



McDONALD'S WORLDWIDE
CORPORATE RESPONSIBILITY REPORT 2004



Our goal in this report is to communicate our progress and direction related to the most relevant and material corporate responsibility-related aspects of our business. To meet the needs of a variety of users, we have divided this report into two sections:

- **REPORT OVERVIEW:** providing highlights of corporate responsibility initiatives
- **SUPPLEMENTAL REPORT:** providing depth on our programs and progress as described in the Overview

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Data and examples focus primarily on the 10 largest markets in our system - Australia, Brazil, Canada, China, France, Germany, Japan, Spain, the United Kingdom and the United States - which represent approximately 24,000 McDonald's restaurants and account for approximately 72% of McDonald's restaurant revenues.

At McDonald's, making customers happy is what our business is all about. And we know it takes a lot to make that happen. We work hard to provide every customer with a choice of meals and an experience that exceeds their expectations. But that's only part of the story. When you come through our doors and look beyond the front counter, there's a company and a system dedicated to earning your trust. And whether it's called "good corporate citizenship" or "social responsibility," we take seriously our commitment to conducting our business in a way that respects the world around us and the issues that matter most to you.

*Profits and trust have
something in common —*

THEY MUST BE EARNED.



JIM SKINNER
VICE CHAIRMAN

CHARLIE BELL
PRESIDENT AND CEO

Simply put, being a responsible enterprise is crucial to McDonald's continued success. Today, people want more than a choice of high-quality products at a good value. They also want to know the steps businesses take to operate in an ethical way and contribute to values that match their own. Many times, companies that lose the trust of their customers lose those customers' business forever. Because the truth is, trust is difficult to earn and easy to lose.

We have worked hard over the years to earn trust, and we believe it is one of our greatest competitive advantages. Our efforts started with our founder, Ray Kroc, who instilled in McDonald's a belief in giving back to the communities we serve. Over the years, this commitment to responsibility has taken on new dimensions as our company and the world around us have changed.

During the two years since our last corporate responsibility report, the business world has been jarred by scandals, making good corporate governance more relevant than ever. Critical food safety incidents and concerns about nutrition and health have changed the landscape for the food industry. McDonald's approach to corporate responsibility issues has evolved in response to these changes - and to changes within our own business. Jim Cantalupo, our late Chairman and CEO, provided inspiring leadership. He revitalized our brand, and his passionate "customer is the boss" approach remains our priority.

Being responsible is not only our heritage; it is an integral part of our business strategy. We manage our worldwide operations with McDonald's global Plan to Win, which identifies five P's that drive our business - Products, People, Place, Price and Promotion. Fulfilling the vision of McDonald's Plan to Win - to be our customers' favorite place and way to eat - results from meeting our goals for each of the P's and meeting them in a responsible way. Everything we do affects how people feel about the McDonald's brand. Our brand is unique. It is "forever young." It is fun and engaging. It is Ronald McDonald. And it is so much more. Leadership in corporate responsibility will help us not only to build trust in McDonald's and strengthen the reputation of our global brand, but also to be a more profitable business.

There is an additional P that supports our Plan to Win - Performance. Assessing our performance is what this report is all about. Specific citizenship targets are - and should be - set at the local and regional levels within our System. However, our corporate reporting efforts reinforce our global framework and help our stakeholders, internal as well as external, evaluate our progress and assess our aspirations to provide industry leadership and keep improving.

For those of you within the McDonald's System, we thank you for your contributions and ask for your continued commitment to build upon our responsible citizenship efforts. For those of you who are our customers, investors and neighbors - even those who are critics - we thank you for your interest in learning about our social, environmental and economic progress. And, as always, please let us know what you think.

CHARLIE BELL
PRESIDENT AND CEO

JIM SKINNER
VICE CHAIRMAN

Responsibility at McDonald's

RESPONSIBILITY AT McDONALD'S MEANS STRIVING TO DO WHAT IS RIGHT, being a good neighbor in the community and integrating social and environmental priorities into our restaurants and our relationships with suppliers and business partners.

We work toward responsible actions by understanding the perspectives and needs of our customers and other important stakeholders, by collaborating with experts to understand issues and opportunities and by inspiring the people in our system – company employees, owner/operators and suppliers – to share and act on these core values. We act on our commitment to corporate responsibility within each of the five critical success factors of our business plan, the Plan to Win: Products, People, Place, Price and Promotion. This report highlights Products, People and Place.

PLAN TO WIN VISION

OUR RESPONSIBILITY

PRODUCTS

We will serve food and beverages people prefer to enjoy regularly.

We have a responsibility to provide a variety of quality product choices that our customers trust and to partner with suppliers that operate ethically and meet our social responsibility standards.

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.

PLACE

Our restaurants and drive-thru's 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.

The McDonald's System is a NETWORK of Partnerships.

Our Brand Mission is to be our customers' favorite place and way to eat. We believe that, to achieve this goal around the world, our efforts must embrace and reflect the diversity of the customers and communities we serve each day. That is why we work the way we do. We provide a framework of common values, policies and business strategies and then empower our owner/operators, our suppliers and company staff to contribute in ways that reflect their unique expertise and local circumstances. Like other parts of our business, McDonald's commitment to corporate responsibility follows this "freedom within a framework" approach.

Freedom Within the Framework



i For a more complete profile of McDonald's, please see Supplement, pages 40-42.

Integrity

“As General Counsel, one of my primary responsibilities is to ensure that McDonald’s is in compliance with applicable laws around the world.

The cornerstone of any effective compliance program is the tone that is set at the top of the organization. McDonald’s first published its Standards of Business Conduct almost 40 years ago. The Standards have been refreshed several times, as circumstances dictated. More recently, we instituted a specific code of conduct for the CEO and senior financial officers. It sets forth their responsibility to conduct themselves in an honest and ethical manner and reinforces management’s commitment to fair and accurate financial reporting. Our Board of Directors adopted its own code of conduct in 2003. These policies are rooted in our leaders’ strong commitment to ethical business practices. They clearly lay out their expectation that our employees will embrace the same high standards.

Overarching the various standards



GLORIA SANTONA

*Executive Vice President
General Counsel & Secretary
McDonald’s Corporation*

and codes that regulate our business conduct are the company’s Corporate Governance Principles. The Board of Directors first documented its governance practices in 1993, and a summary has been included in proxy statements for our annual shareholder meetings since 1994, long before it became common practice to do so.

Like our standards and codes of conduct, McDonald’s statement of governance principles has been a living document that has evolved over time in response to changes in best practice and the expectations of our stakeholders. The first paragraph of the principles states the Board’s belief that ‘One thing that we will not change, however, is our commitment to ensuring the integrity of the Company in all of its dealings with stakeholders.’

I feel privileged to work for a company whose management believes that doing the right thing is as important as doing things right.”

The Corporate Governance principles and numerous other documents related to the Board’s composition, responsibilities and functioning are available online at <http://www.mcdonalds.com/corp/invest/gov.html>.

Standards of Business Conduct

McDonald’s Standards of Business Conduct are our basic framework for employee business ethics. The Standards apply to all McDonald’s employees worldwide. They establish a foundation for ethical conduct in our core values, communicate basic expectations, provide policy guidelines on major ethical and legal issues and identify additional internal resources.

The Standards cover a wide range of areas, including human rights, equal opportunity and protection from harassment, employee health and safety, avoiding conflicts of interest and improper uses of inside information, fair competition and antitrust, prohibitions against bribery, political activities, confidentiality and maintenance of financial and other business records. In certain areas, subject-matter and/or local market policies provide additional guidance.

Employees are asked to sign and return a form certifying that they have read and agree to abide by the Standards. They will also be required to complete an online training course. Employees are held personally accountable for raising concerns and for reporting violations of the Standards. They may use a special toll-free Business Integrity Line and, if they choose, report anonymously. Employees who violate the Standards or applicable law are subject to disciplinary action, up to and including termination.

Corporate Responsibility Board Committee

Through its Corporate Responsibility Committee, the Board of Directors has a direct role in McDonald’s performance as a socially responsible organization. The Committee acts in an advisory capacity to management on policies and strategies that involve corporate responsibility, including issues pertaining to health and safety,

the environment, employee opportunities, consumers and the communities in which the company does business.

“We on the Board of Directors support McDonald’s continuing leadership on social and environmental issues in the food industry. We believe corporate responsibility is an important part of McDonald’s identity and a key to the System’s ongoing growth,” said Dr. Walter E. Massey.

For further information about McDonald’s governance, please see Supplement, pages 43-44.



DR. WALTER E. MASSEY
*Chairperson,
Corporate Responsibility
Committee, McDonald’s
Board of Directors*

*At McDonald’s, we believe
that good governance starts
with good*

VALUES.

We root our policies and practices in the heritage of our founder, Ray Kroc, who emphasized the need to build trust through ethical, truthful and dependable business conduct. We know we serve 47 million customers a day because people know they can trust McDonald’s. Above all, we stress the personal responsibility of everyone in the System, from the crew room to the Board room, to keep the shine on our Arches by “doing the right things in the right way” every day.

What Do Our Customers Care About?

“It’s important to me that my kids learn good eating habits now so that they know how to make good choices as they grow up. But teaching them about nutrition can be difficult when they are getting so many different messages. I try to make informed decisions as best I can - and having access to nutrition information helps me plan meals and pay attention to what we are eating.

My family goes to McDonald’s because there are options for my kids and for me. We also like the changes that have been happening at the restaurants – the new way the restaurants look and the new fruit and vegetable items on the menu, like salads. Eating out is more exciting when there are choices. Even with the changes though, McDonald’s sticks to what works and I like that.”

