five million Happy Meal Choice Charts were distributed by McDonald's U.K.. This provided parents with easy-to-understand information on the major nutrition values of each Happy Meal combination, listing child Guideline Daily Amounts (GDAs) and even recommending the top Happy Meal combination as judged by the independent Mum's Panel.

In addition to these efforts, all our major markets provide nutrition information on their websites with a variety of additional information intended to help consumers make informed choices when dining at McDonald's.

BETTER INFORMING OUR CUSTOMERS

Customers obtain information in many different ways. Our aim has been to meet their needs through a variety of vehicles that make accessing the information more convenient. To measure our performance in providing nutrition information to customers, we are tracking whether this information is available in and outside of our restaurants.

KEY PERFORMANCE INDICATORS	2004	2005
Percent of major markets providing nutrition information:		
In-restaurant (trayliners and brochures)	100%	100%
Out-of-restaurant (websites)	100%	100%



Far left. The Go Active! website, www.goactive.com, encourages customers to lead balanced, active lifestyles through such features as a family fitness toolkit, tip of the week and interactive personal trainer.

Left. McDonald's is an Official Sponsor of the FIFA World Cup Games. We leverage Ronald McDonald to communicate our commitment to balanced, active lifestyles through ads such as this, which shows Ronald's shoes with soccer cleats.

THINKING GLOBALLY

As a company with a global presence and a youthful appeal, we feel strongly that we should encourage an active and balanced lifestyle, especially for young people. So we partnered with the International Olympic Committee, a group of outstanding athletes and other fitness experts to create the Go Active! Program, which provides opportunities for more targeted initiatives at the local level.

In addition, over the last two years, we have:

- **Expanded Ronald McDonald's role as an advocate and role model for balanced, active lifestyles.** Ronald began appearing in a new show, "Go Active! with Ronald," available for community events and other appropriate programs in seven countries.
- **Revamped our global website, goactive.com, to focus on moms and families.** The website includes personal fitness assessment tools, a resource library, an interactive "virtual trainer" to help create personalized fitness programs and other tips to help parents make sure that their families eat a balanced diet and get regular exercise.
- **Leveraged our corporate sponsorships to promote activity.** We are doing this in a number of ways. First, we have a role as a TOP (The Olympic Partner) sponsor and the official restaurant of the Olympic Games and the Athlete Village. We have committed to continuing our Olympic sponsorship through 2012, including our role as the exclusive worldwide sponsor of the annual Olympic Day Run. We also sponsor the FIFA (Fédération Internationale de Football Association) World Cup™ and the UEFA (Union of European Football Associations) championship games.

ACTING LOCALLY

Around the world, our local business units and owner/operators support a variety of local youth and family sports and other physical activity programs. Examples include:

- **McDonald's Canada's Go Active! Fitness Challenge.** Launched nationally in 2005, the challenge comprises six exercises which elementary school students complete and then use to measure their individual improvement over the course of the school year. More than 29,000 students from 329 schools across Canada participated in the challenge in 2005/06. Participating schools earned CAD \$200 per participating class — up to CAD \$500 per school — in physical education credits toward new gym equipment.
- **McDonald's Korea is collaborating with professional soccer teams to offer a soccer skills development program for school-age boys and girls.** This program addresses perceived local deterrents to physical activity, including strong social pressures for academic achievement and a lack of sufficient playgrounds and other recreational facilities. It is a fresh concept in the country because it offers all Korean children equal opportunities to participate. Co-educational and offered free of charge, unlike most junior soccer programs, it is expected to benefit more than 3,500 children this year.
- **McDonald's France "Ronald Gym Clubs."** These new PlayPlace concepts feature engaging activity zones for climbing, obstacle races, stationary bike riding, dance and basketball. Eight clubs have been opened, and an additional nine are scheduled to open in 2006.
- **McDonald's USA Passport to Play.** This unique physical education curriculum, offered free of charge to elementary school physical education teachers, helps children learn about and actually play games from 15 countries around the world. In 2005, 31,000 elementary schools across the country received the curriculum kit, and we estimate that seven million children enjoyed 16 million hours of educational play.



Above. McDonald's Japan has created a Food Education Time website, accessible by elementary and junior high school students, to increase awareness of the importance of a balanced, active lifestyle.

MARKETING AND COMMUNICATIONS PRACTICES

As an influential global advertiser, **we feel our responsibility is to communicate openly and honestly about our products, as well as to promote the basic tenets of the BAL program**, and thereby take advantage of the opportunity to contribute to individual lifestyle choices.

In the past several years, we have used our marketing expertise and resources to help inform consumers about the keys to balanced, active lifestyles in simple, fun ways that can motivate positive change.

In March 2005, we launched a global public education initiative to help consumers better understand the essential concept of energy balance. The creative core of the program brings the concept to life in a brief, personally engaging message — "it's what i eat and what i do."

"it's what i eat and what i do" is part of a larger effort to provide education and promote balanced, active lifestyles to children and families. Related public service initiatives include:

- In 2004 and 2005, McDonald's U.K. created a series of informational advertisements featuring animated characters called the YumChums (pictured top center). These colorful characters explain, through song and dance, how to keep fit and happy by eating a balanced diet, drinking enough fluids and exercising.
- In mid-2005, we debuted a new television commercial, Come Out and Play, which features Ronald McDonald getting children up off the couch and involved in a variety of outdoor sports activities. The commercial has so far aired in 19 local markets around the world.
- McDonald's Japan's Food Education Time website (pictured left) provides nutrition, energy and health management information along with information on food safety. Content from the site is used in elementary and junior high schools around the country to increase awareness of the importance of a balanced diet and healthy lifestyle among young children and teens. To develop the site, McDonald's Japan partnered with the Association of Cooperation and Education (ACE) and NHK International, a company that produces educational television programs and teaching materials for the NHK Education channel. Development of additional nutrition, health management and food safety curriculum materials and classroom activities is underway.

Right. In 2004 and 2005, McDonald's U.K. created the non-branded characters, YumChums, who help inform children about the need to eat a balanced diet and pursue an active lifestyle.



SENDING RESPONSIBLE MESSAGES

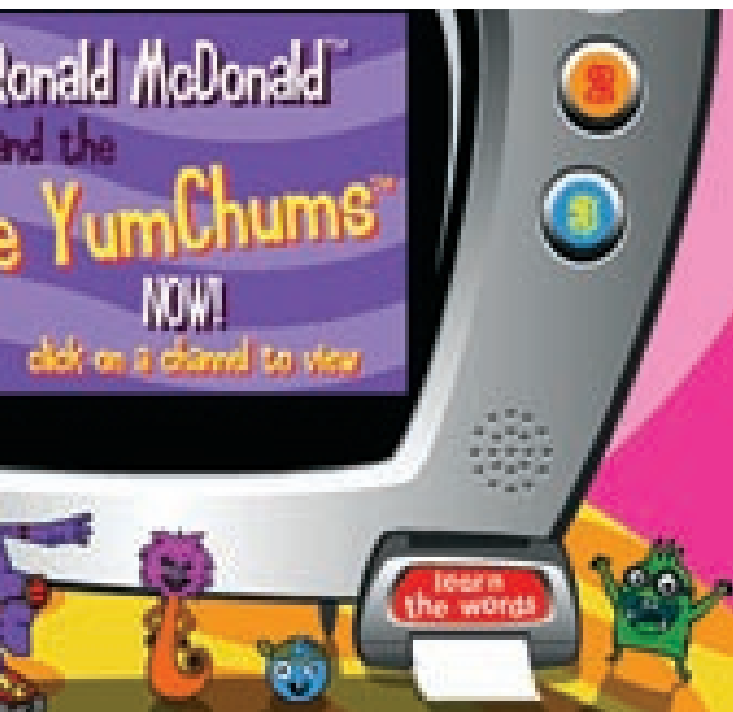
Our marketing and advertising standards require our communications to:

- Advocate a balanced, active lifestyle for children and, where appropriate, reflect this in our marketing and advertising.
- Offer appropriate food portion sizes, consistent with our Happy Meal standards, and avoid portraying the consumption of our food products in inappropriate situations.
- Not seek to undermine the authority, judgment or responsibility of parents or guardians.
- Not imply a psychological, social or physical superiority by using McDonald's products.
- Use celebrities and partnerships in ways that are age-appropriate.

The standards also define the appropriate role for Ronald McDonald, stating that his primary role is to inform and entertain and that he is our ambassador for balanced, active lifestyles.

McDonald's employees are responsible for awareness of these general marketing and advertising principles. Those whose work involves brand-related communications and/or use of McDonald's trademarks must comply with the specific policies and standards that expand on the principles. This same expectation applies to our suppliers and our public relations and advertising agencies. To help ensure an understanding of our advertising and marketing guidelines and their practical applications, we have initiated an interactive online training module for marketing staff and advertising agencies.

Marketing departments and agencies around the world regularly review planned advertisements and other marketing materials for compliance with our standards.



OUR PARTICIPATION IN VOLUNTARY SELF-REGULATORY PROGRAMS

We seek to play an active role in fostering responsible self-regulation of advertising and marketing practices.

In Canada, for example, we were a founding member of and remain actively involved in Concerned Children's Advertisers (CCA). Through this organization, leading Canadian companies collaborate to produce and deliver public service advertising and education campaigns on issues important to children's lives. CCA also plays an active role in upholding the Canadian government's system of codes and standards for responsible advertising for children

We are actively involved in the self-regulatory process in the U.S. as a member of the Supporters' Council of the Children's Advertising Review Unit (CARU), the self-regulatory body that is supported by industry to foster the truth and appropriateness of advertising for children. Its Self-Regulatory Guidelines for Children's Advertising embody high standards with which national advertising is expected to comply.

We have developed internal policies that govern our advertising and marketing communications and continue to revise these policies to reflect the current environment. These policies complement numerous country-specific voluntary business and industry standards, many of which are based on the principles articulated in the International Chamber of Commerce code of advertising practice.

OUR CHALLENGES & THE FUTURE

OUR CHALLENGES

EVALUATING NUTRITION CONTENT AROUND THE WORLD

With more than 30,000 restaurants in 118 countries — many of them serving menu items that appeal to local tastes and cultural preferences — we face a major challenge in gathering, organizing and communicating the nutrition values of foods and beverages served to our more than 50 million guests around the world every day. We are, therefore, developing a new global database to maintain detailed information about our offerings.

We have also established new procedures to determine nutrition values and manage changes in ingredients that would affect nutrition profiles. These will help to provide current and accurate nutrition information to our customers around the world on an ongoing basis.

We accept that we need to enhance our credibility. It is clear that there is a significant gap between our own internal commitment to balanced, active lifestyles and the public's perception. This is a challenge we must continue to address. We must work harder, listen even more, engage with more stakeholders and refine our balanced, active lifestyle programs and policies to gain more trust and confidence from the public on these issues.

THE FUTURE

In the next several years, we aim to advance our balanced, active lifestyles efforts by:

- Continuing to develop new menu offerings that provide our customers with a range of choices that correspond to their needs and preferences and can fit into a balanced diet.
- Developing more Happy Meal choices, including new entrée offerings and non-carbonated beverages without added sugar.
- Sticking to our timetable for phasing in our new nutrition information initiative for core packaging items.
- Continuing to assess, listen, learn and evolve our policies and marketing and communications practices so that we can continue our special regard for young people.
- Expanding our engagement with experts to ensure that we are guided by the best scientific information and insight.

Responsible Purchasing

Social
Environment
Animal Welfare
Food Safety

Special Feature: CSR Fellows “Fork to Farm” Report

OPEN DOORS

CERES STAKEHOLDER QUESTIONS AND PERSPECTIVE:

How do you use your purchasing power to influence the upstream supply chain?

Many NGOs and other stakeholders are becoming increasingly frustrated by the lack of aggressive government action on significant environmental and social issues. As a result, they are focusing attention on private companies as potential agents for change. Companies are being asked to do more than ever before to address emerging sustainability issues. But we often hear that they have difficulty forging changes upstream in their supply chains.

McDonald’s restaurants buy a lot of food, packaging, toys and other items. So we would like to know more about how you use your purchasing power. Have you tried to extend this influence upstream to farmers, producers and other raw material suppliers – and with what results? What are the challenges and barriers to more progress?

“Working with McDonald’s and its fish suppliers, I have seen first-hand the value of partnering with purchasers of this size, who can influence markets and send clear signals to governments to improve the fisheries they manage.”

JIM CANNON, FORMERLY WITH CONSERVATION INTERNATIONAL;
NOW EXECUTIVE DIRECTOR OF THE SUSTAINABLE FISHERIES PARTNERSHIP, EUROPE

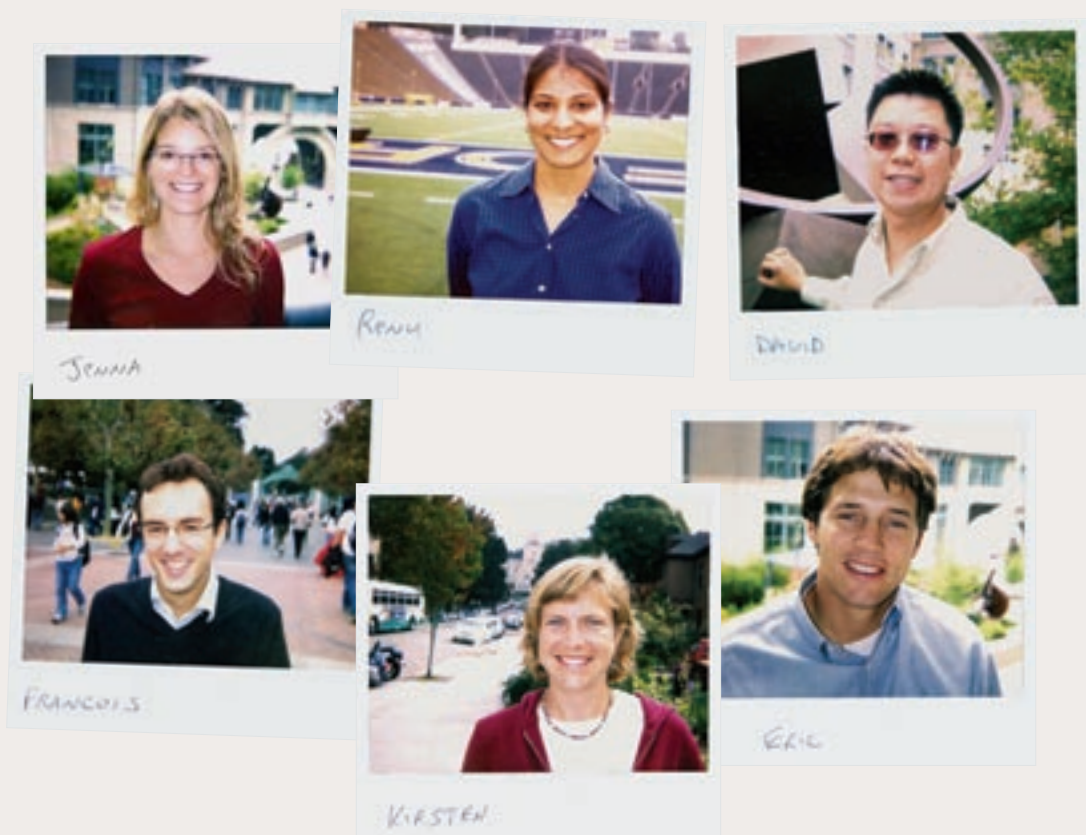


INTRODUCTION: CSR FELLOWS FORK TO FARM REPORT*

THE McDONALD'S/HAAS SCHOOL OF BUSINESS AT THE UNIVERSITY OF CALIFORNIA, BERKLEY
"CORPORATE SOCIAL RESPONSIBILITY FELLOWSHIP" ASSIGNMENT

In the fall of 2005, McDonald's invited students from the Haas School of Business at the University of California, Berkley to experience the McDonald's System from the inside out — to get a full and unfettered look into our U.S. beef supply chain. The Fellows (pictured below) committed to approaching their work with an objective eye and to listening and learning from all sides of the issues. In return, McDonald's committed to providing "open doors" exposure to our System and to incorporating their efforts into our next Worldwide Corporate Responsibility Report. And, so, here it is — their report with their opinions.

This is **OPEN DOORS** in action.



* "Fork to Farm" represents our "birds-eye view" of the supply chain. As a retailer, we work from the front counter back to the farm level, and our ability to influence socially responsible policies and programs is reflective of this reality.

People thoughts
- mcd's employees - crit
- how to D behavior
- how to D behavior

For three months, we reviewed McDonald's U.S. beef supply chain from "fork to farm" with a specific focus on animal welfare, the environment and labor. McDonald's opened its doors, invited us in and introduced us to many of its suppliers and stakeholders. We note at the outset that we saw a small sliver of a huge industry, and that we are by no means beef experts.

We also want to note at the forefront that many of our ideas are geared toward the sustainability of animal agriculture and would need to be adopted by suppliers to McDonald's. We see this as the first of many steps that will hopefully act as a starting point for the next wave of improvements. This report, therefore, is not just for McDonald's, it is for the entire animal production value chain.

We viewed the issues of animal welfare, environment and labor through the lens of quality and safety, because these elements carry through the value chain all the way to the restaurant counter. We interviewed more than 25 stakeholder groups — ranging from McDonald's personnel and suppliers to academics, NGOs, and trade organizations — to learn about the industry from an objective perspective. We observed every stage of beef production, including a ranch, three feedlots, four slaughterhouses and one final processing plant in different parts of the country. McDonald's CSR staff and supplier representatives who accompanied us were helpful in uncovering current and emerging issues within the industry.

"Before seeing a slaughterhouse ourselves, we had read about the problems they faced: high injury rates, illegal immigrants, limited freedom of association and poor working conditions. However, when we toured the three slaughterhouses we observed many positive developments and changes to benefit the workers."



SPHERE OF INFLUENCE

The beef industry is complex. With hundreds of thousands of ranches, thousands of feedlots and dozens of slaughterhouses and final processors, the industry is alternately fragmented and consolidated, depending on where you stand. Contrary to what many people believe, McDonald's does not own or buy cows. There are numerous transactions and transfers of ownership before McDonald's ultimately purchases its custom-made, ground beef patties. These patties are made up of beef trimmings, which make up approximately 20% of the total monetary value of a carcass.

Within the beef supply chain, McDonald's is positioned several steps away from the slaughterhouse and even further from the farm. Thus, the company's ability to exert control over the beef industry is somewhat limited. Still, as the largest buyer of beef in the United States (at the time of this writing), McDonald's is able to affect the supply chain by using its influence to initiate positive change down the chain. For example, when McDonald's instituted new animal handling requirements for its beef, slaughterhouses across the country changed their practices.

VEHICLES FOR CHANGE

McDonald's has used several tactics to implement a variety of responsible policies in its supply chain, including a supplier Code of Conduct for labor, a Supplier Quality Index to discriminate among suppliers' quality records and a premium purchasing program for traceable beef. We believe McDonald's can continue to successfully use such programs, as well as consider a preferred purchasing program that would facilitate preferential buying from suppliers who meet certain environmental, animal welfare and labor benchmarks. By rewarding incremental improvements in supplier performance, a preferential purchasing program could have considerable impact on all these areas. Such a program could enable McDonald's to inspire continuous improvements among its suppliers; it could also have a resounding effect on the industry.