APRIL ORDONA (PICTURED WITH SON AIDAN)
Mother and McDonald’s Customer
Sacramento, California





When it comes to our food,

*our values are one of our most
important ingredients.*

AS A FOOD SERVICE COMPANY, WE FOCUS HARD ON COOKING THE PERFECT FRENCH fry and making sure we serve safe, high-quality beef, fish and poultry. But we also focus on our customers and all of the things they care about. These days, maintaining a balanced lifestyle for themselves and their families is high on the list. That's why we maintain strict standards for high-quality ingredients and continue to enhance existing menu items and develop new choices like meal-size salads, fruit options, sandwiches and Happy Meal options. That's also why we offer information that helps our customers make choices that work for them, and why we support a variety of activities to help people make physical fitness a regular part of their lives.

Many customers also care about preserving our planet's natural resources, supporting safe, inviting and fulfilling work environments and helping people in their communities. And they are considering these values in their purchasing choices more and more. These are values we share. The sources and quality of our food are very important to us, and we are working with our suppliers and other experts to help ensure that natural and social environments are respected and sustained throughout our food supply chain.



PAUL GATELY

*Carnegie Professor of Exercise and Obesity, School of Leisure and Sports Studies
Leeds Metropolitan University, West Yorkshire, United Kingdom
Member of McDonald's Global Advisory Council on Balanced Lifestyles*

“My background and interests are in delivering treatment programs to overweight and obese children. Today, more and more children around the world suffer from these conditions and their health effects, like diabetes and heart disease. In the UK alone, we know that one in three kids is already overweight and one in 10 is obese. Of those children, about 80% will become overweight or obese adults.

But we won't succeed in helping children lead healthy lives if we just consider them as statistics to be studied. Instead, we need to understand their lives and develop realistic approaches. In a world where technological advances and our risk-averse culture have removed opportunities for children to be physically active, we need to find ways to give kids positive experiences of physical activity, exercise and sports. For children, what's critical is engagement and fun – and that's something McDonald's does very well. We need to provide food choices that fit into an improved nutritional matrix while also offering convenience and a good taste. In addition, we need to find ways to support broader community changes that make it safer and easier for kids to be active. This will require partnerships, and McDonald's can be a powerful vehicle for change,

particularly through its relationships with its business partners and the government.

I'm part of McDonald's Global Advisory Council on Balanced Lifestyles because I see an opportunity to help develop realistic approaches that meet people's needs for fun and convenience. When I first got involved, I was skeptical; if it had turned out to be just a publicity stunt, I would have walked away. As an academic and a researcher, my job is to be skeptical and to ask questions that ensure I'm working independently. But the things I hear from the people I work with at McDonald's have made me realize that McDonald's is committed to tackling these issues. Menu choice, physical activity and education are the building blocks of change with regards to obesity. And I am excited about the opportunity we have to make a lasting contribution to the health and well-being of our children.”

*McDonald's Global Advisory Council on Balanced Lifestyles includes experts from around the world in the fields of nutrition, physical activity, health communication and medicine. Council members provide strategic advice and work individually with country and regional McDonald's departments on specific initiatives. **i** More information about the Council and its members is available at <http://www.mcdonalds.com/corp/values/socialrespons/resrecog>*

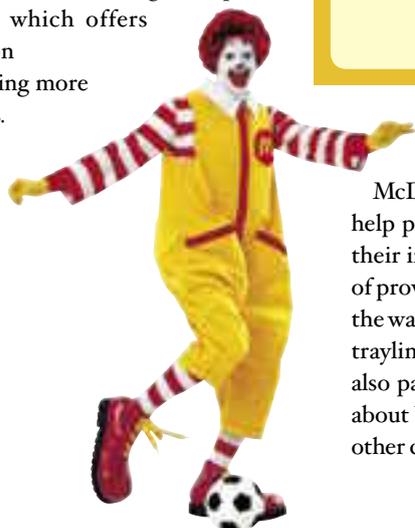
Balanced Lifestyles

McDonald's balanced lifestyles initiatives support our goal to provide leadership in our industry on the health and well-being issues that so many of our customers care about. The trends in overweight and obesity, especially among children, require attention, innovation and partnership by many sectors, and we are committed to playing an important role in helping to effect positive change.



PHYSICAL ACTIVITY

We are working at many levels to help people identify realistic, fun ways to incorporate fitness into their everyday lives. McDonald's global Go Active! program includes our owner/operators' continued support for grassroots sports, promoting walking as an entry point to fitness, Ronald McDonald serving as a motivational advocate to get children moving and utilizing our sponsorship of the Olympic Games, Olympic Day Run and FIFA World Cup™ as opportunities to promote physical activity. We have also launched a global website, (www.goactive.com) developed with the International Olympic Committee and the American College of Sports Medicine, which offers information about leading more active lives.



MENU CHOICE

Our menu consists of safe, high-quality food choices that can fit into balanced lifestyles. Many of McDonald's local business units are adding new fruit and vegetable choices that appeal to consumers, including main course salads, and developing new Happy Meal choices.

BALANCE
*is a simple concept.
But the pressures
of everyday life make it
difficult to achieve.*

Today, people are busier than ever, and figuring out how to balance calories-in with calories-out while juggling other daily priorities isn't easy. To help, we're focused on supporting fun, practical approaches in three areas:

- Menu choice
- Physical activity
- Information & education

INFORMATION & EDUCATION

McDonald's continues to develop and share information to help people make smart and informed choices that address their individual lifestyle needs. We're building on our history of providing nutrition information to customers by increasing the ways in which we provide that information - brochures and trayliners in our restaurants and interactive websites. We're also partnering with experts to provide broader information about balanced living through materials in our restaurants and other channels, such as educational programs and events.



DR. CATHY KAPICA

*Global Director of Nutrition
McDonald's Corporation*

Making Health Fun

"I work with a variety of experts and McDonald's staff in the field to help provide customers with options and information that prove smart health decisions can taste good, be affordable and, above all, be fun.

Both the science and our values say to focus on helping kids. McDonald's is uniquely positioned to do this because of our special relationship with children. Traditional Happy Meals provide core nutrients children need, and we are now looking for new options that make fruits and vegetables fun for kids.

Experts also recognize that user-friendly information enables balanced living. I work with nutritionists in many markets to develop tools customized to local cultures that help customers tailor their McDonald's experience to their unique needs. From sample menus for people with diabetes to fact sheets with ways to trim calories from meals, these tools incorporate simple steps into an approach that is convenient and actionable. Ultimately, McDonald's role as a socially responsible company is to understand the broader needs of our customers and to translate evolving science into realistic, motivating steps that fit those needs."

BALANCED LIFESTYLES

Combining a variety of LOCAL approaches to pursue one GLOBAL goal.

We take a variety of approaches to supporting balanced lifestyles in our markets, all within the framework of offering a range of menu choices, providing information and education and promoting physical activity. Here's a sample of some of the efforts underway in our top 10 markets.

United States

GO ACTIVE! HAPPY MEALS FOR ADULTS

Our first ever Go Active! Happy Meal was launched in May 2004. This Happy Meal for adults brings all three elements of balanced living together, combining a Premium Salad and bottled water with a Step with It!™ booklet by noted exercise physiologist Bob Greene and a Stepometer™ with which customers can keep track of how many steps they take in a day. McDonald's meal-size salads provide two servings of vegetables, as defined by USDA's Food Guide Pyramid. Through sales of Premium Salads, McDonald's USA helped customers consume approximately 300 million servings of vegetables in 2003.



United Kingdom

HELPING KIDS GET 5 A DAY

In April 2003, McDonald's UK introduced fresh fruit bags containing apples and grapes as an alternative option to French fries in Happy Meals. In the first 12 months, the UK company sold more than 10 million fruit bags. To further support the importance of fruits and vegetables, McDonald's UK worked with leading nutritionist Anita Bean to produce a brochure with facts and tips to help parents make eating fruits and vegetables fun for kids. The *Five a Day* brochures are distributed through McDonald's restaurants and the Customer Service Center.



Spain

HAPPY MEAL CHOICE

In 2003, McDonald's Spain introduced a way for customers to create their own Happy Meals in order to provide flexibility and variety. Customers choose one of four main meal offerings, two of nine side and beverage options - including milk - and one of four optional additional desserts.



China

EXTENDING OUR REACH

McDonald's suppliers offer significant support for many of our common goals. One of our key suppliers in China, The Marketing Store, demonstrated this with Sports Gala 2004. This event was designed to raise awareness of health and well-being and promote physical activity, self-esteem and teamwork. More than 8,000 people participated, including government officials and employees from The Marketing Store's 14 Chinese factories. In Hong Kong, 80 four-person teams of staff and suppliers participated in McDonald's Walker 2003. Held on December 13, 2003, the event covered a 25 kilometer-route and raised funds for Ronald McDonald House to help children in need.



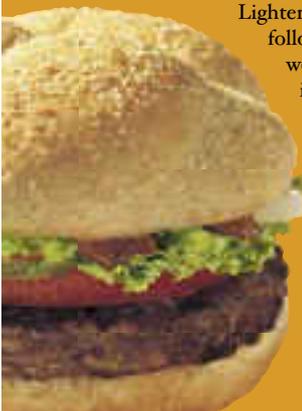
Our balanced lifestyles approach begins with our core menu, which includes products made from staples such as beef, chicken, fish, eggs, milk, bread and vegetables. In addition to these traditional favorites, we are adding main dish, side and beverage alternatives with a variety of different nutritional profiles, creating a range of choices that can fit into a balanced lifestyle.



Canada

BALANCED LIFESTYLES INITIATIVE

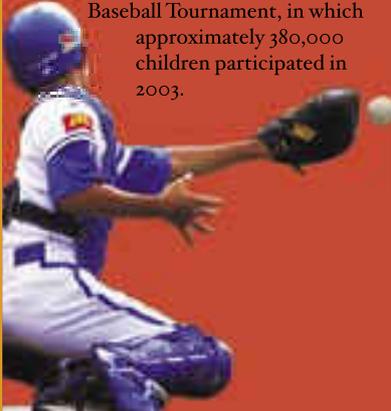
In 2002, McDonald's Canada pioneered the idea of a range of alternative menu options with its Lighter Choices menu category. The following year, four new items were added to this menu. And in early 2004, McDonald's Canada announced a comprehensive consumer wellness campaign that will continue to add menu choices, expand current in-restaurant nutrition information and build on a history of support for youth sports.



Japan

TAKING THE FIELD

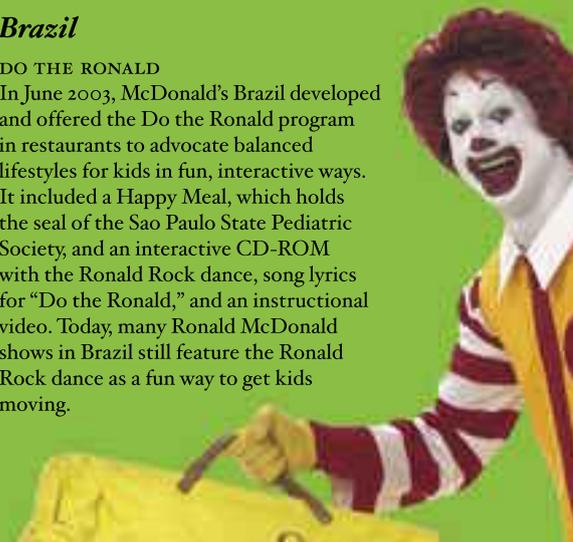
McDonald's Japan is helping kids get active through its All-Japan Rubber Baseball Tournament, in which approximately 380,000 children participated in 2003.



Brazil

DO THE RONALD

In June 2003, McDonald's Brazil developed and offered the Do the Ronald program in restaurants to advocate balanced lifestyles for kids in fun, interactive ways. It included a Happy Meal, which holds the seal of the Sao Paulo State Pediatric Society, and an interactive CD-ROM with the Ronald Rock dance, song lyrics for "Do the Ronald," and an instructional video. Today, many Ronald McDonald shows in Brazil still feature the Ronald Rock dance as a fun way to get kids moving.



THE RIGHT BALANCE

Providing choices for everyday, active lives

While McDonald's approach may differ around the world, our goals remain the same - to expand menu choice, to provide access to user-friendly nutrition information and to support physical activity in order to help consumers reach their balanced lifestyle goals.

We will continue to strive to:

- Pursue ways to add further choice to our menu, particularly new choices for kids and more fruit and vegetable items.
- Increase awareness among one of our most important stakeholder groups – our employees. Specifically, we will explore education and training programs on food quality, nutrition and fitness to empower McDonald's crew and management to choose an active, balanced lifestyle for themselves and their families.
- Explore new ways to deliver nutrition and balanced lifestyle information to our customers.
- Champion programs that bring fun, practical physical activity options to people's everyday lives - focusing particularly on walking.
- Demonstrate leadership in our marketing and communications practices with our customers.

France

QUALITY AUDITORS PROGRAM

Understanding the food origins is important to making informed choices. During 2003, McDonald's France invited several customers to be "auditors" during visits to facilities in their potato, beef, chicken, wheat and salad supply chains. Pictures, perspectives, and other results from the visits, plus information about product quality, are posted on the McDonald's France website (www.mcdonalds.fr).



Europe

EMPLOYEE GUIDEBOOK

McDonald's Europe worked with a team of external nutritionists to develop a program for one of their largest and most important audiences - restaurant employees. The Employee Guidebook contains tips for healthy lifestyles, nutrition information on McDonald's menu items and daily menu suggestions showing how McDonald's can fit into a balanced diet.



Germany

SALADS PLUS

In April 2004, McDonald's Germany became the first European market to launch Salads Plus, a new menu category that is being rolled out in many European countries during 2004. The Salads Plus menu includes two meal-size salad choices topped with grilled or crispy chicken, a mixed greens side salad, a pesto grilled chicken sandwich on olive and sun-dried tomato ciabatta bread, a fruit and yogurt parfait with vanilla yogurt and an apple and grape fruit bag.



Australia

BALANCED CHOICES

In 2003, McDonald's Australia took action to support balanced lifestyles with the introduction of the Salads Plus menu, featuring eight items with 10 grams of fat or less, and a QuickStart breakfast menu of cereal, yogurt, fruit snacks and fruit juices designed to help Australians start their day with this important meal. An alternative Happy Meal features a toasted cheese and tomato sandwich, sultanas (raisins) and orange juice. McDonald's Australia has partnered with The Food Group Australia, a team of accredited practicing dietitians (APDs), who offer nutrition advice on new and established menu choices.



i For further information about our balanced lifestyle initiatives, please see Supplement, pages 45-54.

Socially Responsible Food Supply Vision

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

Principles

Our work toward a socially responsible food supply system is motivated by our commitment to our customers - and to leadership on important issues. 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 when 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.

Working with Suppliers

In most cases, McDonald’s uses a network of privately-owned distribution centers that purchase products from “direct” suppliers – those suppliers who are involved in the final stage of the food supply chain and provide finished food products, such as hamburger patties and buns. We work in collaboration with our direct suppliers to specify McDonald’s requirements in key areas like food quality, safety and social responsibility.

Our direct suppliers purchase the raw ingredients they use to produce our food products from an additional network of suppliers. These “indirect suppliers” to McDonald’s produce agricultural products like wheat, lettuce and beef. Our degree of involvement with this part of the agricultural system is different. We work with our direct suppliers, and often others in our industry, to develop approaches to social and environmental issues that pertain to the farm level.

MCDONALD’S SUPPLY CHAIN STRUCTURE

MCDONALD’S RESTAURANTS	DIRECT SUPPLIERS		INDIRECT SUPPLIERS	
	DISTRIBUTION CENTERS	FINAL PROCESSING FACILITIES	PRIMARY PROCESSING & PRODUCTION PLANTS	FARMS & RANCHES
RESTAURANTS	Coordinate purchasing and distribution to restaurants	Produce finished products like meat patties, buns and beverages	Operate facilities such as grain mills and abattoirs	Raise cattle; grow lettuce, wheat and other ingredients

Guidelines

In partnership with Conservation International and several suppliers, we have developed a set of guidelines that provide a framework for prioritizing our social responsibility efforts with suppliers. They outline the key features of socially responsible agriculture and food systems. The following summarizes the guidelines:



the key features of socially responsible agriculture and food systems. The following summarizes the guidelines:

Social

1. Protect the health and welfare of employees and contribute to the development of the communities in which they operate.
2. Seek ways to increase economic profitability by increasing resource use efficiency and harnessing the benefits of ecological services.

Environmental

3. Maximize water use efficiency and eliminate the release of waste into water.
4. Minimize the release of harmful byproducts into the air.
5. Maximize energy use efficiency and use ecologically sustainable renewable sources when feasible.
6. Minimize waste production, maximize recycling and ensure proper handling and disposal of solid waste.
7. Maintain soil health by controlling erosion and improving structure and fertility.
8. Preserve natural habitats for native species and protection of biodiversity.
9. Minimize the use of chemical pest management inputs that impact human, animal and environmental health.

Animal Welfare

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

i For the full text of the guidelines, please see Supplement, pages 57-58.

Our
INFLUENCE
in the marketplace brings a responsibility to ask for more than quality and price.

Whether we are buying hamburgers, fry boxes, lettuce or Happy Meal toys, the impacts of our supply decisions matter to our customers and to us. Supporting responsible actions in our supply chain helps to advance important social, economic, and environmental goals and will ensure the continued supply of high-quality ingredients we need in the future. That’s why social responsibility is one of our key strategic supply chain priorities.



GLENN PRICKETT

*Senior Vice President, Conservation International
Executive Director
The Center for Environmental Leadership in Business*

“At Conservation International, we are excited that around the world, a new generation of leadership is recognizing the implications of current environmental trends and beginning to take action to protect biological diversity and natural resources. Current trends are dire. Twenty-four percent of all mammals appear on The World Conservation Union’s (IUCN) red list of threatened species, and within 45 years, the percentage of people living in water-scarce regions will grow from 8% to 40%. But solutions do exist. And what is needed are leaders to encourage their spread. That is why we’re thrilled to work with McDonald’s. In the course of our 13-year partnership, we’ve seen McDonald’s recognize the business importance of a healthy environment, both to sustain the trust of customers and to sustain yields of high-quality raw materials for their products.

Today, we are collaborating with McDonald’s and its suppliers to develop procurement strategies that will signal interest in environmentally - sound techniques and create incentives for suppliers to adopt environmental measures that reduce impacts on natural resources and create benefits for biodiversity conservation. These strategies will influence behavior within McDonald’s own supply chain, but we also believe they will help prove that conservation

and profitability are compatible - and that this will create ripple effects far beyond the McDonald’s System. While steps to protect the environment make compelling long-term sense for businesses, competing short-term priorities and the specter of added cost can complicate progress.