MCDONALD'S LEADERSHIP — PAST, PRESENT, FUTURE

From what we have observed in our three months of study, observation and stakeholder engagement, McDonald's is leading the fast food industry in terms of corporate responsibility in its beef supply chain. As always, there is still much room for the bar to move higher. Given McDonald's power as a leader and current momentum, we believe McDonald's should challenge itself, its competitors and its supply chain to continuously improve performance on these critical issues.

PEOPLE

PEOPLE IN THE BEEF SUPPLY CHAIN?

It takes more than a cook to make a hamburger. People raise the cows and cut and package the meat that eventually ends up on a McDonald's customer's tray. The people in the beef supply chain are McDonald's suppliers' employees. When assessing McDonald's people practices we included the following: worker conditions and human safety, training and development and wages and benefits.

We focused on the slaughterhouses because this is the step in the supply chain with the most impact on people. In addition, inherent safety risks exist in a slaughterhouse. Finally, the consolidation in this supply chain step enables changes to be implemented more easily than at the more fragmented feedlots.

A CHALLENGING ENVIRONMENT

Before seeing a slaughterhouse ourselves, we had read about the problems they faced: high injury rates, illegal immigrants, limited freedom of association and poor working conditions. However, when we toured the three slaughterhouses we observed many positive developments and changes to benefit the workers. For example, communication channels are in place within and between plants to help share information about safety processes and best practices. Ergonomics programs have been implemented and equipment has been modified to minimize the strain of the workers' repetitive motions. Finally, unions play a key role in the slaughterhouses we saw and help serve as a voice for workers.

SAFETY PAYS

The managers we spoke with shared positive reports of reductions in injury rates and lower turnover over the last 5–10 years. The firms wish to create a safe environment for their workers, as the meatpacking industry is under scrutiny given its past reputation as dangerous. One of the plants offers more than 40 hours of training to new employees and supplementary training for current employees. Another plant used lightweight protective titanium suits to reduce strain on the workers. Managers seem to recognize the benefits of a productive and proud workforce to their companies' reputations as well as their financial bottom lines.



LINE SPEED SAFETY

Though the line speed for knocking cattle is government regulated at slaughterhouses, the line speed for fabrication is not. This allows the slaughterhouses to increase the speed of production as necessary, which directly relates to their profits. Although a direct link between line speeds and worker safety has not been proven, we recommend McDonald's work with its suppliers to enforce a common line speed to help prevent the opportunity for injury.

MEAT PROCESSING INDUSTRY FORUM

While the plants we visited report lower Total Incident Rates (TIR) and lower Turnover Rates than the industry average, the plants should strive toward a goal of lowering accidents and injuries further. McDonald's can help coordinate and support a Meat Processing Industry Forum to discuss current safety issues and trends, equipment innovations, and share best practices.

While the improvements to the people practices we observed in the slaughterhouses are encouraging, McDonald's suppliers can continue to make an impact on their upstream beef suppliers by helping to reassess line speeds and convening an industry forum to discuss common safety issues and share best practices.



DISPUTED IMPACTS

We found wide consensus, among the scientific community and environmental groups alike, that beef production has significant impacts on air and water quality. However, there is debate surrounding the magnitude of these impacts. Rather than attempting to resolve the differences in this debate, we sought to define the environmental impacts of beef production and identify best practices where McDonald's has potential to increase its influence: the feedlots and slaughterhouses. In fact, we found that many of the solutions to reducing environmental impacts at these two stages are similar.

MURKY WATERS

Beef production impacts many different natural resources. Raising cattle requires large quantities of water, although estimates of the exact quantity of water required span a wide range. During rainstorms, animal waste from feedlots is washed into rivers and streams, delivering excessive amounts of nitrogen to stream ecosystems and compromising the ecological integrity of these systems. This runoff also transports antibiotics and hormones to the waste stream and reduces the productivity of downstream wildlife. Methane, emitted from animal waste, is a greenhouse gas as well as a contributor to particulate air pollution.

THE GOOD, THE BAD, AND THE MUDDY

Currently, with Conservation International, McDonald's is developing and beginning to implement an environmental scorecard for its direct beef suppliers, the final processors who grind beef into patties. A significant opportunity exists for McDonald's suppliers to create environmental guidelines for indirect suppliers, such as feedlots and slaughterhouses, where significant levels of impacts occur.

PREFERRED PURCHASING PROMOTES BEST PRACTICES

The feedlots we visited had wastewater lagoons to collect runoff from feedlots, preventing it from contaminating nearby rivers and streams. The wastewater was then used in moderate quantities to fertilize agricultural crops. Some feedlots we learned about took a further step by covering the lagoons to trap methane gas emissions. A slaughterhouse we saw had installed a methane-fueled generator to convert the animal waste into electricity and fuel other equipment. If McDonald's preferentially purchased beef that came from slaughterhouses and feedlots that have, at a minimum, waste lagoons and, ideally, covered lagoons with methane-fueled generators, it could reduce the methane emitted to the atmosphere and improve the quality of streams and rivers.

One feedlot we visited had developed an environmental management system (EMS). An EMS involves auditing a facility's energy use, inflows, and outflows, and establishing a comprehensive system of monitoring and compliance on environmental performance. Encouraging all direct and indirect suppliers — down to the feedlot level — to have an EMS in place would be another logical step towards environmental protection.

SUPPORT PILOT PROJECTS TO DEMONSTRATE ENVIRONMENTAL STEWARDSHIP

To reduce the costs to its suppliers, McDonald's should advocate for best practices by supporting pilot-scale projects at individual feedlots. By supporting such best practices as methane generators on waste lagoons, McDonald's could not only enjoy the public relations benefits of highlighting its progressive environmental policies, but it could also push the entire beef industry to adopt better waste management practices.

INCREMENTAL IMPROVEMENTS

Given McDonald's decentralized business model and deep market penetration, it is difficult to define a single solution for environmental sustainability. McDonald's has already taken productive steps in partnering with environmental stakeholders and developing an Environmental Scorecard for direct suppliers. Taking incremental steps to reduce the environmental impacts of indirect suppliers through a preferred purchasing program is an important next step in the right direction. Through these activities, McDonald's can set a strong example for the rest of the beef industry, and, quite possibly, the entire fast food industry.



A CONTRADICTION?

At first glance, it can appear that animal welfare and the meat industry are at odds: how could an industry that slaughters animals truly care for animal welfare? Our trips, conversations, and readings highlighted a different perspective. Good animal welfare practices include monitoring feed content, handling cattle humanely, maintaining safe facilities, and examining cattle health — all of which directly affect the quality of not only an animal's life, but also the quality of the beef.

MCDONALD'S LEADS THE WAY

The majority of stakeholders with whom we spoke, whether a competitor, NGO, or an academic, agreed that McDonald's, through its policies, had significantly improved animal welfare practices in the beef industry, particularly at slaughterhouses. In 1999, McDonald's began conducting animal welfare audits and, in 2001, it formed an all-star animal welfare advisory council, based on the research of Dr. Temple Grandin. Both initiatives positioned McDonald's at the forefront of animal husbandry standards.

INCONSISTENCY AT FEEDLOTS

There is no standard enforcement of animal welfare practices at feedlots, and we observed inconsistent practices across a handful of locations. At one feedlot, the operator uses tallow, a ruminant animal byproduct, in its feed. At another, the operator criticized such practices, though noted it is approved by the FDA. This operator believed such feed should be prohibited in order to provide another firewall for preventing BSE.

The use of antibiotics was also inconsistent. Some use these substances solely to treat sick animals; others use them sub-therapeutically to prevent chronic illness or outbreaks. Some assert that antibiotics ensure healthy animals that eat and grow consistently, others affirm that they are used as growth-promotants.

Lastly, some feedlot operators found that installing cooling/drainage mechanisms for cattle yielded more comfortable, active cows that continue to feed in healthier proportions. Example methods include canvas covers over pens and water sprinkler systems. Still, others were not convinced of the return on investment.

OPPORTUNITY TO IMPROVE QUALITY AND SAFETY

Having observed an animal welfare audit at a slaughterhouse firsthand and having learned that such audits have effectively raised the level of animal husbandry, we see an opportunity to replicate this successful practice at feedlots. Required criteria could include policies on: allowable feed ingredients (e.g., an approved list of components); feedlot conditions (e.g., x amount of sprinklers required per 1000 head); and antibiotic use (e.g., no sub-therapeutic treatments).

Implementing audits at feedlots, however, is a significant challenge. For one, the number of sizable feedlots is 25 times greater than the number of slaughterhouses. Though more costly and complex, McDonald's suppliers have the opportunity to provide leadership. The company's commitment, throughout its supply chain, to the quality of its beef, the safety of employees, and the humane treatment of animals, should demand more careful and consistent handling of cattle throughout its life.

BALANCING ACT

We found that animals tend to be treated better when there are clear, enforceable guidelines and regular audits. Therefore, McDonald's must strike a balance between continuing to raise the bar for animal welfare practices, doing the right thing for all stakeholders, and building a successful business.

PREFERRED PURCHASING PROGRAM

As noted above, we recommend that McDonald's implement a "preferred purchasing program" through which the company purchases greater quantities of beef products from suppliers who have taken actions to improve their labor, environmental, or animal welfare performance. Currently, there is no direct link between supplier performance in these areas and the quantity of beef that McDonald's purchases from them. By adding these criteria to its purchasing decision, McDonald's would in turn encourage its suppliers to make purchases from responsible suppliers. Ideally, this preference would continue all the way upstream to the farm.

In order to differentiate "preferred" suppliers, we recommend that McDonald's develop a "Social Responsibility Index" for each supplier based on a combination of audits and self-reporting. By preferentially buying from suppliers who score higher on the Social Responsibility Index, McDonald's can encourage all of its suppliers to continuously improve their social accountability, animal welfare, and environmental practices.

CONCLUSION

NEXT STEPS TOWARD SUSTAINABILITY

Throughout our fellowship, we have largely examined McDonald's within the context of two industries: the U.S. beef industry and the fast-food industry. There is little doubt that McDonald's sustainability efforts have significantly impacted both. Look no further than McDonald's animal welfare audits. Beef slaughterhouses across the country are now conducting audits to meet McDonald's standards. Other fast food companies are trying to replicate these efforts.

But for McDonald's to consider its operations truly sustainable, it should begin to look beyond fixing incremental problems within its current system and, instead, consider transforming the system itself. Although our project focused on the domestic beef industry, we were surprised to learn that outside of the U.S., completely different farming systems can produce beef both profitably and sustainably. For example, in South America, cattle are grass-fed, rather than raised in feedlots. In Europe, due to a strict regulatory climate and high consumer pressure, cattle are raised without growth hormones and with limited antibiotics. We acknowledge that such business drivers for change as the regulatory and consumer pressures present in Europe are absent in the U.S. At the same time, we believe that these different systems of cattle production may inform potential avenues for increasing sustainability in the U.S. beef industry. Because of its global reach and international scale, McDonald's is ideally situated to lead the U.S. beef industry to explore more sustainable practices.

McDonald's views its leadership in the sustainability of its beef operations relative to its fast-food competitors. But as the company recognizes, the McDonald's eating experience carries with it a commitment to a much broader group of stakeholders: the customers, the community, and its suppliers. Thus, McDonald's should no longer just benchmark itself against other fast-food companies, but against all companies that deliver food, including grocery stores, wholesalers, and farmers.

RETROSPECTIVE

Finally, we would like to thank McDonald's for this unique learning opportunity. Tracing the path of a hamburger from fork to farm provided us with real-world depth to our study of CSR. We were honored by McDonald's willingness to engage us in a dialogue about many challenging issues in the beef supply chain. We hope that our perspective will provide a meaningful platform for future discussions.

CSR FELLOWS

ARUN M. BHATT

Jennifer Feldman

David Kwok

François PERRON

Frederic A. Potts III

KIRSTEN TOBEY



Animal welfare audit



FEEDLOT VISIT

"At first glance, it can appear that animal welfare and the meat industry are at odds: how could an industry that slaughters animals truly care for animal welfare?"



Fraser Knott

RESPONSE TO CSR FELLOWS FROM DR. CATHERINE ADAMS

First let me state how excited we were when the Haas School of Business, at the University of California, Berkeley agreed to explore such an important and often misunderstood topic. In keeping with our "Open Doors" theme, what better way to deliver on this promise than giving these CSR fellows full and unrestricted access to our System as well as our suppliers' practices for raising cattle, feedlots and meat packing facilities? We were pleased they were willing to take on this initiative and eagerly anticipated their findings. It is clear from their report that we delivered on our promise for an unvarnished look at our suppliers' practices for beef production. We appreciate the candor of their report and the recommendations offered so that both McDonald's and the industry can continue to "raise the bar."

We were pleased to read that the CSR Fellows endorsed so many of our practices, recognizing that our "industry-leading" efforts have changed practices relative to animal welfare, the environment and people for the better. The Fellows' findings are heartening given just how strongly each of us at McDonald's believes in these principles. They are the soul of the people of McDonald's.

And yet, we also accept that there is more to do. We take the recommendations in the CSR Fellows' report seriously and pledge to look into each one, working with the meat industry and our "best in class" suppliers to see what can become part of our evolving social responsibility agenda, immediately and in the future. While McDonald's buys a relatively small proportion of the worldwide beef consumption, we have been impressed at our success in changing industry practices directly and indirectly. We recognize our ability to do more and our responsibility to explore this potential.

We only work with suppliers who are as committed as we are to protecting the land, water, air and the animals that constitute our food supply. We will strive to build on the excellent work of the CSR Fellows and ask that you hold us accountable to this promise by providing updates on the progress we are making in future reports.

Catherine E. Adams, PhD, RD
Corporate Vice President, Worldwide Quality,
Food Safety and Nutrition

POSITIVELY INFLUENCING THE SUPPLY CHAIN

We are a big purchaser. As such, we have a unique opportunity to leverage our influence to help shape and impact social, environmental, animal welfare and food safety and quality issues. Social responsibility is one of the three pillars that form our global supply chain management strategies — for three simple reasons:

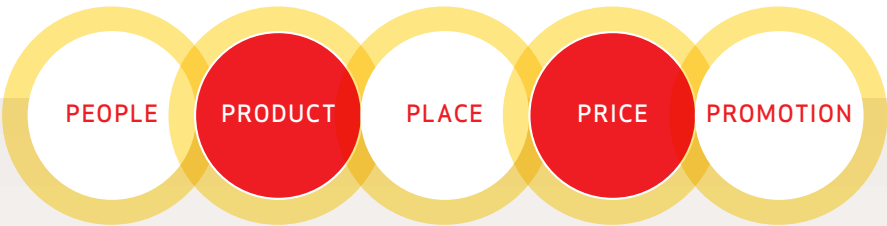
- 1. With our size and scope comes responsibility.
- 2. It's simply good business.
- 3. We have a long-standing tradition of doing the right thing.

COLLABORATION THROUGHOUT THE SYSTEM

Our closest, longest-term supplier relationships — those that provide the best opportunities to collaborate on social responsibility issues — are primarily with food processors, not companies that raise the cattle or grow the soybeans. **We place high expectations on our key suppliers — OSI, Simplot Foods, East Balt, Golden State Foods, Sunny Fresh Farms, McCain, Cumberland Dairy and Mullins Food, just to name a few — to share our core values and partner with us in addressing important issues. And they do.**

We look to these direct suppliers to translate the commitments they share with us into standards, guidelines and programs for their own suppliers. We provide encouragement and support through training and technical assistance where needed. In some areas, we have worked with direct suppliers to develop specific procedures to ensure compliance with our standards — annual certifications, for example. Certainly, the CSR Fellows Report (pages 26 a, b, c) provides an interesting perspective on how we can do more to impact practices, starting in our restaurants and working all the way back to the farm.

CORPORATE
SOCIAL
RESPONSIBILITY



SOCIALLY RESPONSIBLE SUPPLY SYSTEM

VISION:

We envision a supply system that profitably yields high quality, safe products without supply interruption while creating a net benefit for employees, their communities, biodiversity and the environment.

PRINCIPLES:

Our work toward a socially responsible supply system is motivated by our commitment to our customers, leadership on sustainability issues and desire to “do the right thing.” With this foundation, we will:

Use a “systems approach” to understand how our supply chain impacts and is affected by the natural and social world and to help us find solutions.

Maintain a long-term view in supply planning and setting expectations.

Combine a global perspective with locally-developed responses that meet local needs and generate on-the-ground results.

Base our strategies on the best science available.

Work in partnership with our suppliers to promote continuous improvement.

Balance our long-term responsibility goals with the near-term need to perform in a competitive market.

GUIDELINES:

SOCIAL & ECONOMIC

Protect the health and welfare of employees and contribute to the development of the communities in which they live and work.

Seek ways to increase economic profitability by increasing resource use efficiency and harnessing the benefits of ecological services.

ENVIRONMENT

Maximize water use efficiency and eliminate the release of waste into water.

Minimize release of harmful byproducts into the air.

Maximize energy use efficiency and use ecologically sustainable renewable sources when feasible.

Minimize waste production, maximize recycling and ensure proper handling and disposal of solid waste.

Maintain soil health by controlling erosion and improving structure and fertility.

Preserve natural habitats for native species and protection of biodiversity.

Minimize the use of chemical pest management inputs that impact human, animal and environmental health.

ANIMAL WELFARE

Ensure that animals’ needs for food, water and space - as well as other physiological, behavioral and hygienic needs - are met consistently.



Mike Luker is President of Sunny Fresh Foods, Inc. – a major supplier of eggs and egg products for McDonald’s U.S. restaurants. Sunny Fresh is part of the Cargill family of companies, which also supplies us with meat products, cooking oil, juice and salt. In 2005, Sunny Fresh received one of the prestigious Malcolm Baldrige National Quality Awards, recognizing businesses and other organizations for all-around excellence in quality and performance. This is the second time that Sunny Fresh has won the award.

“As a supplier to McDonald’s, we are doing everything we can to ensure the products we supply to McDonald’s are safe, and to date, we have been successful. This is our charge. This is what McDonald’s requires, and we will continue to do everything we can to deliver on this expectation.

And our efforts go further. We like the positive push for continuous improvement from McDonald’s. And we like collaborating on tough issues with McDonald’s – issues that combine our business skills while improving society at the same time. By knowing McDonald’s as we do, we often step up to fill needs. For example, we helped McDonald’s by being the first to implement and operationalize the animal welfare leadership standards for laying hens. We helped develop a minority-owned egg supplier (Best Egg, LLP). We intend to be there for the next challenge as well.”

MEASURING OUR SUPPLIERS: SOCIAL RESPONSIBILITY COUNTS

In the system we use to measure, recognize and reward key food supplier performance – the Supplier Quality Index (SQI) – social responsibility criteria are included.

The SQI consists of six broad evaluation categories. For each major category, there are subcategories and, within each subcategory, specific criteria reflecting our expectations. Social responsibility is a major subcategory under management. Within it, there are criteria for overall management, compliance with our Code of Conduct for Suppliers and practices related to the environment, animal welfare, sustainable agriculture and diversity. Levels of performance are rated on a 0 – 5 scale.

SQI SOCIAL RESPONSIBILITY SCORING MATRIX EXCERPT

0-1	Supplier understands key areas involving social responsibility and complies with all local requirements.
1-2	Supplier has established plans on how this discipline is managed.
2-3	Supplier has clearly defined plan, with goals, measured targets and a person appointed to manage these plans for the organization.
3-4	Best practices have been established and these are recognized by their industry.
4-5	Supplier has established relationships with outside councils and groups. Reports have been written. Targets have been attained.