That is why practical solutions are so important. For example, we are working with McDonald’s and their fish suppliers to identify ways they can help strengthen fisheries management and marine conservation in the fisheries from which they source. This work will help to protect long-term fish supplies and improve the health of the surrounding marine ecosystems and biodiversity.

The environmental solutions McDonald’s seeks to encourage are not decided by McDonald’s alone. These are systemic problems requiring the collaboration of many parties to solve. We hope more food and agricultural companies begin to act similarly, and we recognize that McDonald’s actions and example are significant steps that will help pave the way for broader cooperation.”

Conservation International and McDonald’s Corporation first partnered more than a decade ago to produce a video and educational Happy Meal about rainforest conservation. Today, the partnership aims to develop and demonstrate ways to incorporate social responsibility and conservation criteria into McDonald’s food supply chain. ⓘ Further information about Conservation International is available at www.conservation.org

SOCIAL, ENVIRONMENTAL & ANIMAL WELFARE ACTIONS

Supporting RESPONSIBLE ACTIONS behind each McDonald's meal.

There are many supply chains behind the products we serve, with their own unique issues and opportunities. Within each, we work with our suppliers to develop and implement programs in keeping with our social, environmental and animal welfare guidelines. Our suppliers' performance in these areas is evaluated in our primary supplier performance assessment tool, the Supplier Quality Index. Here's an overview of the major practices, programs and policies we have in development and in place and highlights of the results we achieved in 2003. **i** For further information about our work on these issues, please see Supplement, pages 55-66.

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">SOCIAL</p>	<p>Food Quality & Safety</p> <p>Measures to ensure the quality and safety of McDonald's products begin at the farm level and continue across the counters of our restaurants. For example, our comprehensive approach to beef safety starts at the farm through a feed certification program requiring suppliers to certify that their suppliers are not using cattle feed containing meat or bone meal from cattle or other ruminants.</p>		<p>National Sourcing</p> <p>The majority of our finished food products, including hamburger patties, buns and French fries, are purchased at the country level from suppliers in the same countries or regions in which the products are sold. For example, more than 90% of food purchased for our restaurants in the United Kingdom, Australia and the United States comes from national suppliers.</p>	<p>Supplier Social Accountability</p> <p>McDonald's Code of Conduct for Suppliers includes expectations about work schedules, fair compensation, safe and healthy work environments and more. We monitor compliance through external assessments and encourage continuous improvement by training and by requiring enhancement plans, where needed. In 2003, our supplier social accountability program trained 1,137 suppliers and completed 372 external assessments. Our goal for 2004 is to complete 1,550 supplier assessments.</p>	
	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">ENVIRONMENTAL</p>	<p>Protecting Rain Forests</p> <p>Our rain forest policy states that McDonald's will not purchase beef from rain forests or recently deforested rain forest land. This policy has been part of our beef supplier specifications since 1989.</p>	<p>Pursuing a Responsible Fish Supply</p> <p>McDonald's has been working with our fish suppliers and Conservation International to develop environmental guidelines on fish sourcing as part of our global fish strategy. The aim is to help McDonald's source from well-managed fisheries by providing information and guidance on how to help less well-managed fisheries recover and adjusting purchasing from at-risk fisheries that do not improve.</p>		<p>Biotechnology Awareness</p> <p>McDonald's continues to listen to, learn about and evaluate biotechnology issues. We are engaged in constructive dialogue with our entire supply chain, non-governmental organizations, biotechnology providers and governmental officials - all to determine if biotechnology applications are appropriate, environmentally sound and driven by consumer needs and benefits.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">ANIMAL WELFARE</p>		<p>Animal Welfare Council and Global Principles</p> <p>McDonald's established an independent Animal Welfare Council in 2001 to help us develop our animal welfare programs and global animal welfare principles. The core of our global program is to ensure compliance with our principles through onsite processing facility audits and supplier training.</p>		<p>Working with Experts</p> <p>"I have worked with McDonald's and its suppliers for seven years. When McDonald's started to make animal welfare requirements part of their quality assurance system, animal welfare leaped into the mainstream. As a result of their expectations, there is much more training and sensitivity to animals, and facilities are very quiet, a good sign that the animals are content. The first challenge is complacency. Companies like McDonald's have to be persistent with their audits. The future challenge is to expand the success of the abattoir-level audits to farms. It will take a concerted effort by like-minded companies to create demand for humane farm conditions."</p> <p><i>-Dr. Temple Grandin, Colorado State University. McDonald's principal animal welfare consultant since 1997.</i></p>	



Promoting Antibiotic Effectiveness

Antibiotics are essential disease-fighters, but overuse can lessen their effectiveness. In 2003, we introduced our Global Antibiotics Policy for Food Animals. It focuses on those suppliers with whom we have a direct relationship and who also oversee decisions about antibiotic use - primarily poultry suppliers. Our goal is that, by the end of 2004, they will use antibiotics only for the prevention, control or treatment of disease and will have discontinued growth-promotion uses of antibiotics belonging to classes approved for use in human medicine.

Changing Toy Batteries

The McDonald's System has completed a phase-out of mercury button cell batteries in our toys. While it is standard in the toy industry to include button cell batteries that contain some trace amount of mercury, we have been successful in working with our suppliers to identify and utilize alternative materials.



Measuring Environmental Performance

McDonald's Europe began working to build environmental criteria into their agricultural quality assurance program in 2001. Extending this concept to our direct agricultural suppliers, we are working with five key suppliers to develop and test processing-level environmental scorecards for bakery products, chicken products, French fries, hamburger patties and pork products.

Reducing Packaging Impacts

Increasing our use of recycled content is one part of our commitment to trying to minimize environmental impacts as we make packaging decisions. Of the packaging material used by six of our top markets, which together accounted for nearly 68% of 2003 revenues from McDonald's restaurants, approximately

40% was recycled material. Of that recycled material, approximately 35% was post-consumer material.



Dr. Temple Grandin

Animal Welfare Audits

In 2003, McDonald's and our suppliers conducted nearly **500** audits at beef, pork and chicken processing facilities around the world - a majority of the facilities that process meat products for McDonald's.

INTEGRATING ENVIRONMENTAL STANDARDS

Fishing for today and TOMORROW.

Fish is an important part of McDonald's menu worldwide. With environmental and economic pressures on fisheries increasing, helping to protect the health and productivity of fisheries and supporting good fisheries management practices are top priorities. "McDonald's began working on a responsible fish supply initiative more than three years ago so that we would be able to buy whitefish 10 and 20 years from now," says Gary Johnson, Senior Director, Worldwide Supply Chain Management, who has directed McDonald's efforts. "Working with two of our long-term fish suppliers, we set out to develop environmental guidelines to track our sources of fish and to



KLAUS NIELSEN
*President and CEO, Esperson
 Roenne, Denmark*

HELGI ANTON EIRIKSSON
*Purchasing Director, Coldwater Seafood UK Limited
 Grimsby, United Kingdom*

"As directors for two of McDonald's key fish suppliers in Europe, we have responsibility for ensuring that our companies can supply enough high quality fish products to meet McDonald's – and our other customers' – needs, now and in the future. During the past decade, we have each watched catches of whitefish decrease and seen quotas for the amount of fish that can be caught in each fishery fluctuate dramatically – 400,000 tons one year, 40,000 a few years later. It is a challenge to run a business when things change like that.

It is in our interests to ensure that fisheries are healthy and productive in the future. But until recently, we had only limited ways of doing that. The science of understanding fish stocks, while improving, is complicated. For a long time, everyone took the easy route, saying 'It's quite difficult, so we'll just not bother,' in a way. Our attitude is that the science is not perfect, and will never be perfect, but we don't have anything else.

That's why this work is very exciting. The Marine Stewardship Council was the first body to begin working on a way to monitor sustainability, and that got everyone thinking. We support the approach they developed for identifying sustainable fisheries, and both our companies use MSC-approved species for McDonald's and other customers. But McDonald's also wanted a way to use scientific data to identify fisheries that are at risk but have the potential to recover. They invited us to work together with them and Conservation International. The approach we developed and are now testing generates information about a range of criteria that can affect the health of a fishery, information that we can then use to talk to governments, fishermen and others involved in fisheries management to influence sound management decisions. The science of fisheries management will continue to develop over time, and McDonald's approach will too."

provide information when fisheries are being threatened. We wanted this process to work together with two other parts of McDonald's global fish strategy - maintaining multiple species of whitefish that are approved for use in our fish products and identifying new species for use in the future - both of which allow us to adjust purchasing to reduce pressure on at-risk fisheries." We pilot-tested the guidelines in Europe during 2003, and during 2004, will begin to use them throughout our System, while continuing to refine our approach based on further experience and feedback from our suppliers, Conservation International and other experts.



McDONALD'S RESPONSIBLE FISH SUPPLY APPROACH

The initial environmental guidelines on fish sourcing that we are developing and beginning to implement evaluate whitefish fisheries according to three criteria important to ensuring long-term fishery health: the quality fisheries management, the status of fish stocks in the fishery and conservation of the marine environment and biodiversity.

i For further information about the environmental guidelines, please see Supplement, pages 63-64.

LOOKING AHEAD

Developing systems for CONTINUOUS IMPROVEMENT.

Being a responsible purchaser means not only auditing for compliance with our expectations, but also supporting the development of suppliers' capacity for continuous improvement. We are working with key suppliers and third-party experts on two new initiatives that are exploring ways for McDonald's to promote self-sustaining socially responsible practices. One encourages supplier-led innovation to meet environmental goals. The other helps build suppliers' capacity to demonstrate leadership on social issues.