SQI evaluations are conducted at the country level. On an annual basis, the local supply chain team evaluates the key suppliers from which it purchases. The supplier also rates itself using the SQI. The supply chain team and supplier representatives then meet to discuss their respective ratings and finalize an SQI score. From this meeting, the supplier’s strengths and weaknesses are identified, resulting in corrective action plans. These are used to identify best practices and drive continuous improvement.

A similar matrix and assessment process has recently been implemented for McDonald’s distributors worldwide.

We focus on three primary areas of socially responsible purchasing, with food safety and quality at the foundation of all that we do:





FARM LEVEL WORKER ISSUES ... COLLABORATING ON TOMATO GROWER STANDARDS

Over the last two years, we have engaged with our suppliers and other stakeholders in developing standards and assurance programs for growers in Florida that produce tomatoes for the McDonald's System in the U.S.

In 2005, the Florida Fruit and Vegetable Association (FFVA) started to more formally address the conditions of farm workers in the Florida tomato industry. The FFVA effort presented us with an opportunity to support an important cause. We participated in discussions with a number of stakeholders, including our suppliers, industry groups and worker advocacy organizations, and we shared with FFVA our experiences with our own Supplier Social Accountability program. The end result was a new program – Socially Accountable Farm Employers (SAFE). The program includes standards that establish essential protections for Florida tomato farm workers and a certification process to verify compliance. Further information about the program is available on the SAFE website at <http://www.safeagemployer.org>.

In addition to supporting this industry-wide effort, McDonald's and our produce suppliers established grower standards that require Florida tomato growers to:

- Be SAFE-certified.
- Hire workers as employees, rather than day laborers.
- Network with local resources so that workers have access to health screening and counseling services.
- Provide workers with opportunities to raise issues and offer suggestions.
- Ensure that an adequate supply of safe and affordable housing is available.
- Ensure that transportation for workers, when offered, is safe.

Growers are to work with reputable third-parties to verify compliance.

To support these efforts, we enhanced our procurement practices to encourage our approved suppliers to purchase from preferred Florida growers who adhere to the SAFE standards and the McDonald's Grower Standards. While our purchases represent only about 1.5% of Florida's commercial tomato market, we hope our efforts will help these programs expand beyond McDonald's.

PUTTING PEOPLE FIRST

Our Supplier Social Accountability program is a core component of our expectations for suppliers. We have a Code of Conduct that specifies our expectations for suppliers' social accountability. As it indicates, we are committed to engaging suppliers that provide fair and safe working conditions for their employees. The Code is available at www.csr.mcdonalds.com/code.html.

The first step in our program is to communicate the Code to our suppliers. We require them to acknowledge its terms and their agreement to comply, by returning a signed copy.

KEY PERFORMANCE INDICATOR*	2004	2005
% of total food, packaging and tier-1 equipment suppliers that have affirmed our Code of Conduct	57%	89%
*WORLDWIDE		

Over the past two years, we have trained hundreds of suppliers and conducted thousands of onsite facility assessments. These have included examinations of written records, inspections of physical facilities and equipment, private interviews with workers and discussions with facility managers. The training sessions and assessments have not only promoted compliance with our expectations. They have improved our understanding of conditions in the diverse facilities that produce products for the System. This helps us to shape our program and target resources where they will have the greatest impact.

Two important supplier-led initiatives have been launched:

- A collaborative project to build social accountability management capacities in supplier facilities (Project Kaleidoscope).
- A pilot of upstream workplace standards in the Florida agricultural supply chain (sidebar case study).

BEYOND COMPLIANCE: PROJECT KALEIDOSCOPE

Collaborating with The Walt Disney Company and seven faith-based and socially responsible investment organizations, we formed an ongoing working group to explore possibilities for more effectively promoting sustained compliance with corporate codes of conduct and improved worker conditions. In addition to McDonald's and Disney, the working group members are As You Sow Foundation, the Center for Reflection, Education and Action (CREA), the Connecticut State Treasurer's Office, Domini Social Investments LLC, the General Board of Pension and Health Benefits of the United Methodist Church, the Interfaith Center on Corporate Responsibility (ICCR), and the Missionary Oblates of Mary Immaculate.

The result was Project Kaleidoscope, which tests an approach to sustaining compliance based on dynamic, internal management systems and ongoing worker input at the factory level. Factory owners, managers, supervisors and workers are trained. Owners and managers are then held accountable for developing and maintaining internal systems that identify and trigger corrective actions for compliance challenges as they occur. External reviews by third parties ensure the systems are working and encourage compliance with corporate workplace standards. The approach has been piloted in 10 factories in southern China, and a final project report is scheduled to be published in 2006.

THE AVIAN INFLUENZA THREAT

Our #1 responsibility is and will always be to deliver safe, high quality food to our customers. Also critical is providing a safe working environment for our employees. So it's no surprise that we have been aggressively addressing potential Avian Influenza (AI) risks since the disease first re-emerged in Southeast Asia.

In 2004, our Worldwide Supply Chain Management Team jumped into action, developing additional guidelines for our poultry suppliers and undertaking a full review of our internal biosecurity standards and firewalls. As part of the new guidelines, we are requiring our poultry suppliers, where legally permitted, to establish appropriate AI testing for all flocks before they enter our supply chain.

With our active support, a new global coalition — Secure Supply of Affordable Food Everywhere (SSAFE) — was formed to strengthen the global food safety system, and it adopted AI-related issues as its first project.

With our further support and in cooperation with the World Animal Health Organization (OIE) and the UN Coordinator for Avian and Pandemic Influenza, SSAFE and the TAFS Foundation (International Forum for Transmissible Spongiform Encephalopathies and Food Safety), convened an unprecedented global summit conference on AI. Held in Bangkok, Thailand, in December 2005, the conference brought together representatives of key UN agencies, ministries in the EU, Canada, the U.S. and approximately 10 Southeast Asian countries and a select group of major corporations that have facilities and/or supply chain operations in Southeast Asia and demonstrated commitments to social responsibility. McDonald's and several of our major suppliers were among them.

One outcome of the summit was the development of specific, collaborative action plans to swiftly address critical AI prevention and containment needs in Southeast Asia. As a result, McDonald's has committed funds to help expand a multi-faceted AI project that CARE has implemented in Vietnam. (CARE is a leading humanitarian organization fighting global poverty. On the issue of AI, they are working to educate people about preventing the spread of the disease.) We are also working to sustain the momentum of this public-private partnership so we can address some of the longer-term priorities identified at the summit.

PRESERVING ANTIBIOTIC EFFECTIVENESS

Although antibiotics are truly wonder drugs, recent findings have suggested that overuse in farm animals is leading to increased resistance in humans. We have moved to get in front of this issue by implementing an innovative policy to protect public health.

In 2003, we **issued a Global Antibiotics Policy for Farm Animals**. Our policy — a collaborative effort with major poultry suppliers, animal drug manufacturers, physicians, animal health and welfare specialists, environmentalists and other food retailers — is intended to complement ongoing scientific and regulatory efforts to address the resistance problem by **controlling, even minimizing where possible, the use of antibiotics in our supply chain**. It applies to key direct-relationship suppliers that have direct control over the animals raised — poultry suppliers, principally in the U.S. and in Europe. The policy requires dedicated suppliers to follow specific Guiding Principles for Sustainable Use of Antibiotics.

By January 2005, all direct suppliers subject to the policy were required to have completely phased out the use of prohibited antibiotics. In collaboration with our direct relationship poultry suppliers, we also had developed a program to help ensure compliance with the policy. It requires covered suppliers to annually certify their compliance. The first annual certification was completed at the end of 2005.

We are encouraging similar efforts in areas where we do not have the same level of influence, i.e. pork and beef. In 2005, Smithfield, one of our major pork suppliers, voluntarily adopted the Guidelines.

Clearly, the issue of antibiotics resistance extends far beyond the McDonald's System. As with other such issues, we have endeavored to exercise leadership and thus encourage other companies to act. Some of our efforts have included presenting the initiative at conferences and advocating that trade associations adopt voluntary antibiotics policies.



"When McDonald's asked its chicken suppliers to reduce antibiotics use, they started a revolution in the poultry industry. Not only has McDonald's improved its own supply chain, but the message has reverberated — now four of the top 10 poultry producers are reporting a significant drop in antibiotics use. By using its purchasing clout, McDonald's is helping to preserve the effectiveness of life-saving antibiotics for humans."

GWEN RUTA
DIRECTOR FOR
THE ALLIANCE OF
ENVIRONMENTAL
INNOVATION,
ENVIRONMENTAL DEFENSE

LISTENING TO OUR CUSTOMERS: GENETICALLY MODIFIED FOODS

In our diverse markets, consumer attitudes toward biotechnology vary. In North America, foods made with genetically modified (GM) ingredients are generally accepted, while Europeans tend to be wary of them. As a food retailer, we listen to our customers. Thus, in Europe, we specify non-GM ingredients.

Since our last report, we have become involved with two new initiatives related to bio-engineered crops:

- **Support for the Food Products Association's strong concerns about applications of plant-made pharmaceuticals.** Since research shows that, without proper controls, the use of food crops to produce Plant Made Pharmaceuticals (PMPs) can impact the integrity of food and feed supplies.
- **Support for the decision-tree approach developed for the UN's Food and Agriculture Organization and the World Health Organization** to evaluate the allergenicity of genetically modified foods.

Biotechnology is a quickly evolving issue in terms of scientific and consumer attitudes. We follow developments in this important field closely and are guided in our approach by three key principles:

- Awareness and engagement
- Customer focus
- Reliance on experts

We will apply these principles in deciding whether to purchase new GM products. On a case-by-case basis, we will review the status of regulatory approvals, customer acceptance, prospective consumer benefits, cost and potential safety and environmental impacts.

TOM KASZAS CHIEF ENGINEER ENVIRONMENT, McCAIN FOODS LIMITED

Tom Kaszas of McCain Foods was one of the environmental scorecard pilot program participants. Tom is a self-described "help desk for the environment." He is responsible for advising on global policy and determining technical approaches to resolving environmental issues for McCain Foods Limited, one of McDonald's largest suppliers.

"When first invited to participate in the development of the scorecard, McCain was looking at a number of different systems to measure environmental performance. We didn't really like anything that we saw because all the tools required someone to make subjective decisions. When you've got more than 55 facilities scattered across six continents, there's naturally a great deal of diverging opinion about, say, the relative importance of water versus solid waste. With the environmental scorecard, we've got a tool that allows us to consistently measure impacts based on local conditions."

"McCain is in a very fortunate position because improving environmental performance benefits our business. The gains we make — improving raw material utilization and reducing energy and water consumption, solid waste and air emissions — generally have a positive effect on the economics of our operations in the long term. Green behavior pays dividends. And I can testify to that."





MANAGING IMPACTS

Our global environmental policy, available at www.csr.mcdonalds.com/commitment/html, is a reflection of our broad commitment to environmental stewardship. And here too, our relationship with our suppliers provides us with an opportunity to have an impact that goes far beyond our restaurant operations (discussed in the Place chapter, beginning on page 54).

Since our last report, we have successfully completed our environmental scorecard pilot program and are now working to expand it globally. We worked with key direct-relationship suppliers for five major food commodity groups — beef, poultry, pork, potatoes and bakery products.

We partnered with Conservation International's Center for Environmental Leadership in Business to assist in the development and early testing of this process.

PILOT PROGRAM PROCESS AND RESULTS

The pilot test for the scorecard began in January 2004. A total of 12 supplier facilities in five countries used their 2003 data to establish a baseline of environmental performance. They then tracked their 2004 environmental impacts and compiled and reported the results. Impacts were again tracked and reported in 2005.

WHAT WE LEARNED FROM THE PILOT

Comparison of 2004 trend indicators to the 2003 baseline indicates that the scorecard and the expectations it establishes seem to have promoted more environmental awareness and more effective management of limited natural resources.

PERFORMANCE TRENDS FROM PILOT SCORECARD, BY COMMODITY AREA: 2003-2004

	Water Use ^A	Energy Use ^B	Solid Waste ^C	Air Emissions ^D
Potatoes	➡ 10.5%	➡ 3.85%	➡ 3%	0
Poultry	➡ 0.85%	⬆ 0.35%	➡ 6%	0
Pork	➡ 18%	➡ 5.5%	➡ 4%	0
Beef	➡ 56%	➡ 0.3%	➡ 3%	0
Buns	➡ 30%	➡ 9%	➡ 2%	0

^A kg of H₂O per finished product

^B kg of energy used per kg of finished product

^C kg of solid waste produced per kg of finished product

^D total number of air discharge violations

EXPANDING THE ENVIRONMENTAL SCORECARD

We have begun to roll out the scorecard to all direct suppliers for the five commodity groups identified above in our top nine markets around the world. We are currently phasing in use of the scorecard in Australia and the U.K., where suppliers conducted self-assessments and initiated data collection for the baseline in 2005. We plan to develop a timetable for further implementation based on our experience in these markets.





SUPPORTING SUSTAINABLE FISHERIES

High-quality whitefish is an important item on our menus worldwide. Our purchases account for approximately 50,000 metric tons of whitefish per year. Because fisheries are under increasing economic and environmental pressures, we have a responsibility and a business interest in helping to protect their health and productivity.

Starting in 2001, we began to more closely monitor the condition of the fisheries from which our suppliers were sourcing. To do this, we monitored the trends of Total Allowable Catch (TAC) and actual catch. TAC or Quotas are levels set by governments, using scientific data about fishery health, which set limits for how much fish may be taken from a particular fishery.

Initial findings highlighted the fact that some fisheries were undergoing severe decreases in actual catches, leading us to question the long-term sustainability of these sources. As a precautionary measure, we began moving away from some of these fisheries, such as Russian Pollock.

This initial evaluation also accentuated the need for a more comprehensive, scientifically-based method of evaluating fisheries. Thus, in collaboration with Conservation International (CI) and our fish suppliers, we developed and piloted a set of sustainability fishery guidelines. Global rollout of these guidelines was completed in 2005.

Over the past five years, in partnership with CI and our fish suppliers, we have already shifted purchases representing more than 18,000 metric tons of fish away from unsustainable sources.

We asked CI to develop an evaluation tool, which rates currently approved fisheries using the latest scientific information. Ratings address three criteria — management quality, fish stock status and marine environment and biodiversity conservation. For the last two years, we have used this tool to produce an action-oriented snapshot of the fisheries from which we source.

The rating format, modeled on a stop light, is designed to emphasize opportunities for ongoing improvement, not termination of business relations.

FISHERIES EVALUATION TOOL

GREEN	Fishery is well-managed with respect to the relevant criterion.
YELLOW	Management for the criterion is satisfactory but could use improvement. An early warning that something may be amiss. Intended to trigger further investigation and, if necessary, work with the fishery to develop and implement a corrective action plan.
RED	Urgent need for action. Signal to initiate a three-year improvement program, with specific annual milestones. Failure to meet the milestones can result in reduced business and, ultimately, elimination from our purchasing program.



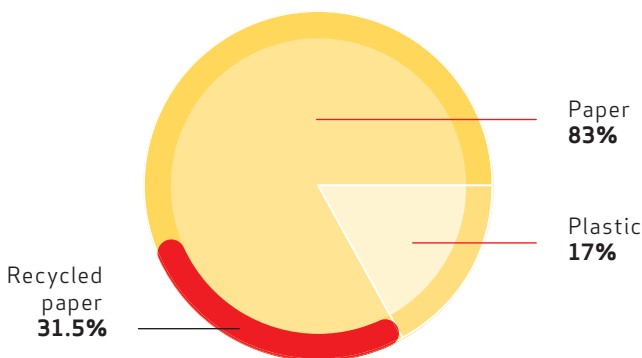
MANAGING OUR PACKAGING IMPACTS

From food portability to insulating hot and cold foods to promoting food safety, our food packaging is a fundamental part of serving our customers. In the U.S., for example, we have 330 unique consumer packaging designs. This presents an opportunity to minimize the environmental impacts of our packaging and to provide industry leadership in conserving natural resources.

In our major markets, approximately **83% of the packaging used for food, beverages and other consumer purposes is made of some form of paper or other wood-fiber material**, and we are hard at work trying to identify the most environmentally sustainable sources for this packaging (see *Supporting Sustainable Forests*, page 36). The remainder is made of a variety of thermoplastics.

KEY PERFORMANCE INDICATORS*	2005
Packaging weight per transaction count	0.14 lbs.
Percent of packaging material that is recycled paper	31.5%
*NOT INCLUDING BRAZIL	

TOTAL 2005 PACKAGING COMPOSITION



We have identified two **ways to evaluate the environment-related aspects of our packaging — its weight and its recycled content**. Based on data from eight of our nine major markets, the average use of recycled materials as a percentage of the total materials in the consumer packaging used in 2005 was 31.5%. Data for 2004 were available for only three of our major markets. While we continually seek to use recycled materials where feasible, one surprising challenge is that supplies are actually growing scarcer in many of our markets because recycling infrastructures and consumer participation are not keeping pace with demand.

Environmental impacts are reduced by using less packaging. For example, in 2005, we redesigned the inside of our North American fry boxes, reducing packaging weight by more than 1,100 tons per year. Additional impact reductions were achieved by changing the proportions of virgin and recycled fiber content in some items, eliminating certain packaging sizes and, in one case, adding a smaller size package.

Such changes, mostly imperceptible to customers, add up. For example, from 2004 to 2005, McDonald's restaurants in Brazil saved 582.6 tons in packaging weight by relatively small reductions in packaging dimensions and a switch from rigid containers to paper wraps for two food items.

Although we're pleased with our ongoing efforts to minimize the environmental impacts of our packaging, we can do more. To this end, in partnership with our principal packaging supplier, Perseco, we have developed a comprehensive set of environmental guidelines for consumer packaging. These guidelines establish a hierarchy of preferences that enter into decisions on new and modified packaging, along with considerations of functionality, availability and cost. In order, the priorities are:

- Eliminating unnecessary packaging.
- Favoring use of materials made from renewable sources, e.g., wood fiber.
- Reducing the total amount of material used in our packaging.
- Designing consumer packaging for its capacity to be recycled or composted.
- Favoring materials and processes that minimize pollution, e.g. maximizing the use of recycled content and unbleached fiber.

Perseco is now using these guidelines to assess proposed packaging designs.

SUPPORTING SUSTAINABLE FORESTS

Since approximately 83% of our consumer food packaging is made of paper or some other wood-fiber material, we are dependent on a renewable resource that is under significant pressures from worldwide consumer and industry demands. Use of recycled content can somewhat alleviate the situation, but there are practical and regulatory limits. Moreover, recycling doesn't address all of the environmental threats (e.g., deforestation of protected areas, harvesting of endangered timber species). We have, therefore, been working on several fronts to incorporate environmentally responsible fiber procurement practices into our packaging supply chain.

We are closely following the ongoing debate regarding what makes a "well-managed forest," with a view toward ultimately adopting a global forest certification program that reliably designates forests which are actively managed with attention to long-term economic, environmental and social impacts. In the meantime, we are building on the McDonald's Europe program to develop a unified global forestry policy.

In 2003, McDonald's Europe began to work on a sustainable forestry policy to help promote use of wood and wood-based products from forests that have achieved certification for sustainable management. The policy and related guidelines were completed in late 2004, and work with suppliers to implement them is underway.

The policy commits McDonald's Europe to:

- Promote the efficient and responsible use of wood and wood-based products.
- Work with suppliers to ensure that wood and wood-based products originate from legal and acceptable sources, as defined in the guidelines.
- Not knowingly use suppliers that source from legally-prohibited or unacceptable sources.
- Give preference to the purchase of wood and wood-based products originating from certified well-managed forests.