SUPPLIERS' ENVIRONMENTAL PRACTICES

McDonald's Europe began working several years ago on a broad quality effort, called McDonald's Agricultural Assurance Program (MAAP), which is designed to ensure safety and quality and support sustainability at the earliest stages of the food production cycle. MAAP outlines goals in seven policy areas - environment, agricultural practices, animal welfare, animal nutrition, animal medication, transparency and genetics. Within each area, MAAP defines product-specific standards, or practices, for production. McDonald's Europe is working with pre-existing European quality assurance programs to incorporate those MAAP requirements the programs do not already cover.

Building on the learnings from MAAP, we are now working with five of our direct suppliers and Conservation International to develop and test a self-assessment and scorecard for measuring environmental performance. Together, we are developing and testing product-specific scorecards with performance indicators for the environmental guidelines most relevant at the processing stage - water, air, energy and waste. Pilot test participants include suppliers of five food products important to our business - hamburger

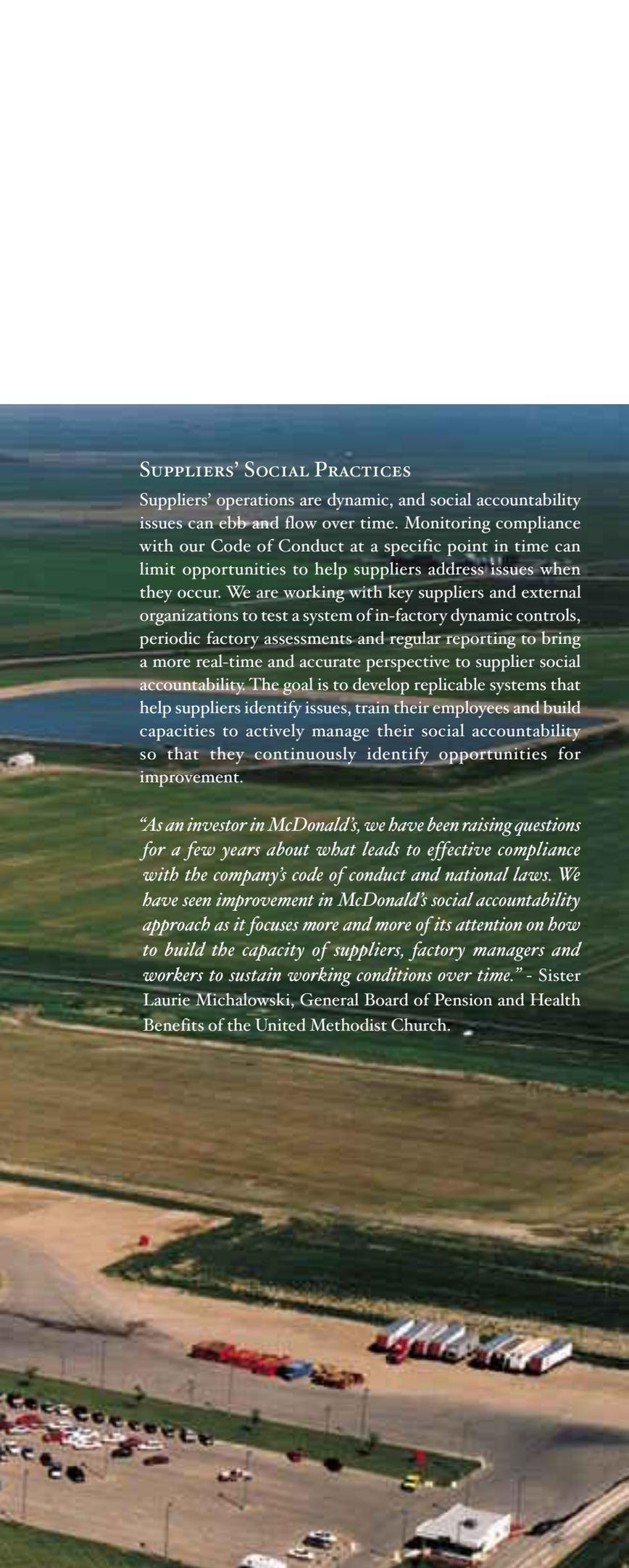
patties, chicken products, pork products, French fries and bakery products - and facilities in diverse geographic areas.

"This work is breaking new ground for us," says Bruce Feinberg, Senior Director, McDonald's Worldwide Supply Chain Management. "The Scorecards and self-assessments are designed to provide information that McDonald's and our suppliers can use to measure performance and set goals for continuous improvement. Assessment of progress toward agreed-upon goals will then be considered as a component of our supplier performance assessment tool, the Supplier Quality Index."

"As the world's largest potato processor, we see value in being a leader on sustainability issues. We recognized the benefit of joining McDonald's Corporation as a founding partner in its MAAP and scorecard projects. This work is fostering an increasingly valuable dialogue that allows us to share knowledge around the globe. Over time, we expect it to result in synergies that generate progress toward our common sustainability goals." - Ghislain Pelletier, Vice President, Corporate Agriculture, McCain Foods Limited.



POTATO PROCESSING FACILITY
Coaldale, Alberta
Photo courtesy of McCain Foods (Canada)



SUPPLIERS' SOCIAL PRACTICES

Suppliers' operations are dynamic, and social accountability issues can ebb and flow over time. Monitoring compliance with our Code of Conduct at a specific point in time can limit opportunities to help suppliers address issues when they occur. We are working with key suppliers and external organizations to test a system of in-factory dynamic controls, periodic factory assessments and regular reporting to bring a more real-time and accurate perspective to supplier social accountability. The goal is to develop replicable systems that help suppliers identify issues, train their employees and build capacities to actively manage their social accountability so that they continuously identify opportunities for improvement.

"As an investor in McDonald's, we have been raising questions for a few years about what leads to effective compliance with the company's code of conduct and national laws. We have seen improvement in McDonald's social accountability approach as it focuses more and more of its attention on how to build the capacity of suppliers, factory managers and workers to sustain working conditions over time." - Sister Laurie Michalowski, General Board of Pension and Health Benefits of the United Methodist Church.

THE FUTURE

THE VALUE OF VALUES

*Working for continuous improvement
throughout the supply chain*

Balancing value and values is not always easy, but it is a responsibility to which we are committed. We will work to make progress in our established programs and to further develop new tools that will help guide our supply chain decision-making in the future.

Specifically, we will strive to:

- Build capacity in suppliers to establish systems that ensure ethical practices. Our goal is to move from monitoring compliance to helping suppliers achieve our socially responsible food supply vision and thus create a net benefit for their employees, communities and the environment.
- Implement a validation process for our antibiotics policy.
- 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.
- Continue the refinement and implementation of our environmental guidelines on fish sourcing.
- Expand the pilot test of our environmental performance measurement and goal-setting self-assessment and scorecard to include additional suppliers and explore opportunities for encouraging actions that support sustainable agriculture at the farm level.

i For further information about our supply chain social responsibility programs and progress, please see Supplement, pages 55-66.



Where Can You Go With a Job at McDonald's?

"I started working for McDonald's as a crew member in Singapore when I was 17. Now I'm responsible for the strategies and operations of 93 restaurants - about \$130 million (USD) in annual sales and close to 7,000 staff in Beijing. McDonald's gives everyone opportunities for growth. That's one of the main reasons I've stayed with the company - that and the challenges and the fun.

When I started out, I was very afraid of being put in a production caller position because I couldn't work fast enough. But my manager kept putting me there, because he believed I could get it right. His belief motivated me to overcome my fear, and eventually I learned to call very well. From then on, I believed that everyone should be given a chance and that one should not give up too easily. These became part of my life principles."

LYNN TAN
General Manager,
McDonald's Beijing

For many, the Arches are

a gateway.

IN OUR RESTAURANTS, PEOPLE CAN LEARN WHAT IT TAKES TO SUCCEED. WITH TRAINING and coaching, they can develop basic workplace skills and attitudes that last a lifetime. As they grow in their jobs, they gain experience and opportunities for leadership and management.

Countless people in all walks of life started on the path to success in one of our restaurants. Olympic gold medalists, physicians, business owners, teachers, members of the U.S. Congress and some of McDonald's top management gained their first work experience as restaurant crew members.

At McDonald's, we know that people are our most valuable resource. We invest in their growth and job satisfaction not only because it is the right thing to do, but because our bosses - our customers - demand it. Our aim to be our customers' favorite place and way to eat hinges on our people.



BEN FITZPATRICK

*Team Leader, Worldwide Mid-Management Development
McDonald's Corporation*

“I started working for McDonald’s 22 years ago, when I was 16. A McDonald’s opened up in my home town, in Surrey, England, and I applied for a crew job because I liked the food - people told me you got free food if you worked at McDonald’s. I never intended it to be a career.

I got hooked by the fun, the people and the atmosphere. I was given more responsibility and opportunities to grow. When I was 20, I was promoted to restaurant manager. Then came more promotions, one every two or three years - first to supervisory positions for consulting services to four to five restaurants and then to positions leading and managing services for 20 restaurants or more.

Everything I learned as a crew member has been useful to me - organization, standards, discipline, communication skills and how to help people grow. My job involves motivating others, and people seem to think I’m good at that. Actually, I’m doing for others what my first bosses did for me - train people for success.

In Learning and Development, you know you can create true, lasting change. There are more than 1.6 million people working in McDonald’s restaurants. We instill our values - commitment to people; Quality, Service and Cleanliness; giving back to the community; honesty and integrity. Considering the number of people

we touch, including our customers, we have a significant impact on the world.

I saw this when I was working in South Africa. Some of the people we employed lived in huts without running water. In working for McDonald’s, they attained a better standard of life. We benefited the whole country economically. We provided jobs. And we taught people transferable skills.

Giving back is very important to my family and me. We have been foster parents to 13 children. In South Africa, the second child we took in was a baby boy, just three weeks old. After a couple of months, the agency said they had to take him away because we were not South Africans. That was the law. They said he would probably grow up in institutions. We wanted him to have a better life. And we knew there were thousands and thousands of children like him and thousands of families like us who wanted to adopt. So we went to court and got the law changed. Our son Jake is seven years old now and a happy, energetic and imaginative growing boy.

People say McDonald’s is just hamburgers, but we don’t let it be just that. We look after people - our employees, their families and their communities. It means a lot to be part of a System that cares about these things.”

Employee Opportunities

The McDonald's System provides employment and growth opportunities for vast numbers of people. Today, more than 1.6 million people worldwide "work under the Arches." The great majority are employed by our independent owner/operators. In our restaurants, people can learn what it takes to succeed. Some move on to careers in other fields, taking with them essential workplace skills and values. Many move up within the McDonald's System. More than 1,000 U.S. owner/operators are former company or owner/operator employees. Restaurant employment is also a rung on the ladder to senior corporate management. President and CEO Charlie Bell, Claire Babrowski, Chief Restaurant Operations Officer, and Mats Lederhausen, Managing Director of McDonald's Ventures, all started as crew members.

Learning & Development

Our programs provide learning and development opportunities for employees worldwide, from restaurant crew members through executive officers. There is also a formal training program for prospective owner/operators and additional courses owner/operators and their managers may take to develop further business expertise.

Hamburger University

Hamburger University offers courses for restaurant managers, owner/operators and corporate



Hamburger University Learning Center, Munich, Germany

employees at seven campuses around the world. Course materials are available in 28 languages, and classes may be translated into as many as six languages at one time. The American Council on Education has accredited HU courses, signifying that they are equivalent to courses offered by major colleges and universities throughout the U.S. and Canada.

*It's hard to see a dead end
when there is*

OPPORTUNITY

all around you.

McDonald's provides career-long learning opportunities. We have structured learning and development programs worldwide and for employees at every level. We consider this a sound investment.

As our founder, Ray Kroc, said,
"If you think training is expensive, consider the cost of ignorance."

competitive compensation package and an incentive plan. Most of all, we offer a stable and caring environment where we all grow together and are proud of each other and to be a part of the greatest brand in the world.

We follow the McDonald's Management Development Program and use all its training classes. However, the base of our training efforts starts with our centralized orientation program for new employees. From there, each employee receives extensive training on all stations and in hospitality. For those who exhibit leadership characteristics, we have a management program that includes training skills, food safety, basic supervision and leadership and basic shift management. Our employees must successfully complete our training before being selected for MDP classes."

The Role of Owner/Operators

Worldwide, approximately 73% of McDonald's restaurants are operated by independent local business people. With training, guidance and technical support from the corporation, franchisees handle all aspects of restaurant operations, including employment. They make their own decisions on hiring, compensation and promotions. With their managers, they build the teams that deliver McDonald's hallmark Quality, Service and Cleanliness. And they provide opportunities for growth. While owner/operators are independent employers, the corporation actively promotes effective people practices in their restaurants through training, management research, information and advice and restaurant operations assessments.

Owner/Operator As Employer

"My wife and I have grown our organization from two restaurants in 1985 to 11 today. We currently employ nearly 580 people.

We are associated with talented people who are skilled in managing and operating a McDonald's restaurant business. Most started with us as hourly crew employees and advanced to store management. Three former crew members have become supervisors of multiple restaurants. One is our Director of Operations and oversees all the restaurants.

We offer a



REGGIE WEBB

*McDonald's
Owner/Operator Chair,
National Leadership Council
Clairmont, California*

Inclusive Workforce

At McDonald's, we have a long-standing commitment to inclusion with ever-expanding opportunities. Diversity is manifest in our U.S. business. Minority and women employees are represented at significant rates in our headquarters and U.S. company workforce.

Hispanics, for example, are more than 29% of McDonald's U.S. workforce. African-Americans are 19.6%. In our corporate headquarters and U.S. company, approximately 20% of the officers, 19% of the senior directors and directors and 25% of the managers, not including managers of company-owned restaurants, are minorities. For women, the figures are 21% of officers, 37% of senior directors and directors and 45% of managers, not including company-owned restaurant managers.



**BOB BEAVERS
& ED HONESTY**

*Majority Owners
Best Harvest Bakery*

Supplier Perspective

"We started out as McDonald's employees. Bob began as a crew member. He ultimately served as a Senior Vice President and member of the Board of Directors. Ed advanced from entry-level McDonald's attorney to Managing Counsel of the Great Lakes Region. We developed great relationships at McDonald's and wanted to remain a part of the System. But we also sought the challenges and rewards of running our own business. With McDonald's encouragement and commitment, we bought a majority interest in a bakery. Today we supply more than 252 million buns a year to more than 700 McDonald's restaurants. We also produce and sell shelf stable buns for our country's military troops and supply Kansas Speedway. Our business continues to grow. We have been recognized as one of the top 10 small businesses in Kansas City."

Owner/Operator Perspective

"Back in the late 1980's, I was trying to decide on my next career move, so I asked my broker what company he would go to work for. And he said, 'McDonald's - as an owner/operator.' They were getting thousands of applications, but I decided I was going to get an interview, no matter what. And here I am.

I started with one store and opened my third, at Midway Airport, last June. In less than 100 days, we did over \$1 million in sales. We'll open another store at Midway in August. While managing the stores, I also work on charitable activities. I'm on about 12 organizations' boards and committees. I'm also on the Executive Board of the McDonald's Hispanic Operator Association and serve as President of



PHIL FUENTES
*McDonald's
Owner/Operator,
Chicago, Illinois*

the MHOA Central Division. We serve as a voice for

Hispanic interests in the System and help McDonald's reach out to the Hispanic community.

Most of my managers work from the ground up. Some never went to college, but I don't look at educational background. I look at can they learn and are they willing to learn. One of the things I do to support the community is to hire locally. I never have a shortage of employees, so we must be doing something right."

***Our Franchisees
& Suppliers***

Approximately 39% of McDonald's U.S. owner/operators are minorities and women. In 2003, we purchased approximately \$3.9 billion in food and paper products from U.S. minority and women suppliers. A U.S. Treasury Department and Small Business Administration report highlighted McDonald's for best practices in minority supplier development.

*When we
talk about*

DIVERSITY

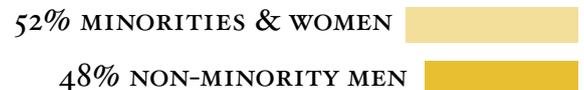
we mean business.

Diversity at McDonald's means equal opportunity for all employees and applicants worldwide - a recognition that each of our employees deserves to be treated with fairness, respect and dignity. But it means much more. It means a commitment to understanding, recognizing and valuing the differences that make each person unique.

McDONALD'S U.S. FRANCHISEES



McDONALD'S U.S. FRANCHISEE CANDIDATES





PATRICIA HARRIS

Vice President, McDonald's USA and Chief Diversity Officer

“As Chief Diversity Officer for McDonald’s, I am responsible for establishing the strategic direction and integration of diversity initiatives, including workforce, education, external partnership development and metrics, for our U.S. business.

The U.S. is at a pivotal place in history with the increasing diversity of the population. The changing demographics provide both opportunities and challenges for corporate America. My task and my passion is to understand the implications for our customer base and our workforce and to translate differences into business enablers.

Meeting and delighting our culturally-diverse customers is the goal. We see the diversity in ethnicity, gender, age, physical and mental abilities, education, values and beliefs. The result - different needs, different expectations.

In my 28 years with McDonald’s, I have had the opportunity to see and play a part in the evolution of diversity from the beginning stages to our current place, where we focus on leveraging both the differences and the

commonalties among our employees, owner/operators and suppliers. This evolution represents an enhanced understanding that diversity is not just about good corporate citizenship. It’s about good business strategy.

My growth through the System represents the opportunities available at McDonald’s. I’ve gone from administrative assistant to human resources consultant to director to officer. I feel fortunate to serve as a role model and example of McDonald’s commitment to the growth and development of our people.

As I reflect back, I see diversity as a founding principle at McDonald’s. Ray Kroc understood it when he said, “None of us is as good as all of us.” Our current leaders share this view.

My goal is to continue identifying opportunities to capitalize on the individual uniqueness of our stakeholders in ways that add value to the U.S. business. This is an ongoing process. Diversity is not a destination - it is a journey!”

RESTAURANT EMPLOYEES PROFILES

You can't LEARN much about a team in 90 seconds or less.

We work very hard to provide quick, accurate, friendly service. If we do our job right, you may hardly notice the people behind the counter who make it happen. So we took a snapshot at one of our restaurants in Barueri, Brazil.

For the past eight years, *Exame* magazine has named McDonald's Brazil one of the best companies to work for in the country. In 2001, the company was ranked number one.