McDonald's Europe plans to phase in implementation of the policy, beginning with consumer packaging — the largest source, by volume, of our fiber-based impact. As a first step, it has compiled baseline information on the current origins of the packaging. This provides the basis for working with suppliers to improve their sourcing practices, using agreed-upon performance measures and targets.

At the corporate level, McDonald's participates, through our primary packaging supplier, in two collaborative efforts to promote packaging consistent with the long-term health of the environment:

- **The Paper Working Group.** A coalition of 11 major companies and Metafore, a nonprofit organization that develops innovative market-based approaches to supporting forest integrity, the Group aims to increase the market availability and affordability of environmentally-friendly paper.
- **The Sustainable Packaging Coalition.** Formed under the auspices of GreenBlue, a nonprofit institute focused on design solutions to sustainability challenges, this coalition advocates a "cradle to cradle" system for all packaging. The intent is to devise a strategy that optimizes ecological and social benefits rather than just minimize environmental harm. It has developed a definition of sustainable packaging and is working on tools to assist designers and purchasers in improving packaging's environmental footprint.

PHASING OUT OF PFOAs IN OUR PACKAGING

Working with our primary packaging supplier, we continuously monitor research and policy developments related to our food packaging. We, therefore, recently became aware of and proactively addressed an emerging issue related to the coatings on some of our food packaging. The issue involves perfluorooctanoic acid (PFOA).

The U.S. Environmental Protection Agency recently stated that it "is not aware of any studies specifically relating current levels of PFOA exposure to human health effects." Because the chemical persists in the environment, Perseco investigated alternative coatings and developed a business case for a switch. We have accepted the recommendation and **initiated a global phase-out of PFOA-related coatings**. We expect the transition to be complete by the end of the year.



ANIMAL WELFARE

Our supplier relationships provide us with a unique opportunity to promote the humane treatment of farm animals. Guiding our animal welfare program are our global Animal Welfare Guiding Principles, which express our commitment to leading the industry in ensuring animals are “free from cruelty, abuse and neglect.”

We firmly believe that proper animal handling practices are an integral part of an overall quality assurance program and align our purchasing strategy with our commitment to animal welfare. What this means, as a practical matter, is that animal welfare is not an “add-on” program at McDonald’s but rather an integral part of the way we manage our global supply chain.

DR. TEMPLE GRANDIN McDONALD’S ANIMAL WELFARE COUNCIL

OPEN DOORS

Dr. Temple Grandin is one of the world’s foremost experts on animal behavior, a sought-after designer of animal handling facilities and equipment, and the author of four best-selling books about autism, a condition with which she was diagnosed at the age of three. A member of McDonald’s Animal Welfare Council, Dr. Grandin has served as McDonald’s principal advisor on animal welfare since 1997.



Q: What was it that made you decide to start working with McDonald’s?

A: “I knew the purchasing power McDonald’s has. So it was a big opportunity to make change happen. The tipping point was in 1999, when the big animal welfare audits started. I saw more change in one year than I’d seen in all the years I was in the industry.”

Q: What happened?

A: “It started out small. Then a manager at one of the really big slaughter plants treated the whole thing like it was a joke, and they were taken off McDonald’s approved supplier list. When word got around, people went, ‘Whoa, this is serious.’ It was like riding a wave. It just happened.”

Q: How is McDonald’s doing?

A: “McDonald’s is doing very well on the slaughterhouse program. Mainly, we’ve got to make sure we don’t get lax and let things slip. We cannot relax vigilance.”

STRICT SUPPLIER ACCOUNTABILITY

To ensure compliance with our animal welfare principles, our suppliers' beef, pork and poultry processing plants around the world are **regularly audited by independent auditing firms and McDonald's staff**. The audits use a standard protocol based on a methodology developed by animal welfare expert Dr. Temple Grandin (*page 37*), who also oversees audit training.

The protocol identifies objective measures of animal welfare as indicated by animal behaviors and results in a numerical score. Achieving a passing score requires a high level of supplier involvement, including ongoing employee training and, at times, capital investment to upgrade facilities. Plants that do not pass are given 30 days to correct problems and are then re-audited by our supply chain staff or a designated trained supplier. Those that do not pass the second audit are subject to suspension and, ultimately, loss of our business. Consistent with our general approach to responsible supply chain issues, auditors provide coaching to promote continuous improvement, even for plants that score above the required minimum.

We compile the results of animal welfare audits on an annual basis. Results for each supplier are reviewed by AOW (Area of the World) supply chain management teams as part of the SQI process. We also use AOW-level results to monitor the reach and effectiveness of our program.

McDONALD'S PROCESSING FACILITY AUDITS			
	2003	2004	2005
Asia Pacific, Middle East and Africa (APMEA)	123	141	153
Europe	227	210	214
Latin America	54	66	65
North America	84	117	89
TOTAL	488	534	521

In 2005, 91% of all plants received a passing score initially, and all but 1% of the remainder passed the follow-up audit. In 2004, the initial passing rate was 93%. As in 2005, 99% of facilities were in compliance with our standards at the end of the second round of audits, reflecting the protocol's capacity to encourage positive change.

EXPLORING NEW TECHNOLOGIES

In keeping with our commitment to continuous improvement, we have for some time been working with our Animal Welfare Council and major poultry suppliers on potential improvements. One major focus has been controlled atmosphere stunning (CAS) — an approach to rendering birds insensible prior to slaughter by exposing them to a mix of gases. Some animal welfare experts believe that CAS is potentially preferable to the more common method of stunning using an electrical current.

In 2005, a multi-disciplinary team of McDonald's staff experts updated and expanded the scope of their research and prepared a report summarizing their understanding of the issues and the feasibility of incorporating CAS into our global supply chain. The report was presented to the Corporate Responsibility Committee of our Board of Directors, which issued it to the public in June 2005.

In the report, top management concludes that CAS represents a promising development, but that it would be premature to require adoption of what is still an emerging technology involving a number of issues that require further study. We are committed to continuing our efforts to learn more about CAS. To this end, we will be continuing consultation with our Animal Welfare Council, following the emerging research and new developments in commercial applications and maintaining dialogue with McDonald's European poultry suppliers that use the technology in some of their facilities.

Concurrently, we will continue work with our U.S.-based poultry suppliers to improve the effectiveness of their electrical stunning processes. We will also explore newer, emerging technologies that may address certain animal welfare concerns associated with such processes.

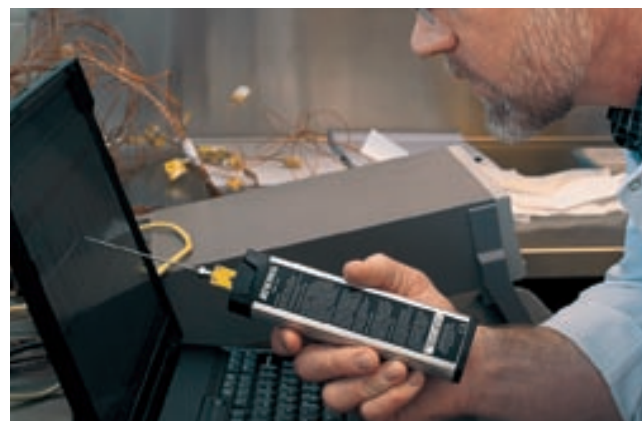
WHERE WE ARE: FOOD SAFETY



FOOD SAFETY: OUR OBSESSION

Underlying all our social responsibility efforts is our fundamental commitment to ensuring that the foods and beverages we serve our customers are safe. This means working with our suppliers to monitor, test and track our ingredients.

Our food safety and quality standards meet or exceed government requirements. Indeed, our standards and procedures have been used by government agencies as models for their own regulations. We actively support strong, science-based food safety by sharing our experience and advocating for additional measures we believe will help protect consumers and their trust in the safety of local food supplies. We view this as part of our responsibility as a good corporate citizen. And we know it is also essential to the continuing growth and profitability of our business.



SPECIFYING SAFE, HIGH QUALITY BEEF PATTIES

A good example of how closely we control our food sources is how we work with our beef patty suppliers. Our product specifications for beef patties are eight pages long and cover seven major categories, ranging from maximum temperature of raw materials, as delivered, through final packing and delivery to distribution centers.

The raw material category includes 30 specific standards, including primary beef processing requirements that we have established as firewalls against BSE and additional BSE-related requirements for the beef processors' sources. **The chief standard is that our hamburger patties are 100% beef.** The standards also include an extensive list of prohibited ingredients and defects, including preservatives, additives and fillers, non-meat parts and mechanically deboned meat — a potential source of contamination with tissues that have been identified as high risk for transmitting BSE.



The specifications require beef suppliers to work under a validated hazardous analysis critical control point (HACCP) system and also include relevant microbiological requirements.

In addition, the specifications establish attributes the patties must have when cooked in our restaurants according to our established operating procedures. These include, among others, achieving a minimum internal temperature during cooking to ensure safety and a maximum cooked temperature consistent with food quality.

RESTAURANT FOOD SAFETY TRAINING AND PROCEDURES

Food safety at the restaurant level is fully integrated throughout our System — in our training programs, our restaurant operations guidance and our restaurant assessment processes.

Training in food safety begins the first day an employee arrives for work, with an orientation to our standards, and is incorporated into the curriculum templates and materials that prepare employees for progressively advanced positions. The curriculum for shift managers includes an entire course in food safety, which they must successfully complete before being certified as capable of managing a shift alone.

The Operations and Training (O&T) manual, McDonald's procedures reference for restaurant operations, includes an entire chapter on food safety. It defines requirements and provides specific guidance on the entire range of our restaurant-level food safety standards — from supply and delivery through storage, preparation and holding.

EVALUATING RESTAURANTS FOR FOOD SAFETY

Food safety procedures are monitored by operations consultants, who regularly visit our restaurants to advise managers on operations. The consultants also conduct periodic restaurant operations reviews, which assess adherence to our food safety procedures.

As part of our Restaurant Operations Improvement Process (ROIP), the onsite restaurant assessment incorporates food safety elements into ratings for quality and cleanliness. It also includes a focused verification of critical food safety procedures. For these procedures, corrective action must be immediately taken to remedy any problem identified. Problems that cannot be immediately corrected, e.g., a need for additional training, are reported to the manager that oversees the restaurant so that follow-up can be assured.

Food safety irregularities can trigger further action. For example, as part of ROIP, owner/operators and managers of company-operated restaurants are expected to develop and present action plans based on the top priorities for improvement identified by the assessments. Results of assessments are also used to identify needs for expert assistance by our operations consultants and for further development of our training programs. They are an important factor in evaluating company-operated restaurant managers and in deciding whether owner/operators are qualified for additional restaurants and for continuation within the System.

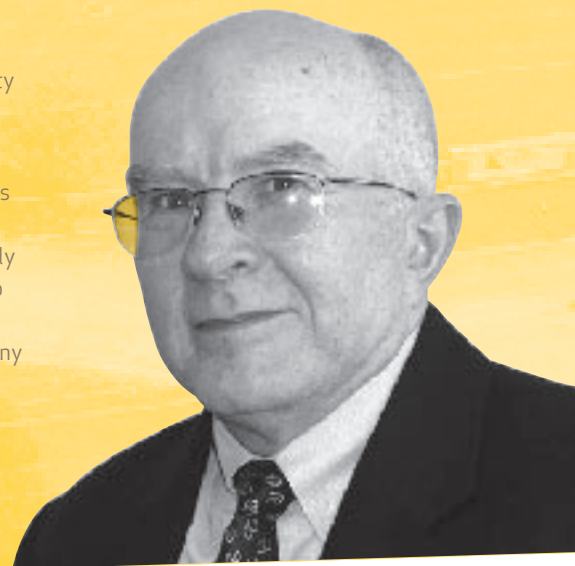
ADVOCATING FOR FOOD SAFETY BEYOND THE ARCHES

McDonald's is serious about promoting food safety around the world. To this end, for many years we have engaged with other food companies, government agencies, trade associations, producer associations and consumer advocacy groups to help ensure safe food supplies. We have also shared our experience with government agencies, such as the U.S. Department of Agriculture (USDA), discussing HACCP as well as other food safety issues. In recent years, our efforts have focused on beef safety, and our partners have included not only the USDA, but also the U.S. Food and Drug Administration (FDA) and food safety regulatory agencies in many other countries. We have also worked on a range of food safety issues with the European Food Safety Authority and the Pan American Health Organization.

Our 2004 Worldwide Corporate Responsibility Report summarizes our earlier BSE-related activities. In the last two years, we have focused on several critical measures to strengthen regulatory protections against BSE. We have strongly advocated significant expansion of the existing FDA "feed ban" so that it would more effectively keep cattle feed free of tissues that can carry BSE. We have also urged the USDA to institute a mandatory animal identification system so that the agencies — and beef suppliers — could rapidly trace an animal's movements back to the likely source of any contagion. In this context, we have shared our experience with the long-established McDonald's Europe traceability system and our more recent experience working with our suppliers to roll out a global system.

DANE BERNARD
VICE PRESIDENT, FOOD SAFETY,
QUALITY ASSURANCE
AND CUSTOMER SERVICE
KEYSTONE FOODS LLC

Keystone Foods is a major supplier of beef, poultry and fish products to the McDonald's System. A recognized expert in food safety, Bernard has served on the National Advisory Committee on Microbiological Criteria for Foods, which advises the USDA and the FDA on food safety policy. He has also participated in expert consultations on food safety for the World Health Organization and the Food and Agriculture Organization.



How do you ensure beef safety for McDonald's?

"Becoming and remaining a supplier to McDonald's is extremely challenging, given the depth of their standards and requirements. So we work very hard with McDonald's on an ongoing basis, such as participating in its Food Safety Council, Beef Safety Team and other supplier groups. These provide opportunities for McDonald's experts and their supplier counterparts, like me, to share the latest information on food safety and to compare notes so that we all act as a team for the protection of customers.

"I wish everyone knew that McDonald's hamburger patties are 100% beef, confirmed by government and independent experts who audit plants on a regular basis. To help ensure the safety of our food products, each of Keystone's plants around the world operates under the hazard analysis critical control point (HACCP) system. Under HACCP, we examine each process and product to identify all potential hazards and establish control measures for each. We also establish monitoring and testing protocols to verify that the hazards are appropriately controlled. We couple these with record-keeping and review protocols that provide us, McDonald's and government agencies with documentation of our continuing success."

OUR CHALLENGES

What are the chief barriers to achieving greater social responsibility progress within our supply chain? We have identified three primary issues:

1. **The lack of a well-defined model for "sustainable agriculture."** There are no common definitions nor a consensus on what "sustainable agriculture" means.
2. **Systemic issues that require collaborative solutions.** Most issues in our supply chain, especially as you go upstream, rely on many stakeholders to implement change. We would like to restrict further use of antibiotics in meat, for example, but we have direct influence over only our poultry suppliers.
3. **Polarized opinions among key stakeholders.** On many issues, two or more sides can't seem to agree. Getting clear and definitive science is not easy either. For example, there are scientific studies which indicate that animal antibiotics impact human medicine, and there are contrary studies that show no impact on human health.

Our primary challenge is how to address these important issues with suppliers who are outside of our direct control. We are working on ways to address this challenge.

A current example is our response to the Greenpeace study released in April, 2006, "Eating Up the Amazon." The report highlights soya farming infringing into the Amazon biome. We want to protect this valuable natural resource. Since learning of the report, we have begun to work with other retailers and suppliers to call for an end to any soya farming that is illegal in the Amazon.

THE FUTURE

Overall, we feel we have solid programs in place, especially within our direct spheres of influence. These require vigilance to ensure full integration, follow-up and continuous improvement. Beyond them, we see promising opportunities to work more collaboratively with a broader range of stakeholders to address systemic supply chain issues.

Our topline goals for the future are to:

- Continue working with suppliers to promote supplier-led leadership on sustainability issues. As part of this effort, we plan to convene a top-level summit on sustainability issues with our suppliers by year-end 2006.
- Complete Project Kaleidoscope.
- Expand implementation of our environmental scorecard and use it as a tool to work with suppliers on effective management of their environmental impacts.
- Continue to evaluate fishery suppliers and align our purchasing specifications with our assessments of their sustainability.
- Continue working with our principal packaging supplier, Perseco, and its suppliers to ensure our packaging is designed with the environment in mind, as outlined in the expanded packaging guidelines.
- Evaluate and pursue viable options for a global forestry policy.
- Maintain our strong animal welfare audit program.

Learning for Life

Training, Learning and Development
Restaurant Managers: A Day in the Life
Compensation and Benefits
Employee Satisfaction
Diversity

OPEN DOORS

CERES STAKEHOLDER QUESTIONS AND PERSPECTIVE:

What is it really like to work at a McDonald's restaurant?

As stakeholders, we hear a lot about the image of working at McDonald's and that it's a "dead-end McJob." We are interested in understanding more about the reality of working at McDonald's. What are the employee satisfaction levels? Why the high turnover? What are your compensation approaches? Can you provide more benefits? And lastly, what are you doing to educate restaurant staff in social responsibility values, policies and programs? If social responsibility is going to be a true sustainable aspect of your business operations, it needs to reach those who make the day-to-day business run. In McDonald's case, that is the restaurant crew.

"McProspects: Over half of our executive team started in our restaurants. Not bad for a McJob."

DAVID FAIRHURST, VICE PRESIDENT OF PEOPLE IN THE U.K., HAS DECLARED THAT "I WANT TO CHANGE THE DICTIONARY DEFINITION OF McJOB. IT'S OUTDATED, UNJUSTIFIED AND UNTRUE." AS PART OF THIS EFFORT, POSTERS HAVE BEEN HUNG AROUND THE U.K. WITH LANGUAGE LIKE THAT ABOVE, HELPING TO SHOW THE PUBLIC WHAT WORKING AT A MCDONALD'S RESTAURANT REALLY MEANS.



A START ... A STEP ... OR A PLACE TO STAY

Work at McDonald's meets various needs. For some people, it's a starting point – an entry into the work world, a place to develop fundamental, transferable workplace skills and a work history that will enable them to move on to other jobs or careers. For others, it's a way to earn money while pursuing other interests or obligations – a part-time job, no more, no less.

It is an important responsibility to invest in the training, development and satisfaction of our people. This is also essential to our success as a customer-oriented business providing consistent, outstanding quality and service.

The framework for our efforts is a set of global People Principles, available at www.csr.mcdonalds.com/people.html, which establish fundamental expectations for the way employees are to be treated, as well as other people-related practices and programs worldwide.

The majority of people who work “under the Arches” (an estimated 73% of the total) are employed by our owner/operators. As independent business people, owner/operators make their own employment decisions and develop their own programs. However, the training and guidance owner/operators receive and our standards for restaurant performance encourage practices that are consistent with those required in our company-operated restaurants.



Above: More than 1.3 million crew people work under the Arches in McDonald's restaurants. These crew are provided an opportunity to build workplace skills that enable them to advance within McDonald's or on to other careers.

TRAINING, LEARNING & DEVELOPMENT
FOR A LIFETIME CAREER

KEY PERFORMANCE INDICATORS*	2004	2005
Percent of crew members satisfied that they receive the training needed to do a good job*	79.4%	80.6%
Percent of managers who feel that the person they report to supports their professional development**	80.3%	81.6%
* NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN		
**NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN, U.K.		

Training is delivered at the restaurant level, making data collection very challenging. And, for employees at all levels, a certain amount of training consists of guided self-study and, increasingly, e-learning, which presents additional challenges when it comes to tracking and measuring.

While the data suggest that we are doing a good job providing the training restaurant employees need, as a System, we are always striving to do more.