**CREW***Alexandre Oliveira da Silva, 21*

I'm responsible for the lobby. I keep the tables and trash cans clean and tidy, deliver orders and help customers. I always wanted to work at McDonald's. The Association of Parents and Friends of the Disabled helped me prepare for this job. Now my manager helps me a lot. I play soccer with my friends whenever I can, but I don't neglect my studies. I'll finish high school this year, and I'm taking a course in computers too.

RESTAURANT MANAGER*Marcos Aurélio Neves, 28*

I started as a crew member and had a number of positions before becoming general manager here. We do over \$1.3 million (USD) in sales a year, and I'm responsible for everything. I especially like training. I'm studying for a degree in business administration and want to become a McDonald's people consultant. Last year, I was named best McDonald's manager in Brazil. The best part of my prize is a trip to this summer's Olympics. I'll be part of the team operating the McDonald's there and get to watch some of the events.

COACH*Miriã Pampon de Almeida, 19*

I'm responsible for introducing new employees to all the procedures. I show them how to assemble sandwiches, sharpen blades, stock products and much more. When I'm not in school or working, I like parties and going out with friends, including my work mates here. I plan to go to college but haven't decided on a major yet. If I choose business administration, my goal will be a career at McDonald's. I like working here. And the possibilities for growth are very good.



SHIFT MANAGER

Edson Aparecido Guimarães,
27

My career started to change five months ago, when I was named Brazil's top production manager. It was the best thing that could have happened to me. And I was promoted to shift manager a week later. Some time ago, I had some problems and almost left the company. My manager's support made me stay. Thanks to him and his confidence in my potential, I trained a lot, and today I'm the best in Brazil.

THE FUTURE

**THE PROMISE OF
PEOPLE**

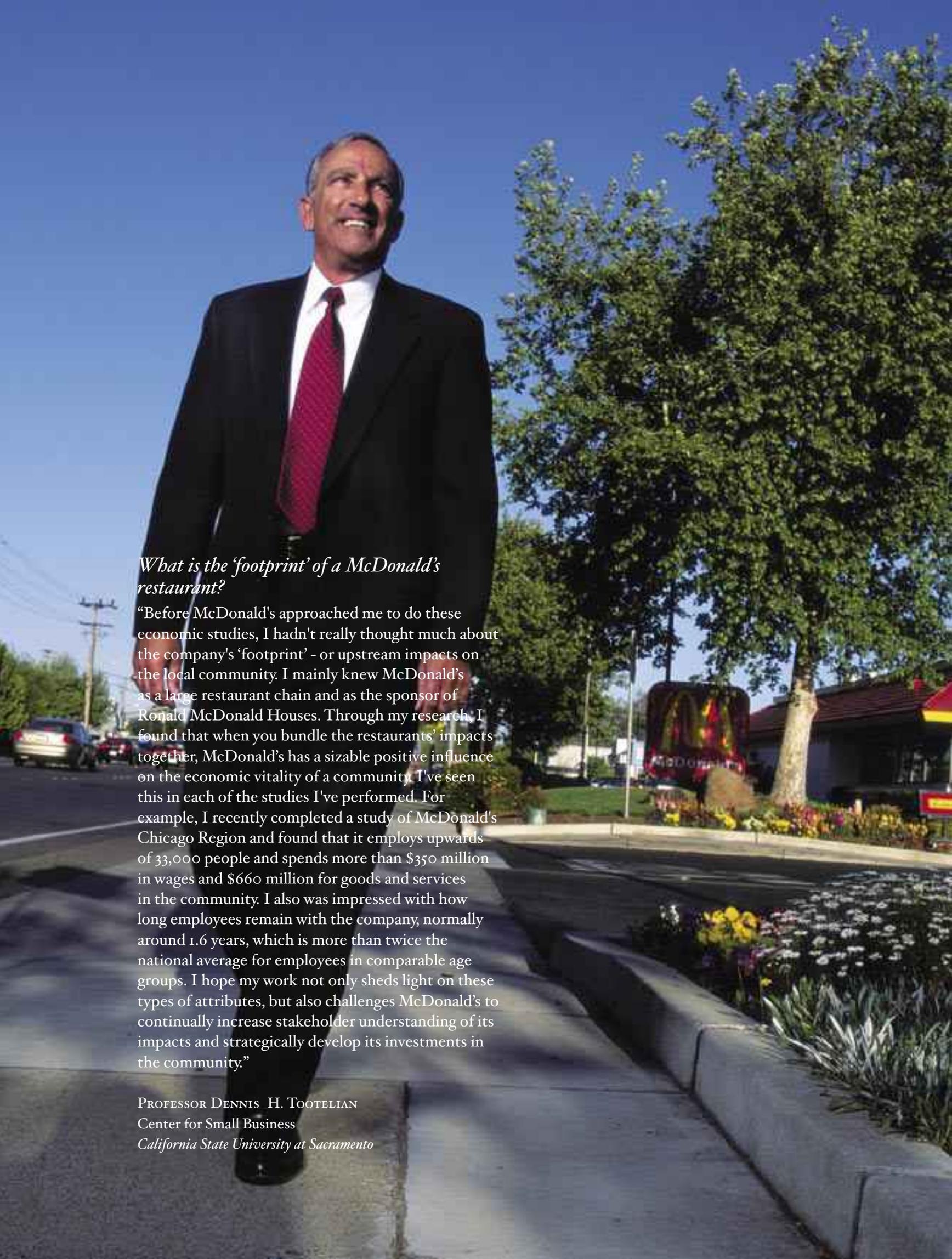
Growing our most valuable resource

We know that we can grow as a company only if we enable our people to grow, contribute and feel pride in working for McDonald's. It is no easy task to balance the need for global standards and performance measures with the diversity of laws, customs and economic conditions in our local markets. These are challenges we will continue to address as we build on a strong foundation of opportunity and inclusion.

In the coming year, we will strive to:

- Systematically identify talent in our organization and offer opportunities for advancement.
- Expand initiatives to educate employees about major issues that affect our business, our efforts to provide opportunity and safe, congenial work environments and what we are doing to contribute to our communities and the long-term future of our planet's resources.
- Continue the increased dialogue between top management and employees worldwide so that our people can understand and give feedback on McDonald's plans and activities - and get responses to their questions and concerns right from the top.
- Continue exploring better ways to measure the business results of our training programs.
- Develop an education and training program that will equip our field staff and managers to maximize the potential benefits of McDonald's new Restaurant Operations Improvement Program.

i For further information about our people practices and programs, please see Supplement, pages 67-71.

A man in a dark suit, white shirt, and red tie is walking on a sidewalk. He is smiling and looking upwards. In the background, there is a McDonald's restaurant with a large tree and a clear blue sky.

What is the 'footprint' of a McDonald's restaurant?

“Before McDonald's approached me to do these economic studies, I hadn't really thought much about the company's 'footprint' - or upstream impacts on the local community. I mainly knew McDonald's as a large restaurant chain and as the sponsor of Ronald McDonald Houses. Through my research, I found that when you bundle the restaurants' impacts together, McDonald's has a sizable positive influence on the economic vitality of a community. I've seen this in each of the studies I've performed. For example, I recently completed a study of McDonald's Chicago Region and found that it employs upwards of 33,000 people and spends more than \$350 million in wages and \$660 million for goods and services in the community. I also was impressed with how long employees remain with the company, normally around 1.6 years, which is more than twice the national average for employees in comparable age groups. I hope my work not only sheds light on these types of attributes, but also challenges McDonald's to continually increase stakeholder understanding of its impacts and strategically develop its investments in the community.”

PROFESSOR DENNIS H. TOOTELIAN
Center for Small Business
California State University at Sacramento



Our value in the community goes much deeper

than the price of a meal.

MANY SEE THEIR LOCAL McDONALD'S AS A PLACE TO HAVE A MEAL OR SNACK AT A reasonable price. Professor Tootelian's economic impact studies go beyond these dimensions to explore the broader role our restaurants play in the communities we serve. From an economic standpoint, a McDonald's restaurant invests money in the community as a taxpayer, an employer and a purchaser of goods and services. McDonald's restaurants have an environmental impact as well, and with more than 30,000 restaurants in 119 countries, the cumulative effects are significant. Energy conservation is one of our most important environmental priorities because restaurants like ours are energy-intensive businesses.

Each McDonald's restaurant is an investor in its community - through jobs, purchases and civic leadership. But every McDonald's is a resource user as well, so we continue to work on understanding our impacts and how to manage them more effectively.



SACHIKO TAKAMI

Chairman of The Natural Step International in Japan

“The Natural Step helps municipalities and companies like McDonald’s understand and address issues of sustainability. We help them develop integrated strategies and action plans for sustainable development, including supply chain programs, metrics and product innovation.

At TNS, we define sustainability as meeting four fundamental system conditions. These conditions state that in a sustainable society, nature is not subject to increasing:

1. Concentrations of substances extracted from the earth’s crust;
2. Concentrations of substances produced by society;
3. Degradation by physical means; and that, in society:
4. People are not subject to conditions that systematically undermine their ability to meet their needs.

Interest in corporate social responsibility is growing rapidly in Japan and worldwide. Since McDonald’s is one of the largest food retailers in the world, a multi-national company and a strong global brand, it has great influence in society.

In working with McDonald’s staff, I have been impressed by the openness of the people, the body of expertise and knowledge within the company and the hard work that is going on across the McDonald’s System

on issues of sustainability. The Natural Step works with McDonald’s not only in Japan, but also in the United States and Sweden. In the United States and Sweden, the work has been focused on global strategy and supply chain issues. In Japan, we have helped them with reviewing their overall environmental impacts. We also wrote the third-party opinion about their sustainability work that they published in their sustainability report.