GLOBAL TRAINING, LEARNING & DEVELOPMENT PATH

Crew	Crew Trainer Development	Shift Management	Systems Management	Restaurant Management	Business Management
NEW HIRES & CREW MEMBERS	CREW TRAINERS	SWING MANAGERS & MANAGER TRAINEES	ASSISTANT MANAGERS	RESTAURANT MANAGERS	EXPERIENCED RESTAURANT MANAGERS
Orientation Foundation French fries station Production/service stations	Roles & responsibilities Delivering McDonald's brand promise Being a leader Communicating effectively Training crew	Station & trainer verification Transition to management Area & shift management Serv Safe or equivalent (food safety) Managing people Managing customer satisfaction & security Managing shift for profit	Introduction to systems management Improving operational efficiency Effective management practices Managing people practices & training Managing inventory Managing safety & security	Building the business Building employee commitment Managing profitability Restaurant operations leadership practices	Transition to managing your restaurant Quality, service, cleanliness & the customer Leading people Profits & sales Business planning Business leadership practices

In March 2006, Shirley Chang became Corporate Vice President for Worldwide Training, Learning and Development. Shirley joined McDonald's 22 years ago, as a crew member in Taiwan.

CREW MEMBERS ADVANCE WITHIN THE SYSTEM

KEY PERFORMANCE INDICATORS	2005
Percent of company-operated restaurant managers who started as crew members	63.6%
Percent of worldwide top management team who started as crew members	42.0%
Percent of operations staff at consultant level or above who started as crew members	31.5%
Percent of non-restaurant staff above administrative level who started as crew members	18.4%

To more systematically track and report upward mobility within the System, we have developed several key performance indicators (KPIs), all measuring the percent of people in higher-level positions who began as restaurant crew members.

We offer significant opportunities for growth and advancement within the System as well as in other careers. Even our CEO, the Chief Restaurant Officer, the President of McDonald's Europe, The President of McDonald's APMEA (Asia Pacific, Middle East and Africa) and all three of the U.S. Division Presidents started their McDonald's careers serving customers in our restaurants.

"How I started is very interesting. In 1984, by happenstance, I was part of the first set of crew people hired as McDonald's opened its business in Taiwan. My younger sister saw an ad for jobs at this new McDonald's. It was big news at the time. I was an intensive care nurse, but she wanted me to go with her.

"We got there, and there was a huge line, about two blocks long, with lots of young people. So I said to myself, why not apply, too? If so many people are interested in working at McDonald's, let me see what this excitement is all about. So I applied and got a part-time job.

"Four months later, my manager asked me to join a management trainee program. Since I liked interacting with the customers and the crew so much, I decided to give it a try. By 1994, I was in charge of half our restaurants in Taiwan, as Operations Director.

"But I felt I needed to learn more if I was to take the leap into executive management. So I went to Canada for university study. When I left McDonald's in 1996, my boss was very encouraging. He opened my eyes to the potential I had. There were no promises of anything in the future, but before my graduation, I got a call from the head of McDonald's Greater China asking me to be Dean of Hamburger University in Hong Kong. I was so happy for the opportunity.

"Now, as the new leader of Worldwide Training, Learning and Development at the home office, I am applying my experience of crew service and all the training courses I have taken along the way and trying my hardest to close the gap between the ideal and the reality. I see such a tremendous opportunity for people to grow and work for such a great company. To be honest, I see myself as very ordinary, but very fortunate. I started with nothing — with no knowledge, no experience. Now, as I begin this new challenge, I will work my hardest to have our people achieve the ideal for them."

Training Consultant Program

Position-specific management development
Delivery skills
Training skills
PowerPoint

Operations Consultant/ Area Supervisor Program

Position-specific management development
Restaurant operations improvement consulting
Financial skills for consultants
Partnering for results

Field Service Operations Consultant Program

Position-specific management development
Restaurant operations improvement consulting
Financial skills for consultants
Partnering for results

Department Manager Program

Transition to department
management
Managing the organization
Foundations of leadership
Group coaching
opportunities

Leadership Development Programs

HAMBURGER
UNIVERSITY (page 46)

THE LEADERSHIP
INSTITUTE
A virtual community of
approximately 1,200-1,500
McDonald's leaders
around the world, focused
on providing a range of
opportunities to develop
the key capabilities
needed to address critical
issues affecting our
long-term, profitable
growth. Courses include:
LAMP (Leadership at
McDonald's Program),
ELDP (European Leadership
Development Program),
ALDP (APMEA Leadership
Development Program),
GLDP (Global Leadership
Development Program)

Left. Shirley Chang





Above. A class at Hamburger University in Japan

TRAINING: OUR FOUNDATION

Because people is the first “P” in our company’s Plan to Win strategy, we have dedicated much of our efforts in recent years to advancing our training programs. They teach the skills needed to do a particular job and instill our core commitments including a fair, open and supportive work environment for all employees. They also develop basic workplace skills that are a foundation for success anywhere — customer service, responsibility, teamwork, time management, problem-solving, and communication.

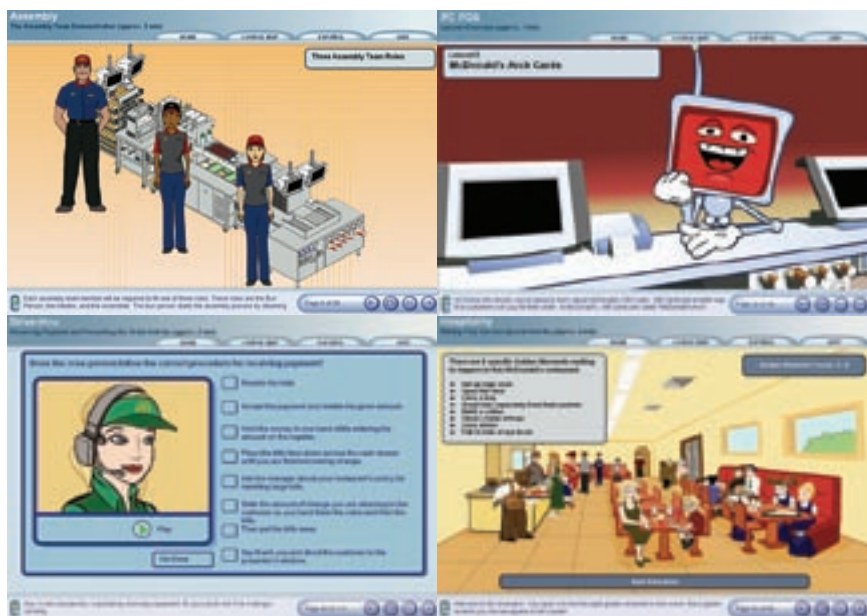
- **Core Curriculum:** This program provides a structured learning path from crew to mid-management and beyond. It was developed by Worldwide Training experts and our global Hamburger University teams. The curriculum includes specific learning objectives, training materials and evaluation tools, which are translated and adapted to reflect local cultures and operations standards.
- **Our Own Learning Academy, Hamburger University (HU):** HU has seven campuses around the world. Course materials are available in 28 languages, and class discussions may be simultaneously translated into as many as six languages. We also have 139 country and regional training centers that provide training based on the restaurant management curriculum. HU courses are designed for restaurant managers, prospective owner/operators, established owner/operators and regional mid-managers. The courses develop general management skills, with strong emphases on people practices and leadership, as well as specialized skills needed to operate safe, customer-friendly and cost-effective restaurants.

ADVANCEMENTS IN OUR TRAINING

We continue to strengthen the quality and content of HU courses. The fact that they are recommended for academic credit or otherwise officially recognized by national organizations, major universities and other training institutions is an indicator of how successful HU has been over the years.

- **U.S.:** In 2005, the American Council on Education (ACE) — the largest higher education association in the U.S. — extended recommendations for college credits to all McDonald’s restaurant management and mid-management courses. These credits can be applied toward a two- or four-year college degree. We are currently the only restaurant organization in the U.S. with recommendations for college credit from ACE.
- **Australia:** Classes taught at the HU campus in Australia help qualify managers for nationally-recognized management certificates at progressively advanced levels. Trained managers may also receive credit toward degrees at colleges and universities across the country.
- **Germany:** McDonald’s Germany offers an apprenticeship program for quick-service restaurant managers, leading to a qualification recognized by the Chamber of Industry and Commerce. The three-year program combines instruction in theory with hands-on experience in a broad range of areas. Graduates are usually offered permanent positions within the company and are often promoted to positions of increased responsibility.
- **Hong Kong:** Courses taught at the HU Hong Kong campus are accredited by major universities in mainland China, Hong Kong and Taiwan.
- **China:** McDonald’s China participates in a national government internship program to develop occupational skills and provide practical work experience for new college graduates and people who are unemployed. Under this program, there have been nearly 600 internships in Shanghai and Shenzhen alone.
- **Japan:** Shift management courses offered at our HU campus in Japan have been officially designated as part of the national government’s Youth Employability Support program.
- **U.K.:** McDonald’s U.K. is currently engaged in the process of gaining accreditation for its crew development program from City and Guilds — the country’s leading provider of national vocational qualifications. The company hopes to expand accreditation to its crew trainer and shift manager training programs by the end of 2008.

Below. These four screens are from e-learning modules in a CD-based training program that provides in-restaurant training for crew and managers.



FOCUSING ON THE PEOPLE WHO SERVE OUR CUSTOMERS

In 2005, we developed a special people strategy for restaurant employees. It represents our vision for how we want our customers, our owner/operators and our employees themselves to view our restaurant people and employment “under the Arches.” It identifies specific objectives and action steps that will realize our vision. The strategy is to serve as guidance for local business units and owner/operators in their efforts to achieve the People objectives in the Plan to Win.

Overall, we are striving to create a work environment that supports lifelong skills development, employee needs and enhanced customer service. To foster that environment, we will continue to:

- Value our employees and care about their well-being. Support them in achieving a balance between work and personal life.
- Focus on enhanced recognition and support for restaurant managers — the linchpins in our global Plan to Win.
- Provide training, education and challenging job assignments that will allow everyone to pursue his or her individual career goals.
- Design and implement attractive rewards and recognition programs that consistently meet employee needs.

We believe these steps will enhance our restaurant employees’ role as ambassadors for our brand because their pride and satisfaction in working at McDonald’s will be conveyed to our customers and to others with whom our employees interact. We will track our progress through employee satisfaction survey scores, relevant Restaurant Operations Improvement Process (ROIP) assessments and other measures that correlate with Plan to Win metrics.

ENHANCING DEVELOPMENT OPPORTUNITIES FOR RESTAURANT MANAGERS

We have developed and are implementing a people strategy specifically for restaurant employees. As part of this strategy, we want to enhance managers’ professional development opportunities. In 2005, we held our first worldwide restaurant managers’ convention, with 4,500 managers from 46 countries. The convention included briefing sessions on major strategies. It also included workshops, best practice sessions and opportunities for managers to network with their peers around the world. There were also managers’ conventions in the four major Areas of the World (AOWs). This was a first for all the AOWs except the U.S. Most major countries hold yearly or biennial conventions.

EXPANDING OUR USES OF TECHNOLOGY

Blended with other approaches, such as “shoulder-to-shoulder” training, the complete crew e-Learning training module has been available in the U.S., in both English and Spanish, since 2003. We have also rolled out several major e-learning programs in English as a second language and Spanish as a second language for both crew members and restaurant managers. In addition, we have introduced coursework that trains restaurant staff to prepare new menu offerings. The **e-learning alternative has been adopted by both company-operated and franchised U.S. restaurants.** We view e-learning as an efficient and effective way to provide certain kinds of training for U.S. restaurant staff, and we plan to expand its role in building restaurant manager knowledge and skills.

We are moving toward a global strategy for technology-enabled learning. Part of the strategy envisions shifting from CD-based to web-based interactive training, with online training verification. We are also exploring the possibility of a global learning management system. Such a system would enable us to identify individual and collective employee training needs and to track completed training by individual and organizational level. This is a long-term goal, contingent on greater availability of computers in our restaurants and reliable internet connections worldwide.

"BEHIND THE COUNTER" WITH OUR RESTAURANT MANAGERS ... OUR KEY TO SUCCESS AROUND THE WORLD

At McDonald's, restaurant managers do so much that goes unnoticed, since they are responsible for the operations of our restaurants — most of which are multi-million dollar businesses. By featuring these seven managers, we wanted to shed light on what they do. Managers engage with customers; recruit, develop and manage the restaurant teams; ensure food safety workplace safety and security; manage inventory and equipment maintenance; develop business plans; and through all this and more, deliver on our commitment to quality, service, and cleanliness and an exceptional customer experience.



SAO PAULO, BRAZIL

Fábio Guilherme Silva is a 30 year-old restaurant manager who started at McDonald's 14 years ago as an attendant. Between the training for his job, studying for his degree, working with his fiancée to plan their wedding, managing 88 employees and running a business with R\$ 6,8 million (\$3.2 million USD) in annual sales, we're impressed he had the time to participate in this report!

On training ... Over the 14 years I've grown at McDonald's, I've received training for each rung of the ladder that I've climbed. For example, in 2000, I started a training course to be a restaurant manager and participated in the Programa de Desenvolvimento Gerencial 3 (Third Managing Development Program). Outside of this role-specific training, I have taken college courses and am currently working toward a degree in human resources management.

On managing a team ... The teamwork, including training courses and employee development, is the most important thing I do to make my restaurant a success. My greatest challenge is understanding everyone's differences as human beings and respecting those differences in order to guarantee a respectful environment.



ONTARIO, CANADA

At 35 years old and with 21 years of McDonald's experience, **Enzo Coccimiglio** has acquired the management skills that well equip him to run his restaurant's business — CA\$2.6 million (\$2.4 million USD) annual sales. Enzo's job often finds him working elbow to elbow alongside his crew and also with his customers. Enzo is a husband and father of two — Michaela (5 years) and Lucas (10 months).

On the challenges of being a restaurant manager ... The quick-service restaurant environment is very competitive, which at times can present a challenge. It is imperative that we have the best — the best people, product, place, price and promotion — in order to continue to grow with our customers. This takes time behind the scenes. So it becomes a balancing act to spend what I consider vital time working the floor — side by side with my managers and crew, visible to the customers — and the time behind the scenes that is needed to ensure we continue to be the best.

On what McDonald's could do to make the job easier and more satisfying ...

I would like to see a continued reduction of duties that keep me away from the floor. This will give me the opportunity to spend time in the place where I will have the greatest impact on our restaurant. Being on the floor gives me the opportunity to drive more effectively for desired results. There is no more important place for me to be, in my opinion, than on the floor with my team and our customers.



TAIYUAN, CHINA

Song Yao, pictured above with Taiwanese singer-songwriter Lee Hom at the 2006 Olympic Winter Games in Torino, Italy, is one of McDonald's newer and younger restaurant managers. At 22, she's managing 43 employees and a restaurant with annual sales of nearly 3,0 million CNY (\$375,000 USD). Although in the McDonald's System only one year, Song understands that building a strong, dedicated and cohesive team is necessary for success. And she is active in creating a culture of teamwork and mutual respect.

On training ... My responsibilities include managing and training my employees. Training is definitely a process of teaching, and management is not only a process of controlling, but also a comprehensive ability to analyze and coordinate according to the current conditions — including when one is facing all kinds of problems and challenges which naturally arise in a dynamic restaurant environment.

Most important thing learned on the job ... The spirit of teamwork. The success of running a restaurant depends not only on the person in charge, but also on an energetic, faithful and cohesive team — a united and active group.

On her priorities as a restaurant manager ... First, customer satisfaction. Second, communication with staff. Third, taking care of the staff. Finally, making the most profits and increasing sales.



ESSEN, GERMANY

Nicole Chudzinski started working for McDonald's in 1998, as a crew member in a franchised restaurant. In 2000, she began an apprenticeship in a company-operated restaurant. At 26, she is managing a restaurant with approximately €3 million (\$3.8 million USD) in annual sales and 65 employees. In the future, she hopes to become an operations manager or field service consultant and oversee many restaurants and employees. Nicole is the mother of a little girl, Leonie.

On her responsibilities as a restaurant manager ...

I demonstrate leadership for my crew and management staff. I also ensure that we are providing quality, service, value and cleanliness to our customers, which is a necessary foundation of a successful McDonald's restaurant. I work to embody this approach through being a good host to all our guests, especially to kids, and treat each guest individually.

To help make my restaurant a success ... I hold crew meetings regularly and provide updates, feedback and necessary information for job performance. Also, I have a program that provides incentives for successful crew members.

My greatest challenges are to maintain confidence and a high level of motivation in the crew and a lively, authentic feeling for Ich liebe es – I'm lovin' it.



VANVES, FRANCE

Cédric Schmaltz is 32 years old. He began his career with McDonald's 12 years ago, as a crew member. He now manages a restaurant with approximately €4.5 million (\$5.8 million USD) in annual sales and 100 employees. In his spare time, he enjoys sports, cultural activities and going out with friends.

On training ... I received formal

training as an assistant manager, an associate manager and, finally, as a full restaurant manager. The courses were held at McDonald's France headquarters at Guyancourt and at corporate headquarters in Oak Brook, Illinois. In addition to courses in external settings, training goes on throughout one's professional career, through an on-the-job complement that allows one to apply what one has learned. Motivation is the key to success!

On his priorities and challenges ...

The most important things I do to drive my restaurant's success are to define my standards in relation to objectives, develop my co-workers' skills and strengthen our training efforts.

One of my greatest challenges is to keep questioning so that I don't remain satisfied with what's already been achieved. It's also a challenge to attain one's objectives while maintaining a respectful workplace environment.

OPEN DOORS



GEORGIA, USA

Paola Fallas Cain, pictured above (left) with Karen King, U.S. Division President, came to the U.S. from Costa Rica in 2001, "following the American dream." She started as a crew member, on the night shift, attracted by McDonald's as "the place to have the opportunity to grow as a person and a professional." Now she manages a restaurant with \$2.8 million in annual sales and 68 employees. In her spare time, she loves going to the beach with her husband and keeping in touch with her family and friends in Costa Rica.

On joining the McDonald's System ...

Coming to the U.S. was the most challenging experience – being so far from home, from my family and friends. When I received my orientation as a new crew member, my store manager talked to me about the opportunities the company offers to everyone. I never thought I could be so successful in a foreign country. My co-workers became my new friends.

On her greatest challenges in managing

the restaurant ... Language barriers are a challenge and trying to understand different cultures. It's also a challenge to always make sure people understand the opportunities McDonald's gives us, regardless of where you are from.



YOKOHAMA, JAPAN

Now 34 years old, Naohiro Tokuhashi began work in the System 14 years ago, as a manager trainee. He manages a restaurant with nearly 167.5 million Japanese Yen (\$1.5 million USD) in sales and 58 employees. Naohiro has a clear focus on gaining sales and profit. Away from work, he likes spending quiet time and going shopping with his wife and having dinner with his or her parents.

On the challenges of managing a restaurant ... Increasing sales and profit is always a challenge, especially to improve results from the previous year while operating within my budget and also achieving the highest performance for the restaurant. My goal is to be the highest performing restaurant in my region and, therefore, to gain flagship status.

It's very important for employees to have a clear goal, and their performance is important also. I try to pay attention to communication in the restaurant and to incorporate training into each conversation.

On what he hopes to be doing in five years ... I hope to be promoted to an operations consultant or operations manager, which would allow me to challenge myself and continue growing both personally and professionally. And I would like to be spending spare time with my family and having fun with them.



OUR TOTAL COMPENSATION PHILOSOPHY

McDonald's has pursued a total compensation philosophy. We view compensation as the total value of the wages, incentive payments and benefits an employee receives by virtue of his/her work "under the Arches."

In 2004, we developed a new total compensation philosophy to provide a framework for compensation decisions worldwide. It aims to ensure that our local business units offer **compensation packages that "attract, motivate, reward and retain talented and engaged people who will deliver strong performance and help the company achieve our business goals."** Within the framework, local business units have the flexibility to design compensation packages that reflect local market conditions, comply with local laws and regulations and mesh with local government programs and taxes.

The principles of rewarding outstanding work and providing competitive compensation packages extend to restaurant employees at all levels.

Our total compensation philosophy establishes, among other potential benefits, three priorities:

- **Near and long-term security from major health-related costs and loss of income**
- **Programs to allow and encourage employees to accumulate capital for savings and retirement**
- **Competitive time off with pay**

LINKING PAY TO PERFORMANCE

Within ROIP, we have a structured performance and wage review program for crew members and restaurant managers. All are to receive timely, one-on-one wage and performance reviews.

ROIP requirements reflect the fact that we see value in linking pay to performance, increasing compensation as employees acquire new skills and new responsibilities. Our training programs support such development.

Wage scales for restaurant employees vary considerably from country to country and even within a country. They reflect a number of factors, including local laws and regulations, the employment market and, in some countries, sector agreements with trade unions. Our total compensation philosophy provides that wages be viewed as one element in a total package. For covered employees, the model package also includes incentives based on performance and benefits that address major employee needs.

HEALTH-RELATED COSTS

In all our major markets except the U.S., health care services are provided by government programs. And, except in the U.K., funding for the programs is provided, at least in part, by taxes paid by employers, including our local business units and owner/operators. In most of our major markets with government health care programs, our local business units provide supplemental health care insurance plans for at least certain categories of their employees.

In the U.S., employees at the restaurant manager level and above have the choice of several health insurance plans, each involving a substantial contribution by the company.

These plans can also cover immediate family members. This is a comprehensive medical and prescription drug program that includes coverage for annual physical examinations, preventive care, management of chronic conditions and nutrition and weight management. There is no cap on lifetime benefits, so employees and covered family members are not left at risk in the event of serious, chronic or catastrophic health care problems.

Eligible crew members in U.S. company-operated restaurants also have a choice of health care insurance plans. Maximum deductibles and maximum annual benefits vary according to employee contribution and the number of individuals within a family that are covered. **The company contributes to these plans.** We make it possible for owner/operators to offer similar plans to their employees.

RETIREMENT PLANS

In all our major markets, **employees are eligible for government-sponsored retirement benefits**. These are funded, in part, by taxes paid by employers. The programs differ considerably in the extent to which they cover basic living costs and also in eligibility requirements. In five of our major markets, employees may also participate in company-sponsored retirement savings programs.

OTHER BENEFITS

Our total compensation programs may also include a wide variety of other benefits. For example, restaurant employees frequently receive **free or discounted meals**. Four of our major markets **offer scholarships** for select restaurant employees. And eligible employees in the U.S. may receive **partial reimbursement for tuition** at accredited higher education institutions. These are only a few examples of how our local business units develop benefits programs to address employee needs and interests within our total compensation framework.

MEASURING EMPLOYEE SATISFACTION

KEY PERFORMANCE INDICATORS*	2004	2005
Percent of crew who would recommend working at McDonald's to a friend	82.2%	83.2%
Percent of crew who feel valued as a McDonald's employee	76.5%	79.1%
Percent of managers who would recommend working at McDonald's to a friend	80.8%	81.6%
Percent of managers who feel proud to work for McDonald's	82.0%	83.5%

*NOT INCLUDING AUSTRALIA, CANADA, CHINA, JAPAN

In the past several years, we have launched major initiatives to promote the types of people practices that will make our employees happy and proud to work for McDonald's and passionate about customer service. Our annual employee survey is one way we measure progress.

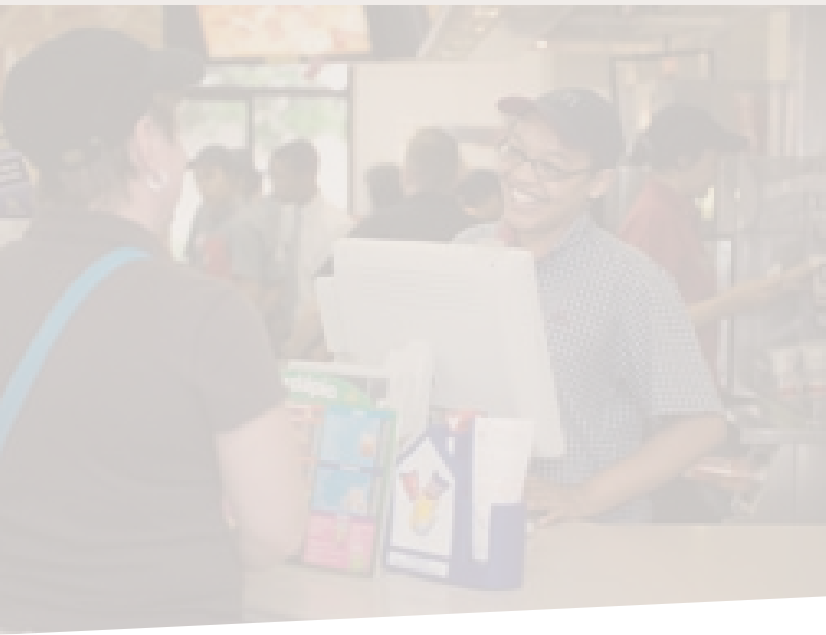
In 2004-2005, different versions of the survey were used in the U.S., where ROIP had been fully implemented, and in Europe, where it was just being introduced. However, both versions had several satisfaction-related items in common. We used these questions for our KPIs. Going forward, we will have results from a standardized survey and be able to report broader results.



Above. Franchised and company-operated restaurant employees can participate in unique programs we offer, such as Olympic Champion Crew (*left*), through which approximately 300 employees travel to work at the Olympic Village, and Voice of McDonald's (*right*), a global singing competition. These programs provide special opportunities for employees.

DIVERSITY RECOGNITION

McDonald's has received a number of awards for diversity and inclusion achievements. A sampling of our commendations from 2005 and 2006 includes the "Top 40 Companies for Hispanics," Human Resource Executive's "Top 100 - The Latino Factor" and a prominent ranking in Essence magazine's "35 Great Places to Work." We were highlighted for two consecutive years by Black Enterprise Magazine as one of the "30 Best Companies for Diversity" and listed by Latina Style among the "Top 50 Places for Hispanic Women to Work." And, our successful efforts to recruit and place disabled Americans earned McDonald's the Henry Betts, M.D., Employment Advocacy Award for Disability Employment. McDonald's was awarded The Equal Employment Opportunity Commission's (EEOC) "Freedom to Compete" Award in recognition of the employee networks and diversity education initiatives (pictured right).



A DIVERSE WORKFORCE

At McDonald's, the foundations of inclusion and opportunity are established by global policies. Our code of business ethics — McDonald's Standards of Business Conduct — commits us (consistent with local law) to **providing equal opportunity for employees and applicants and to treating all employees with "fairness, dignity and respect."** Our global People Principles commit us to **a supportive workplace where diverse opinion, backgrounds and experiences are valued.**

We need the best people, with diverse perspectives, in order to grow and thrive. And with operations in 118 countries around the world, we certainly need a rich cultural mix to understand and effectively respond to our customers' needs and preferences.

Measuring diversity on a global basis is a complex process, in part because categories relevant in some countries are not relevant in others. Groups that are minorities in some countries are not minorities in others, and the significance of minority status also varies. We have decided, at least initially, to track gender diversity in decision-making positions because women have historically encountered barriers to achieving such positions in virtually all parts of the world. We will continue to study more comprehensive diversity measures that would be relevant to the diverse communities we serve.

MANAGEMENT OPPORTUNITIES FOR WOMEN

KEY PERFORMANCE INDICATORS	2005
Percent of company-operated restaurant managers who are women	44.0%
Percent of mid-management office staff who are women	39.9%
Percent of mid-management operations staff who are women	31.5%
Percent of worldwide top management team who are women	15.3%

TURNOVER IN OUR WORKFORCE

People choose to work in McDonald's restaurants for many reasons. Some want to pursue a career at McDonald's. Others seek to gain entry into the work world, to earn money for further education or some other personal goal, to supplement another income or to remain active and engaged while they raise a family or after retirement.

To manage turnover, we have ongoing, formal training programs to ensure that all employees have the knowledge and skills to perform their jobs, whatever their reasons are for joining the company and their plans for staying. We also work hard to make sure employees are aware of opportunities for advancing in the System. Providing competitive pay and benefits are also key elements in our strategy. We understand that providing opportunity and pleasant work environments will help us manage turnover in ways consistent with our people strategy and our other business objectives.

RELATIONSHIPS WITH EMPLOYEE TRADE UNIONS

Our working relationships with national unions and employees who belong to unions differ from country to country, depending on local laws and regulations, economic structures and other variables. Under our Standards of Business Conduct, we seek to comply with the letter and spirit of all laws in every country where we do business. Thus, we respect employees' legally-protected opportunities to join unions, and we deal with unions authorized to represent our employees' interests.

In various European countries, including all our major markets there, we also consult with country-level works councils. Since 1996, we have also regularly consulted with a broader works council — the European Communications Council. Together, we have discussed a broad range of strategic and operational issues, including priorities for corporate responsibility activities in Europe. As with the country-level works councils, employees have complete independence in deciding who will represent them on this council.

OUR CHALLENGES

We have dual challenges. One is to deliver on our people commitments in unison with tangible employment improvements. The other is to change the perception of employment at McDonald's.

We need to continue to improve our employment experience, each and every year. This involves having the right staffing levels in our stores, offering compelling programs that are valued by our employees and better communicating our employment philosophy of "opportunity for all," centered on training and development programs and combined with significant opportunities for advancement.

THE FUTURE

The success of our business depends on hiring and retaining talented, highly engaged, well-trained people to provide a friendly, accurate and fast service experience that delights our customers. To achieve this, we seek to be — and to be known as — a great place to work in every community where we do business.

Consistent with the Plan to Win and our overall "freedom within the framework" approach, our priorities for achieving our goal include:

- Continuing our exploration of the meaning of diversity in our worldwide markets, with a view toward developing additional guidance and measures.
- Executing our Restaurant People Strategy to drive higher levels of employee commitment and customer satisfaction.
- Defining a framework for communicating about employment "under the Arches" that will help us and our owner/operators attract and retain top talent.
- Establishing a global talent management plan supported by robust talent identification, succession planning, leadership development and staffing processes.
- Implementing a global total rewards program and increasing employee understanding of the rewards available for superior performance.
- Ensuring a workplace where all employees are respected and valued.

PLACE:

A Place in the Community

Ronald McDonald House Charities
Community Giving
Economic Impact
Environment at the Restaurant Level

This soccer team is sponsored by the local Ybor City McDonald's restaurant located in Tampa, Florida.

OPEN DOORS

CERES STAKEHOLDER QUESTIONS AND PERSPECTIVE:

Do your philanthropic efforts align with your business strategy?

As stakeholders interested in how businesses such as McDonald's address issues core to what they do, we often look at charitable efforts as a "nice to do". We encourage companies to address their core competencies and to focus their efforts on impacting those areas of their business that affect the "triple bottom line" performance (social, environmental and economic impacts). As a company whose key impacts range from providing food to more than 50 million customers a day, employing more than 1.5 million people, and wielding influence over suppliers for a range of products, how do you view your efforts to support charities such as Ronald McDonald House Charities? Is it linked to your core business? And how does it get integrated with what you do across the broader corporate citizenship spectrum?

“McDonald’s is very different from other companies in the food sector in that it works with a group of supplier partners. What we found is that the McDonald’s organization and the partners in its supply chain raise labor productivity not only in the Brazilian foodservice industry, but also in the Brazilian economy as a whole.”

DR. FERNANDO GARCIA, PROFESSOR OF ECONOMICS, ECONOMETRICS AND PUBLIC ADMINISTRATION, FGV
COORDINATOR OF ECONOMIC RESEARCH, GV CONSULT, SAO PAULO, BRAZIL



WE PLAY A BROADER ROLE IN THE COMMUNITY

A McDonald's restaurant is more than a place for a meal or snack. It is more than a destination for a child's birthday party or a convenient and affordable place to take the soccer team after a game. It is part of the fabric of the local community, the surrounding environment, the economy and ultimately the planet itself.

When Ceres asks us about how integral is community giving to our business, you don't need to look too far for evidence of how integrated the "giving back" ethic is to McDonald's and why we focus our philanthropic efforts on supporting charities that address the needs of children. This is why Ronald McDonald House Charities (RMHC) is the charity of choice for McDonald's. Linda Dunham (Open Doors on this page) shares a passion felt by so many owner/operators, suppliers and company people. Ray Kroc founded McDonald's as a local business, owned and operated by local entrepreneurs, with the business imperative, as he said: "give back to the communities where we do business."

Our restaurants and the local communities they serve have a mutually dependent relationship. We depend on communities for business, and our restaurants give back to their communities through supporting local programs and charitable causes. But our restaurants also have an impact. We strive to manage this appropriately, exercising leadership so that resources will be available to sustain communities in the years ahead.

Our priorities are:

- To give back to the communities we serve — because it's the right thing to do and good for business.
- To continue to raise awareness of the economic value McDonald's restaurants bring to the communities where we do business.
- To be environmentally responsible in our restaurant operations.

LINDA DUNHAM, CHAIR OF THE GLOBAL BOARD OF RONALD McDONALD HOUSE CHARITIES, OWNER/OPERATOR, NEW YORK AND NEW JERSEY

OPEN DOORS



Together with her husband Lee and their son Brian, Linda operates six restaurants in New York and New Jersey, providing jobs and opportunity for 350 employees. She is also Vice President of the local New York Tri-State Area RMHC Chapter. She serves on the boards of numerous other philanthropic organizations and is deeply involved in other efforts to give back to the community.

"I was introduced to McDonald's through my husband, who is a long-time owner/operator. I had a dream job as an account officer in private banking. But I wanted to be more involved in the community and to support the development of young people. So I left banking and joined my husband's business. Later, I became an approved owner/operator.

"Giving back is inherent in the McDonald's System. But social responsibility isn't something you teach. It evolves over time and through your own experiences. There's an innate trait that leads me to accept that it's my responsibility to give back to my community.

"My involvement with Ronald McDonald House Charities began 20 years ago. I had gone to the New York Ronald McDonald House with a group of operators' wives. We went to see what we could do to help with the annual spring cleaning. On the elevator was a little girl, about four years old. She was from Russia and was in the United States receiving treatment as a result of the Chernobyl nuclear accident. That day marked a turning point in my life. I recognized how fortunate I was, and I felt a tremendous desire to help the children staying at the House.

"Now Ronald McDonald House Charities is my charity. I know it well. I have seen first-hand how RMHC is changing lives for the better. I have shared the joy of our grateful recipients. Our many programs have been instrumental in improving the health and well-being of children around the world.

"Because we are McDonald's, local organizations ask us to participate in the life of the community. We welcome this. We support numerous local sports programs and contribute to our community in a variety of other ways. We sponsor school plays, donate items for raffles, provide food for community events, support Safe Night Out for the senior prom and buy books for the local library. We also provide ongoing support for local arts programs."



SYSTEM SUPPORT FOR
RONALD McDONALD HOUSE CHARITIES

We have begun tracking the total funds our local business units, owner/operators and suppliers annually raise for RMHC and other children’s charities. One major way McDonald’s supports RMHC is through our annual global fundraiser, World Children’s Day. In 2005, in honor of our 50th anniversary, we set a goal of \$50 million in fundraising for children’s causes. As the figure below indicates, we exceeded this goal. World Children’s Day alone raised more than \$23.6 million.

KEY PERFORMANCE INDICATOR*	2005
Total raised by McDonald’s System, including employees, owner/operators and suppliers, and with the help of customers, for RMHC & other charities	\$60.9 million
*WORLDWIDE	

System philanthropy includes the commitment and generosity of McDonald’s owner/operators, suppliers and employees and corporate contributions — the “three-legged stool” hard at work to benefit children. Ronald McDonald House Charities is the charity we actively support.

RMHC is a public charity whose mission is to create, find and support programs that directly improve the health and well-being of children. It reaches into local communities through its network of local Chapters. Through direct contributions, fundraisers and active involvement in local Chapter programs, owner/operators, company employees and suppliers support the Charities’ efforts to meet critical needs of children around the world.

There are currently **180 local Chapters in 49 countries around the world**. They operate three core programs:

- **Ronald McDonald House Program:** “homes away from home” for families with seriously ill children receiving treatment at nearby hospitals.
- **Family Room Program:** a place for families to relax and refresh in the hospital setting.
- **Care Mobile Program:** (pictured left) brings cost-effective, high-quality medical, dental and health education services directly to underserved children in both rural and urban areas.

RMHC and its local Chapters also provide support for other nonprofit organizations that help children. Together, since their inception, they have **awarded more than \$440 million in grants and services for a wide range of programs that address children’s needs**.

RMHC local Chapters are governed by their own Boards of Directors and depend principally on their own fundraising. Many owner/operators serve on Chapter Boards and committees, and even more leverage their resources for fundraising programs and events. Many McDonald’s employees and suppliers also provide voluntary support for the Chapters and their programs.

Above left. In 2005, the Discovery Channel show “Trading Spaces” redesigned the living room of a Ronald McDonald house. The program was nationally televised in the U.S.

Above. McDonald’s regional office and local restaurants sponsor community programs including those that encourage physical activity.



WHERE WE ARE: COMMUNITY INVOLVEMENT

Top and middle. McDonald's employees and Rev. Jesse L. Jackson, Sr. helped unload supplies brought from Illinois and California by Rainbow PUSH to aid victims of Hurricane Katrina. Perlman-Rocque, a McDonald's supplier, then distributed the supplies throughout the affected areas.

Bottom. A McDonald's that was destroyed during Hurricane Katrina.



SUPPORT FOR DISASTER RELIEF

In 2004 and again in 2005, devastation called forth responses from our owner/operators, suppliers and corporate personnel around the world.

HURRICANE KATRINA

Hurricane Katrina brought extraordinary damage to the Gulf Coast region of the U.S.. It also brought out a coordinated response from the McDonald's System.

Our owner/operators and company-operated restaurants in regions across the country initiated their own fundraising and other support activities. Our employees also gave generously — of their funds, their time and themselves. The corporation committed \$5 million to Katrina relief efforts, including funds to match those donated by our employees and customers.

TSUNAMI IN SOUTHEAST ASIA

Within hours after the tsunami and related earthquake devastated communities in nearly a dozen countries, our local restaurants in affected areas reopened to begin providing food, water and other assistance to relief workers and victims.

McDonald's Australia provided meals for telethon volunteers, meal vouchers for Red Cross workers and a substantial cash contribution. Business units from Romania to Singapore to Hong Kong helped to raise money, including donating a portion of sales from menu and promotional items to the relief effort. Together, RMHC, local RMHC Chapters and other System efforts raised approximately \$3.3 million for disaster relief within the first month following the tsunami.

TOTAL CORPORATE GIVING

At the corporate level, McDonald's partially defrays the general and administrative costs of the RMHC global office by providing free use of facilities, equipment and materials. Our support also helps defray certain costs RMHC would otherwise incur to conduct fundraising activities and deliver program services.

KEY PERFORMANCE INDICATOR	2004	2005
Corporate cash and in-kind philanthropic contributions	\$9.2	\$13.3

We are tracking total corporate cash and in-kind contributions as a key performance indicator (KPI). The figures do not include the considerable funds and other contributions made by our regional and local business units and some of our corporate departments.

The 2005 increase is due to the unprecedented amount of disaster relief we contributed through matching gifts and donations.

ONGOING REGIONAL AND LOCAL PHILANTHROPIC EFFORTS

McDonald's local business units and owner/operators give back to their communities in a wide variety of ways. The following are just a few examples drawn from major market activities in 2005.

- **Australia.** Since 1990, McDonald's Australia has sponsored a national puppet program to educate primary school children about children with cancer and other children who, for various reasons, look different from others. More than 2.25 million children in approximately 8,500 schools across the country have been reached by the program and its message.
- **Brazil.** Since 1989, McDonald's Brazil has sponsored an annual country-wide fundraiser — McHappy Day — to help provide care and treatment for children and adolescents with cancer. The program has raised more than \$27.5 USD million to help support more than 100 organizations allied with RMHC Brazil (Instituto Ronald McDonald). It has become the one of the country's largest fundraisers and awareness generators for pediatric cancer .
- **Canada.** In 2005, McDonald's Canada helped the ALS (Lou Gehrig's Disease) Society of Canada to raise almost CAD \$2 million, serving as a presenting sponsor of the annual Walk for ALS. The nationwide walk is a fundraiser for ALS research and services to support individuals who have the disease and their families.

Yasumasa Ueda is a McDonald's owner/operator in Kochi, Japan. As a key supporter of the local RMHC Chapter and a variety of other programs for children, he exemplifies the ways owner/operators give back to their local communities.

- **China.** In celebration of its 15th anniversary, McDonald's China sponsored a nationwide "Love and Hope" program involving a variety of social welfare and charitable activities in 16 cities. These included donations to Shanghai Children's Medical Center to support treatment of low-income children with heart disease, a fundraising toy sale for orphans and the establishment of the first library for low-income children in western China.
- **Germany.** As part of a nationwide program to encourage children to read, McDonald's restaurants in Germany offered reading events for children in 2004 and 2005. Prominent public figures were invited to read to children from six to 12 years old. For these events, McDonald's restaurants ordered more than 120 cases of books and additional reading materials.
- **Japan.** McDonald's Japan is an official sponsor of the Japan Children's Rubber Baseball Tournament — an annual event involving approximately 15,000 teams and 380,000 children from all around the country. Winning teams are invited to a special McDonald's "Friendship Baseball" event held in Guam.
- **U.K.** Through partnerships with the country's four National Football Associations, McDonald's U.K. has increased the number of qualified football coaches for schools, clubs and communities. This is one way the company seeks to counter the decline in sports participation among young people. The company has also donated more than \$2.3 million USD in coaching kits and equipment. More than 3.6 million children have benefited from this program. In April 2006, the program reached its goal, with 10,000 new volunteer football coaches qualified, including 350 for children with disabilities.
- **U.S.** McDonald's USA has collaborated with various organizations such as the City of Hope Cancer Center and Y-Me to help raise awareness and educate our U.S. customers about breast health and breast cancer. During the month of May, restaurants across the country displayed table tents with breast cancer facts, early detection tips and sources for further information and support.



"I began my career at McDonald's as a management trainee in a restaurant. My parents were running their own business, so I was naturally interested in both business and management. At the time I was thinking about what I wanted to do professionally, McDonald's Japan was starting to franchise restaurants, so I decided to become an owner/operator. I have been part of the McDonald's System now for 32 years, and I currently operate five restaurants.

"Because I do business in my community, I think it is important to give something back. Currently, I provide food and fun promotional items for children's events in my community. I bring Ronald McDonald to schools to teach students about road safety. I help sponsor the All-Japan Rubber Baseball Tournament. I also donate to UNICEF so that I can support children who need help.

"In 2004, I heard that RMHC was going to build a Ronald McDonald House in my community. I am a board member for Ronald McDonald House Kochi now. I provide advice and support and also join in events held by the House. Last summer we held a barbecue party for volunteers, hospital staff and families who were staying in the House. I invited Ronald McDonald, which was a big surprise for the kids.

"In Japan, very few people know about RMHC. I consider it my personal mission to make the public more aware, because I believe RMHC's work is very important. Of course, there are boxes in all of my restaurants to collect donations and to raise awareness of RMHC, but I also personally hand out RMHC "wish lists" to customers and ask for donations. I am also currently conducting public relations for RMHC in my community."

YOUR LOCAL McDONALD'S

With this report, we are taking a first step to establish two KPIs we will use to track economic impacts in our major markets.

One KPI is **capital expenditures** — what we spend on purchases that have more than a year of useful life, such as land and restaurant equipment. In 2005, **our capital expenditures, in eight of our nine major markets totaled \$1.14 billion — an increase of more than 21% over 2004.**

The other KPI is amounts paid in **social taxes**. These are the taxes that companies pay to support government programs that may provide benefits for eligible company employees, former employees and, in some cases, their families, such as Social Security, unemployment compensation, and Medicare. In 2005, our social tax payments totaled more than \$382 million — an increase of about 9.7% over 2004.

KEY PERFORMANCE INDICATORS	2004	2005
Capital expenditures*	\$0.94 billion	\$1.14 billion
Total social taxes paid	\$345.3 million	\$382.3 million
*NOT INCLUDING JAPAN		

Both capital investments and social taxes, the income taxes paid by McDonald's Corporation, play a significant part in funding governmental programs that benefit people other than our employees and shareholders. As a responsible taxpayer, McDonald's Corporation complies with the laws in the different jurisdictions where we do business to ensure that we pay our fair share of income tax. Income tax payments made by the nine major markets totaled \$640 million in 2005 and \$966 million in 2004. These figures represent the income tax dollars paid which ultimately benefit the people in the communities in which we do business via various government programs and services.

As local businesses, McDonald's restaurants contribute in many ways to economic development at local, national and regional levels. They provide jobs, and the wages they pay enter the local economy, as employees make purchases and pay taxes. They provide opportunities for local and regional suppliers, who then create jobs to meet the increased demand. They invest in their communities through construction and renovation and may serve as a stimulus for neighborhood revitalization. They pay taxes and fees and thus help support essential public services. And not only their employees, but their suppliers and their suppliers' employees pay taxes too.

FERNANDO GARCIA
PROFESSOR OF ECONOMICS AT FGV, COORDINATOR
OF ECONOMIC RESEARCH, GV CONSULT

A professor of economics, econometrics and public administration at FGV, Dr. Fernando Garcia also works as coordinator of economic research at GV Consult. He served as lead researcher, coordinator and author of the study of McDonald's impact on the Brazilian economy — conducted in celebration of McDonald's 25 years in Brazil.



What is an economic impact study?

"It's a study that measures the economic contribution of a particular business or industry to the whole economy. In this case, it was the contribution of McDonald's to the economy of Brazil. Essentially, we wanted to examine the contrast between the real world, in which McDonald's operates in Brazil, and a theoretical world in which McDonald's doesn't. This allowed us to determine the impact of McDonald's on income, employment, taxes and productivity growth in the Brazilian food industry."

What was unique about the McDonald's studies?

"McDonald's had an accounting methodology that was different from the one used in social accounting – the type of analysis used in the public sector to determine, for example, a country's GDP. This is a very common problem in dealing with the impacts of private sector organizations. By adapting McDonald's accounting methods to fit a social accounting model, we developed an entirely new methodology with which we could measure the true impact of an enterprise on the economy of a region or country. For the 2005 study, this enabled us to compare McDonald's performance to that of other companies in Brazil's food sector."

From your perspective, what findings were most significant?

"Two things were very surprising: the difference between the labor productivity of McDonald's and other companies in the Brazilian foodservice industry and the impact of the McDonald's food supply chain. McDonald's is very different from other companies in the food sector in that it works with a group of supplier partners. What we found is that the McDonald's organization and the partners in its supply chain raise labor productivity not only in the Brazilian foodservice industry, but also in the Brazilian economy as a whole."

AN ECONOMIC IMPACT STUDY OF McDONALD'S IN BRAZIL

In 2004, McDonald's Brazil commissioned an economic impact study to celebrate its 25th anniversary in the country. The study was performed by GV Consult, the consulting arm of a prominent public and business administration institute. In 2005, they completed an update and expansion of the original study.

The study shows, in detail, how McDonald's "has contributed substantially to Brazil's economic and social growth" by generating income, jobs and tax revenues in the local agriculture, manufacturing and services sectors. More specifically:

- **System activities added R\$1.6 billion (\$701 million USD) and 66,000 jobs to the Brazilian economy.**
- McDonald's and its suppliers paid approximately R\$448 million (more than \$208 million USD) in taxes, including R\$109,203 (approximately \$50.7 million USD) for government social security system and severance fund system taxes.
- In 2004, McDonald's restaurants had more than 200 direct suppliers in Brazil, and according to the study, "the huge demand for McDonald's products has helped these and other companies grow into large, nationwide food industries and distributors."
- McDonald's bought close to R\$433.4 million (more than \$200.9 million USD) in food and other products needed to prepare the meals served in its restaurants and spent more than R\$509 million (in excess of \$236 million USD) for services, property rental, advertising, freight costs and utilities.

Some of the more important findings, we believe, relate to employees, who are:

- **Younger than their peers** in the Brazilian food service industry, indicating that we provide many young Brazilians with their first formal work opportunity.
- **Earning 29% more** than the average wage paid in the industry.
- **6.5 times more productive** than their average peer due to our substantial investment in technology and in their education and training.

The full report is available online through www.csr.mcdonalds.com.

McDONALD'S ECONOMIC FOOTPRINT IN LOCAL U.S. MARKETS

In the U.S., we have been working with Professor Dennis Tootelian of California State University at Sacramento on an expanding series of local economic impact studies. We began with several metropolitan area studies, then expanded to the state level. We now have 10 current metropolitan area and county-level studies and 15 state-level impact studies, mostly for the western part of the U.S.

In 2005, we took a major step forward, with a study of company-operated and franchised restaurants' impacts in all 15 states in the West Division. This study confirms that **McDonald's is a major engine for economic growth**. For example, in 2003, McDonald's then-3,463 West Division restaurants:

- Spent more than \$3.3 billion dollars in their communities, or nearly \$9.1 million per day.
- Returned more than 47 cents of every dollar they earned to the local economy.
- Had a combined capital investment of more than \$3.6 billion.
- Created nearly 250,000 additional jobs and more than \$6.3 billion in spending as a result of the impacts of their purchases.
- Paid a total of more than \$231.3 million in business taxes, licenses and payroll taxes, plus additional sums for state and federal income taxes on profits.
- Created more than \$1.3 billion in taxes through the jobs they provided and their purchases from other local businesses.

OPEN DOORS

CERES STAKEHOLDER QUESTIONS AND PERSPECTIVE:

Where does climate change fit into your priorities and what are you doing to manage the issue?

Faced with record warmth, unprecedented hurricane activity, and the shrinking of polar ice caps, skeptics no longer question whether human activity is warming the globe, but rather how fast it is happening. A growing number of companies are addressing the financial risks and opportunities associated with climate change. Companies who operate with a “business as usual” strategy may be putting their companies and their shareholders at risk.

Ultimately, an effective climate change strategy will depend on well-functioning environmental management systems and properly focused governance practices.

So we asked McDonald’s where climate change fits into their priorities. What are they doing to manage this issue?

WHERE WE ARE: ENVIRONMENT

Climate change is an important issue. We believe that all companies have a role to play in managing their operations to reduce climate change impacts. While these are not what we see as our biggest impact (given that we are a retailer, not a manufacturer), the fact is that we’re a fairly energy-intensive business, and we can and should take actions to reduce our potential impact on global climate change through energy management systems. *For information on how we are managing environmental impacts within our supply chain, please refer to the Products section, page 33.*

With this report, we have taken a first step in calculating our climate change impact — by estimating the CO₂ emissions resulting from the use of electrical energy by company-operated restaurants in our nine major markets. By effectively managing our electrical energy consumption, we are addressing our #1 way to control greenhouse gas (GHG) emissions. Electricity accounts for 98% of our restaurants’ direct CO₂ emissions, with hydrofluorocarbons (HFCs) from our refrigerants making up the remaining 2%.

MEASURING GREENHOUSE GAS EMISSIONS AND ELECTRICITY USE

The KPI above indicates that from 2004 to 2005, CO₂ emissions increased 8.9%. This is due to many factors, including business growth and increased sales, an increased number of restaurants staying open 24 hours (and thus using an increased amount of energy), local climate variations and the amount of heating and/or cooling that is needed for temperature regulation.

KEY PERFORMANCE INDICATOR*	2004	2005
CO ₂ emissions resulting from electrical energy use in company-operated restaurants	591,000 tons CO ₂	643,800 tons CO ₂

*NOT INCLUDING CHINA, U.S.

CALCULATION OF GHG EMISSIONS

Since, in most markets, electricity cannot be traced back from a restaurant to a particular power station, GHG emissions for this report were calculated on the basis of country-level data — tables on CO₂ emissions from electrical energy production were developed by the World Resource Institute and the World Business Council for Sustainable Development (see www.ghgprotocol.org, calculation tools). From these tables, the national average amounts of CO₂ emissions per kWh were used for each of McDonald’s nine major markets.

Each country-level business unit reported the total kWh used, in 2004 and 2005, for the restaurants it operated. These country totals were based on various approaches, ranging from measured data for all restaurants, in the case of Germany, to extrapolating from sample data in France. Each total was then multiplied by the country’s average CO₂ emissions per kWh. The results were added together to produce the KPI.

RATIONALE FOR THE FOCUS ON ELECTRICAL ENERGY CONSUMPTION

McDonald’s Europe recently performed an assessment that indicated that the majority of the GHG emissions produced by McDonald’s Europe stem from the production of electricity used by its restaurants. These emissions consist mostly of CO₂. For the purposes of this report, we reviewed McDonald’s Europe’s assessment and drew the conclusion that, on a global level, restaurants’ electricity consumption accounts for the bulk of McDonald’s GHG emissions.

Born and raised in Australia, Jessica Sansom worked on environmental issues in the government and with public and private sector organizations before becoming a part-time consultant to McDonald’s Australia. A few months, several phone calls and many e-mails later, she accepted a full-time position with McDonald’s U.K., where she currently serves as Environmental Manager.



My role as environmental manager is very broad. It can encompass any number of different subjects – from restaurant operational impacts, like litter and how much energy we use, to the environmental impacts arising from the manufacture of the products we buy.

Being a global brand like McDonald’s, everyone wants to know what you’re doing. So there’s also a corporate affairs role – talking to stakeholders, putting together white papers and publications. And working with government agencies like DEFRA

[Department for Environment, Food and Rural Affairs] in the development of policy on environmental issues.

McDonald’s is a very procedure-driven organization. So what I’ve tried to do is to integrate environmental actions into existing restaurant procedures. When you come in and start to work in a restaurant, you’re given a task list of all the things you need to complete within your shift. Some may be environmentally driven, but they are not necessarily highlighted as environmental actions; they’re just what’s on the task list.

For example, you can be accepting a delivery and separating out cardboard for recycling. You could be changing the cooking oil and storing the used oil, which will be sent for recycling into biodiesel. When you have been working on the grill and have finished cooking, an alarm will go off to remind you to put the system into standby mode and close the lid – an action that saves a significant amount of energy.

MEASURING OUR EFFORTS TO CONTROL ELECTRICAL ENERGY USE

We have taken a first step toward developing a metric that will allow us to monitor our restaurants’ efforts to control electrical energy use. The initial KPI measures kilowatt hours used in relation to customer transaction counts. A transaction count is a customer order that results in a single payment. It therefore, could account for one or more people, depending on the size of the party and structure of payment.

KEY PERFORMANCE INDICATOR*	2004	2005
Total kilowatt hours used per transaction count in company-operated restaurants	0.85	0.85

*NOT INCLUDING CHINA, U.S.

We are not completely satisfied with this metric because it does not really reflect the multiple variables that impact electrical energy consumption in our restaurants. So much depends upon the local climate, the number of hours the restaurant is open for business, its size, construction type, the types and ages of the equipment it uses and, of course, the procedures in place to control energy use. As we continue to develop our understanding of how these various factors correlate with energy use, we plan to strengthen our metric to best reflect energy use by company-operated restaurants. In addition, as we develop and refine our data collection procedures, we will work to develop a more comprehensive metric that accounts for not only electrical energy use, but also other energy use.

Right. Local school children participate in McDonald's U.K. litter pick-up during a "Just Bin It" event.



OUR ELECTRICAL ENERGY MANAGEMENT STRATEGIES

Strategies for electrical energy management vary from market to market depending on opportunities for improvements in operations, available technological options and relative energy costs. By and large, the strategies focus on five broad areas:

1. **Informing and educating** owner/operators and restaurant managers
2. **Developing guidance and tools** to support effective electrical energy management
 - A chapter on utility management is included in our Operations and Training (O&T) manual for restaurant managers.
 - Managers may also access online tools that include a maintenance task schedule and the creation of a "fire up" schedule that estimates savings that could be achieved by changing the schedule or replacing equipment.
 - McDonald's U.K. provides restaurant managers with a special environmental manual and an online course.
3. **Using energy-efficient equipment**
 - Energy efficiency is a factor we consider in evaluating equipment for our restaurants. HVAC systems are one priority because they account for an estimated 30-40% of the energy used in our restaurants.
 - Equipment used for food storage and food preparation can also be major consumers of electrical energy.
4. **Using equipment that automatically controls and prevents excess energy expenditure**
 - Many European restaurants have a comprehensive automated energy management system that monitors, controls and optimizes energy use.
 - In Latin America, energy management systems have been adopted as a standard for new restaurant designs.
5. **Building and remodeling McDonald's restaurants with energy efficiency in mind**
 - In cooler climates, we use insulation in roofs and around the slab foundation to minimize heat loss.
 - A new U.S. prototype restaurant has awnings over dining area windows and additional landscaping to help shield direct sun, thus reducing demands on air conditioning.
 - We are exploring the possibility of securing LEED (Leader-ship in Energy and Environmental Design) certification for new restaurants. Our pilot LEED-certified restaurant in Savannah, Georgia is providing us with much needed insight.

SEEKING REFRIGERANT ALTERNATIVES

We are actively seeking more sustainable refrigerant alternatives to replace the prevailing industry standard, which is HFC-based. HFCs have a significant global warming impact — 1,000 times greater than the impact of the equivalent amount of CO₂. Since opening the first HFC-free restaurant in Denmark, in 2003, we have continued R&D work with our suppliers. Creating the market demand for alternatives has been difficult. (We estimate we represent <1% of total usage of HFC's).

To gather more support, in June 2004, we joined together with The Coca-Cola Company and Unilever, with the support of the United Nations Environment Program (UNEP) and Greenpeace, to sponsor our second global conference — Refrigerants, Naturally — where we and our supplier partners presented the results of our efforts to date.

In 2005, UNEP formally recognized the Refrigerants, Naturally coalition as an official Partnership for Sustainable Development. This means that the coalition is aligned to advance the objectives of Agenda 21 (the UN's comprehensive action plan for sustainable development) and the program and plan for implementing that agenda.

For our "Refrigerants Naturally" leadership, we and our supplier partners were recognized by the U.S. Environmental Protection Agency with its 2005 Climate Protection Award.



CONSERVING NATURAL RESOURCES BY RECYCLING AND REUSING

Many of our restaurants, franchised as well as company-operated, recycle. And we're always trying to do it better. In Japan, our restaurants are testing the feasibility of collecting and recycling used paper cups. We are actively pursuing the conversion of used cooking oil into biofuels. We already have **biodiesel recycling programs** in Australia, Brazil and some European countries. Other pilot projects to **recycle product packaging** are scheduled to begin this year in Australia and the U.K..

McDonald's Canada has sandwich buns delivered in reusable plastic containers.

In many European countries, Coca-Cola is delivered in a plastic-lined box that can be returned and refilled approximately 25 times. In Sweden alone, this innovation saved about 140 tons of corrugated cardboard in 2003.

In the U.S., we have implemented a bulk cooking oil delivery system, which eliminates the need for both plastic jug containers and the corrugated boxes to hold them. Doing so eliminates more than 1,500 pounds of packaging waste per restaurant per year!

As of the end of 2005, 43% of U.S. restaurants were participating in the program, or approximately half the restaurants capable of receiving bulk oil. We aim to add an additional 1,000 restaurants (about 10% more potential participants) to the program each year.



OUR CHALLENGES & THE FUTURE

OUR CHALLENGES

Community giving: Getting our System even further energized and involved with supporting Ronald McDonald House Charities.

Economic impact: Developing a standard protocol and methodology to measure our economic footprint and our broader impacts within the community.

Environment: Developing additional tools and programs to implement our global environmental policy at the restaurant level.

THE FUTURE

Our business depends on how well our restaurants fit into their local communities and serve the interests of our diverse stakeholders. As a responsible corporate citizen, we want to continue progress in environmental stewardship, philanthropy, and support for local economic development.

GOALS INCLUDE:

GIVING

- Enhancing the reach and influence of **World's Children's Day** and other fundraising efforts to help children in need.
- Supporting the growth of **Ronald McDonald House Charities**, thereby helping more children in need.

ENVIRONMENT

- Continuing to pursue ways of **reducing our use of energy from non-renewable sources**.
- Enhancing our ability to **gather more comprehensive and detailed metrics on restaurants' energy use**. This information would enable us to correlate specific energy management practices, equipment and design choices to energy use and cost savings. We could thus better target our efforts and support energy monitoring and control at the restaurant level.
- **Improving the environmental footprint of our consumer packaging**.

PITCHING IN: KEEPING OUR NEIGHBORHOODS LITTER-FREE

We live and work in the same neighborhoods as our customers do, and like them, we want these areas to be clean and free of litter. We instruct our staff on keeping our grounds clean, and our training manuals teach good litter management practices. We do frequent clean-ups of areas outside our restaurants and public space surrounding our parking lots. We encourage our customers to help, with garbage cans throughout our restaurants and in parking lots and drive-thru areas.

We take litter very seriously. Here are other ways we are making the effort to keep our neighborhoods clean:

- In Australia, McDonald's is developing a nationwide "Clean Streets" program.
- Our German anti-litter campaign has included workshops, a sports festival and teaching aids for schools and communities.

EFFECTIVE WATER MANAGEMENT

Our company-operated and franchised restaurants use somewhere around 19.2 billion gallons of water a year. That's 1,650 gallons per day per restaurant on average. Most of the water used by our restaurants is for personal sanitation, cleaning and, in some cases, landscape maintenance.

Our Global Water Team coordinates and supports our water management efforts. The Team consists of relevant internal departments, our major suppliers of water filtration systems, our primary supplier of chemical cleaning products for our restaurants, The Coca-Cola Company, which has an interest in the quality of water used for our beverages, relevant departments within McDonald's and other experts.

The Team has established global standards for restaurant water quality to make sure the water used in our restaurants is safe and free from contaminants so that it is suitable for food preparation, cleaning, sanitation and personal hygiene.

It is also focused on:

- Water conservation.
- Reducing levels of greases and sugars in our restaurants' waste water.
- Designing systems so that water is filtered according to the level of quality necessary in different areas within a restaurant. (For example, a higher level of filtration is needed for the beverage area than is needed for toilets.)

DEAR READER,

The title of this report was deliberate. We understand just how important an “Open Door” is in the effort to fully engage stakeholders who, like McDonald’s, care so much about social and environmental issues. Please know that this spirit does not end with this report. We remain committed to opening our doors wider and to more people.



Above. Vice President of Corporate Citizenship and Issues Management, Bob Langert (pictured far right) moderates the “Quality Through the Eyes of NGOs” panel during McDonald’s 2005 Quality Symposium. Panelists, pictured left to right, are David Schilling, Interfaith Center on Corporate Responsibility, John Buchanan, Conservation International, and Dr. Temple Grandin, Colorado State University.

We have already taken steps in this direction — through programs like the CSR Fellows’ visits to our beef suppliers and many Open Door initiatives around the world. We firmly believe that everyone benefits when we do this.

I learned this first-hand when I cut my teeth on environmental issues in the 1990s. An NGO — Environmental Defense — approached McDonald’s about working together to reduce waste. After an initial feeling out period, trust and common ground emerged. Through this partnership, we reduced McDonald’s waste by 300 million pounds during the 1990s.

We’ve entered into other productive partnerships — with Dr. Temple Grandin on our animal welfare audit system, Conservation International on our sustainable fisheries and supplier environmental scorecard programs, and numerous organizations that share our interest in balanced, active lifestyles.

We must continue to look for similar opportunities. The common thread is **better policies, better programs — and better results.**

To facilitate this effort, we have launched the “Open for Discussion” blog on our corporate website, at csr.blogs.mcdonalds.com. Please join the conversation. This is one way we are upping our efforts to expand our dialogue with you. Rather than just talk, we want to listen. I hope “Open for Discussion” can lead to more shared understanding and create the kind of momentum that makes corporate responsibility a part of everyone’s mindset.

MEASURING PROGRESS: WHAT’S OUR SCORECARD?

This is our third Corporate Responsibility Report. With our last report, we said we would work to establish more meaningful metrics, and we have done so. While some tangible, quantifiable CSR-related targets can be set at the global level, we have learned that, by and large, performance measures are best set at the business-unit level. We will build upon this start.

Even when issues are common to a number of countries, they often take such different forms that a single meaningful metric — let alone a target for progress — is difficult to come by. McDonald’s Europe’s recently released Corporate Responsibility Report demonstrates how issues are shaped by local conditions and how our business units are establishing goals to address them.

At the global level, we must establish the proper framework for these initiatives and advance awareness of our core values, priorities and activities throughout the System. There is much work still to be done. So the practical aspects of reaching our more than 1.5 million employees, plus our owner/operators and suppliers is a real challenge. But educating our System is essential. **While McDonald’s brand is global, we are better described as the world’s largest small business.**

How do we assess our performance? I like our CEO **Jim Skinner’s** answer to that question at the November 2005 Business for Social Responsibility conference. When asked about our balanced, active lifestyles efforts, he said he would give the company an **A for effort and a C for results.** He said that McDonald’s has done a lot to increase menu choice, provide more nutrition information and encourage physical activity, but that not enough consumers felt good about McDonald’s food. And when it comes down to it, results are much more important than the effort. So there is much work to be done.

Jim’s scorecard mirrors how many of us feel about our corporate responsibility efforts. We’ve made a difference in many areas: nutrition information for restaurant foods, environmental innovations in packaging, animal welfare, supplier social accountability and employee training and development, just to name a few. But we still need to better leverage responsible social and environmental practices as a means to create a more efficient, relevant and profitable business that satisfies more customers. That’s the **sustainability challenge** — one that we are excited about and committed to aggressively take on in the coming years.

WHAT'S MOST RELEVANT?

We will continue to measure ourselves against the key performance indicators identified in this report. They will keep us on track with what is most relevant to our aspirations as a sustainable business enterprise. It's about **validation and verification**. We want to advance in the process of developing and adopting an assurance process because **credibility and comparability are very important**.

For this reason, we continue to support the **Global Reporting Initiative**. We strongly believe in their mission, what they are doing and the way they are approaching a reporting methodology to focus on what is most material. We look forward to the day when consumers can compare McDonald's CSR performance to the performance of other comparable restaurants — not because we view CSR as a competitive advantage, though it may be, but because we hope CSR performance will come to have more influence on consumers' purchasing habits.

THE NEXT 50 YEARS

McDonald's celebrated 50 years of business in April 2005. We've come a long way — from one restaurant in Des Plaines, Illinois, serving 15-cent hamburgers to more than 30,000 restaurants serving a wide range of menu choices. In 1957, McDonald's founder, Ray Kroc, began giving back to the community by distributing hamburgers to Salvation Army bell ringers at Christmas time. In September 2005, McDonald's was selected for inclusion in the Dow Jones Sustainability Index, a global stock index that tracks and rates the performance of "sustainability-driven companies" in their industry sector.

As we start our next 50 years, I envision increased awareness and action in which corporate citizenship is inextricably linked to providing our customers with their favorite restaurant experience.

I believe we can get there, but only with the help of stakeholders who take the time to let us know what's important to them and what they think about our performance. One way you can help us get there is by joining us at www.csr.blogs.mcdonalds.com. We're open for discussion. We'd like your feedback.

Sincerely,



Bob Langert
Vice President, Corporate Citizenship and Issues Management



CEO Jim Skinner

IN NOVEMBER 2005, CEO JIM SKINNER SPOKE AT THE ANNUAL BUSINESS FOR SOCIAL RESPONSIBILITY (BSR) CONFERENCE

BSR is a global nonprofit organization that helps member companies, including McDonald's, achieve success in ways that demonstrate respect for ethical values, people, communities and the environment. Jim spoke about some major misconceptions about McDonald's and how we are seeking to change the framework by sharing the facts. He also reflected on our overall approach to corporate responsibility. The following are some excerpts from his speech.

"We live in a complex and constantly changing world, and McDonald's, like each of your organizations, will always be trying to adjust to new demands as well as capitalize on new promises.

"Our founder, Ray Kroc, instilled in McDonald's a culture of acting responsibly. A culture that we have embraced over the past 50 years, long before there was a name for it. He said, "Be a good citizen. Have a real sense of community. Spread goodwill. Be involved in the life and spirit of the community you serve." As usual, Ray was ahead of his time.

"We've learned several things as we've dealt with ... issues through the years.

"First, as leaders, we are all subject to greater scrutiny in everything we do. But we should not let this hold us back from taking on the issues and making changes that have some controversy, even if we have to challenge stereotypes and myths.

"Second, listening to our customers is still the right thing to do. It always has been and it always will be. Customers will tell us if there are issues with our products and services. Customers will let us know if they have concerns over whether we're acting socially responsible. If we all keep up with our customers, we will stay ahead of the curve.

"Next, the only way to advance corporate social responsibility is to act. Gather the facts, yes. But recognize when the only proper response to the challenges that we face is action. In this ever transparent world, where we are all under an intense microscope, the danger is that we just lay low. ... Instead, we need the opposite: to be bold and decisive in responding to change, we must do the right thing — and we must do things right."



Walter Massey
Chair, Corporate Responsibility Committee,
McDonald's Board of Directors

CORPORATE GOVERNANCE AT McDONALD'S IS BASED ON OUR LONG-STANDING COMMITMENT TO ETHICAL, TRUSTWORTHY BUSINESS CONDUCT

"Nearly 50 years ago, McDonald's founder, Ray Kroc, said, 'The basis for our entire business is that we are ethical, truthful and dependable.' Integrity in all we do remains a core value and the foundation for our governance policies and procedures.

"In governance, as in other areas, we believe the tone is set at the top of the organization, with a Board of Directors and top management team committed to responsible, honest dealings in compliance with all applicable laws and stakeholder expectations, including open principles and effective compliance systems.

"Setting the tone at the top, the Board of Directors has established a standing Corporate Responsibility Committee to act in an advisory capacity on policies and strategies that affect McDonald's role as a socially responsible company. The Committee reviews the company's periodic corporate responsibility reports, codes of conduct for employees and suppliers and plans and performance in the various social and environmental areas material to McDonald's business."

INDEX: GLOBAL REPORTING INITIATIVE

Indicators defined by Global Reporting Initiative's Draft G3 Sustainability Reporting Guidelines

ITEM #	INDICATORS	PAGE
	GENERAL DISCLOSURES	
1.1	Statement from CEO	pages 4-7, 67
1.2	Description of key risks and opportunities	pages 4-7, 8-9, 13, 15, 18, 25, 26(a-c), 28-29, 34, 37-41, 44, 53, 56, 65-66
2.1 – 2.8	Organizational profile	pages 11-13
3.1 – 3.17	Report parameters	pages 3, 67
4.1 – 4.17	Governance, commitments and engagement	
	Governance	pages 6, 14-15, 28
	Commitments to external initiatives	pages 25, 36, 64, 65
	Stakeholder engagement	pages 4-5, 12, 18, 28, 30-37, 33-35, 40, 53, 66
	ECONOMIC PERFORMANCE	
	Management approach	page 13
EC1	Economic value generated & distributed	pages 11-12, 60-61
	ENVIRONMENTAL PERFORMANCE	
	Management approach	page 13
	Energy	pages 28, 64-65
	Water	page 65
	Biodiversity	pages 28, 34, 41
	Emissions, effluents & waste	pages 35, 62-65
	Products	pages 33-36
EN2	Percentage of materials used that are recycled	page 35
EN3	Direct energy consumption, by primary energy source	page 62
EN7	Initiatives to reduce indirect energy consumption	page 33
EN15	Programs for managing impacts on biodiversity	pages 34, 36
EN17	Greenhouse gas emissions	pages 62-63
EN26	Initiatives to manage the environmental impacts of products & services	pages 33-36
	SOCIAL PERFORMANCE: LABOR PRACTICES	
	Management approach	
	Employment	pages 44, 47, 50, 53
	Labor/management relations	page 53
	Training & education	pages 44-47
	Diversity & equal opportunity	pages 52-53
LA1	Breakdown of total workforce by employment type & region	page 11
LA3	Minimum benefits provided to full-time employees	page 50-51
LA12	Programs for skills management & lifelong learning	pages 4-47
LA14	Breakdown of employees per category according to gender	page 52
	SOCIAL PERFORMANCE: HUMAN RIGHTS	
	Management approach/ Management practices	page 28
HR3	Type of employee training on policies & procedures concerning aspects of human rights relevant to operations	page 15
HR8	Procedures for complaints & grievances	page 15
	SOCIAL PERFORMANCE: SOCIETY	
	Management approach/Community	pages 56-57, 65
SO2	Extent of training & risk analysis to prevent corruption	page 15
SO4	Participation in public policy development & lobbying	page 40

The preparation of this report was informed by the Global Reporting Initiative's (GRI) 2006 Draft G3 Sustainability Reporting Guidelines. GRI has not verified the contents of this report, nor does it take a position on the reliability of information reported herein. For further information about GRI, visit www.globalreporting.org

CREDITS & ACKNOWLEDGEMENTS

Please visit our website to download this report and for more information about our Corporate Responsibility programs: www.csr.mcdonalds.com

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This McDonald's Responsibility Report, issued August 2006, provides information about pertinent aspects of our business related to our products, the communities we serve, the environment, our people and our relationship with suppliers. The report presents our progress through the first half of 2006. Forward-looking statements included in the report reflect management's expectations regarding future events and future performance as of July 2006. McDonald's continues to launch new initiatives and make changes to our business. These developments, together with the uncertainties inherent in forward-looking statements, mean that programs and results may differ from those described when the report was first issued.



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TIMELINE: 1955-2006

1955-69	1955	1961	1963		1967	1968
	Ray Kroc opens first franchised McDonald's restaurant	Hamburger University opens	Ronald McDonald makes initial public appearance		First international McDonald's restaurants open	Owner/operator Jim Deligatti invents Big Mac
<p><i>"We have an obligation to give back to the community that gives so much to us."</i></p> <p>RAY KROC, FOUNDER AND CHAIRMAN OF THE BOARD (1955-1977)</p>						



1970-89	1973	1974		1987		1989
	McDonald's starts providing nutrition & ingredient information	Workforce diversity program established in U.S.	McDonald's collaborates with other stakeholders to open first Ronald McDonald House	First salads introduced		Rain forest policy issued
<p><i>"People make a company — not a balance sheet or a listing on the New York Stock Exchange."</i></p> <p>FRED TURNER, CHAIRMAN OF THE BOARD AND CEO (1977-1990)</p> <p></p> <p><i>"I believe in taking measured risks to shape our destiny. I believe we must be nimble, quick to change what's not working and improve what is. Also, I believe our greatest days lie ahead."</i></p> <p>MIKE QUINLAN, CHAIRMAN OF THE BOARD AND CEO (1987-1998)</p>						

1990-99	1990		1993		1999	
	Global environmental policy issued	McRecycle USA launched — pledge to buy \$100 million per year in recycled materials	McDonald's joins U.S. Environmental Protection Agency Green Lights program for energy-efficient lighting	Code of Conduct for Suppliers developed	Onsite supplier social accountability audits initiated	Onsite animal welfare audits initiated
<p><i>"The world should be a better place because of McDonald's."</i></p> <p>JACK GREENBERG, CHAIRMAN OF THE BOARD AND CEO (1999-2002)</p> <p></p> <p></p>						

2000-03	2000		2002		2003	
	Global Animal Welfare Guiding Principles issued	Board of Directors Corporate Responsibility Committee established	World Children's Day inaugurated	First corporate responsibility report published	Global balanced, active lifestyles approach established	Global antibiotics policy issued
<p><i>"The relationship and trust we have with our customers is the core of our success. We must do everything we can to preserve and protect this trust."</i></p> <p>JIM CANTALUPO, CHAIRMAN OF THE BOARD AND CEO (2003-APRIL 2004)</p> <p></p> <p></p>						

"The only way to advance corporate social responsibility is to act. Gather the facts, yes. But recognize the only proper response to the challenges that we face is action."

JIM SKINNER, CHIEF EXECUTIVE OFFICER (NOVEMBER, 2004-PRESENT)

2004-06	2004	2005	2006	
	<p>Premium salads and Salads Plus launched on multiple continents</p>  <p>Sustainable fisheries guidelines, developed in partnership with Conservation International, extended worldwide</p> <p>McDonald's USA named number #1 Company for Minorities by Fortune Magazine for second straight year</p> <p>RMHC, local RMHC Chapters and other System efforts raised approximately \$3.3 million for disaster relief within the first month following the tsunami in East Asia</p>	 <p>Ronald McDonald becomes Ambassador for Balanced, Active Lifestyles</p> <p>McDonald's Europe publishes its first Corporate Social Responsibility Report</p> 	<p>McDonald's receives EPA Climate Protection Award for joint efforts to promote natural refrigerants</p>  <p>McDonald's accepted as a member of the Dow Jones Sustainability Index</p> <p>McDonald's Corp. commits \$5 million to match funds donated by employees and customers to Hurricane Katrina victims</p> <p>McDonald's System raises \$60.9 million for RMHC and other children's charities</p>  <p>McDonald's Nutrition Information Initiative (NII) launched in conjunction with the Olympic Games in Torino Italy, providing customers with nutrition information on product packaging</p>	 <p>McDonald's Global Mom's Council established</p> <p>McDonald's named #1 Employer in Latin America by the Great Place to Work Institute</p> 

"Being responsible is not only part of our heritage; it is an integral part of our business strategy."

CHARLIE BELL, CHIEF EXECUTIVE OFFICER (APRIL-NOVEMBER, 2004)

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McDonald's Corporation, Oak Brook, IL 60523

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