In Japan, McDonald’s has worked hard for many years and is leading the way when it comes to energy efficiency programs. My hope is McDonald’s can continue to communicate that and other important issues to its customers and the greater public.

I’m very happy to be working with McDonald’s in Japan because I’ve seen how serious the organization is about sustainability. McDonald’s has a very good opportunity to effect positive change in the community. It has a long tradition. And it brings a great deal of knowledge and experience in the issues. It’s important to remember that one company by itself cannot be sustainable or make all of society sustainable. We all have to work together.”

The Natural Step has worked with McDonald’s Japan since 2001.

Further information about The Natural Step and sustainability is available at www.naturalstep.org

Environmental Focus:

Energy Conservation & Waste Reduction

At the restaurant level, energy and waste are two key business and environmental priorities for McDonald's. To illustrate, McDonald's worldwide restaurants annually spend about \$1.2 billion for an estimated 11 billion kilowatt hours (kWh) of electricity. As we work to reduce costs, we are reducing electrical energy consumption and mitigating our impacts on climate change. Use and disposal of packaging are also major restaurant impacts. In 2003, each restaurant purchased, on average, approximately 24.1 tons of packaging, so reducing packaging impacts is fiscally prudent and conserves natural resources.

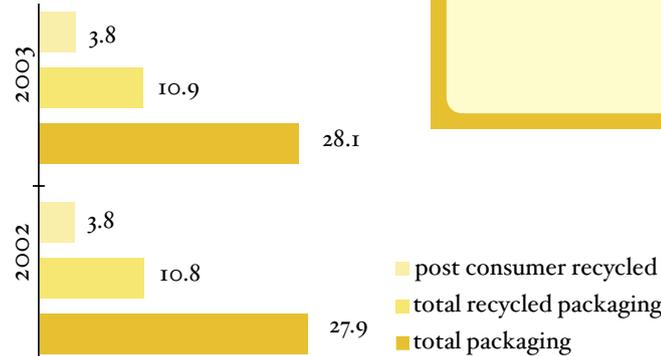
Waste & Packaging

To decrease our packaging impacts, we focus on:

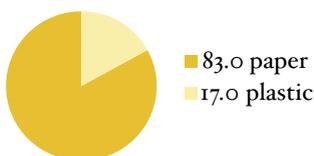
- Using less material.
- Choosing manufacturing processes and raw materials with less environmental impact, including recycled fiber and materials from renewable resources.
- Maximizing recycling, starting with behind-the-counter materials.

During 2002-2003, packaging weight per \$1,000 in sales increased slightly, by 0.7%. This was due mainly to the adoption of paperboard containers for some food products. The use of recycled packaging, specifically post-consumer remains a priority for us. Since paper accounts for the vast majority of our packaging, we are working to develop sustainable forestry guidelines that will promote proper management of this renewable resource. We are also investigating the use of biodegradable polymers.

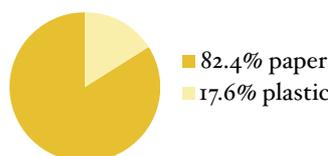
MCDONALD'S PACKAGING 2002 VS. 2003
lbs. per \$1,000 of sales



2002 MCDONALD'S PACKAGING



2003 MCDONALD'S PACKAGING



These data are from six of our top 10 markets. Together, these markets account for 67.8% of total revenues from McDonald's restaurants.

Running a McDonald's
EFFICIENTLY
means integrating
the environment into our
daily operations.

A McDonald's restaurant is a compact system that requires environmental resources, such as energy, packaging and water, to support the cooking, lighting, cooling and heating required to serve up to 2,000 meals and snacks per day. So the benefits of a well-run restaurant include not only increased customer satisfaction and better cost controls, but also a reduction of our impact on the environment.

Energy

By taking simple steps, markets throughout the McDonald's System can reduce energy usage by as much as 10% - perhaps even more. We have developed tools to help restaurant managers implement energy saving practices effectively and efficiently. These include:

- A Restaurant Energy Survey, which helps identify restaurant-level opportunities to reduce energy consumption and expenses.
- Fire-up and fire-down schedules, which provide restaurant staff with optimal times and procedures for turning on and off equipment in order to limit total demand for electricity.

- A Savings Estimator Tool, which assists managers in aligning operational procedures with energy and cost efficiency goals.

Cost savings are also achieved through testing and installing numerous pieces of energy-efficient equipment, including programmable thermostats, high-efficiency HVAC, and high-efficiency cooking equipment.

While we do not have a global reporting system for measuring energy, several geographic business units, including Australia, Europe, the U.S. and Japan, are developing energy metrics.

McDonald's Japan, for example, has been tracking energy use for 14 years. Additionally, they have developed metrics to monitor CO2 emissions in order to set goals related to Japan's Kyoto Protocol target. The country's target calls for reducing greenhouse gas emissions by 6% below 1990 emissions levels during the period 2008-2012. McDonald's Japan's has already reduced CO2 emissions by an average of 14.6%, or 23 metric tons, per restaurant.

JAPANESE CO₂ EMISSIONS: 1990-2003

Average per restaurant (t-CO₂/year)

Year	Electricity	Gas	Total
1990	131.9	25.8	157.7
1999	94.1	28.7	122.8
2000	97.2	32.4	129.6
2001	98.6	36.7	135.3
2002	102.1	31.3	133.4
2003	100.4	34.3	134.7



TOM SOMA

Executive Director, Ronald McDonald House Charities (RMHC) of Oregon and Southwest Washington

“Before becoming part of RMHC, I viewed McDonald’s as a place to grab a quick meal. But after five years here, I have a heightened appreciation for the people behind the Arches. Working for a non-profit that shares a name and commitment with a Fortune 500 company has brought me in contact with the 41 owners who operate McDonald’s restaurants in this region. Through restaurant events and promotions, these owner/operators help generate nearly 25% of our annual donations. This funding is essential to the provision of RMHC programs, especially as demand continues to increase.

Last year, our two Ronald McDonald Houses hosted almost 900 families for more than 9,000 days. While we’re well known as the “home away from home” for families of seriously ill or injured children, people don’t realize that many of the sick kids stay here as well - along with their mothers and fathers, sisters, brothers, grandparents, and uncles and aunts who help them heal. Unfortunately, we had to turn away families on 350 occasions last year because we were either full or didn’t have an adequately sized room - a trend not isolated to Portland.

We’re addressing the growing need through expansion and new construction, which requires significant new funding. Unfortunately, we’re dealing with a non-profit marketplace that is increasingly competitive and sophisticated. While I hate to say it, the competition for charitable contributions is also increasing. In this context, there’s an incredible opportunity for McDonald’s to help us generate new support by capitalizing more effectively on our shared name and the large volume of restaurant traffic. In our region alone, the stores have more than 2 million customer transactions a month. If we could raise just fifty cents once a year from each of these customers, we could cover our entire annual operating budget!

I’m humbled by the effect RMHC has on families. Now when I see the Arches, I look beyond a physical structure. I see a community leader running a successful business that employs people who may not find work otherwise. I see customers whose children play on McDonald’s-sponsored teams. And I see a group of caring and committed individuals who help our Ronald McDonald House children and families every day.”

i Further information on Ronald McDonald House Charities programs is available at www.rmhc.org.

McDonald's Giving

McDonald's gives back directly through corporate contributions, but a larger scope of giving emanates from the commitment and dedication of our local owner/operators and suppliers. Together, we support a variety of causes, particularly those benefiting children. Examples include a community football (soccer) program in the United Kingdom, research on children's cancer in Brazil and dictionaries for needy children in China. In 2003, McDonald's company-operated restaurants and owner/operators also implemented the Give A Hand promotion, which gave customers the opportunity to purchase and personalize paper cut-out hands that were then posted in the restaurant and benefited RMHC.

For further information about how owner/operators contribute to their communities, please see Supplement, page 81.

\$12.8

million

TOTAL 2003 CORPORATE GIVING
cash and in-kind contributions

\$12.3

million

TOTAL 2002 CORPORATE GIVING
cash and in-kind contributions

World Children's Day

For the second straight year, McDonald's restaurants in more than 100 countries raised funds to benefit Ronald McDonald House Charities (RMHC) and other children's charities. McDonald's Corporation and its owner/operators have raised nearly \$27 million through the past two World Children's Days by donating a portion of product sales to charity. These funds help support the expansion of RMHC's core programs like Ronald McDonald Houses, Ronald McDonald Family Rooms and the Ronald McDonald Care Mobile program. They also help support other programs focused on improving the health and well-being of children.



To really

SUPPORT

*people in need, we've found
it helps to start small.*

The cornerstone of the McDonald's System's approach to philanthropy is to make a difference in the lives of children through its support of Ronald McDonald House Charities (RMHC), an independent, 501(c)(3) non-profit organization whose mission is "to create, find and support programs that directly improve the health and well being of children." RMHC reaches into communities through its network of 180 local Chapters to provide important resources that address the issues facing children in their own neighborhoods. RMHC also makes grants to other non-profit organizations to help children around the world. To date, RMHC's global network of Chapters have awarded more than \$400 million in grants and services to children's programs worldwide.

Ronald McDonald Care Mobile Program

Through a fleet of 18 state-of-the-art mobile healthcare programs, the Ronald McDonald Care Mobile program delivers cost-effective medical, dental and educational services to underserved children - right in their own communities. In 2003, more than 50,000 children were served. An additional eight Ronald McDonald Care Mobiles are expected to launch in 2004, including seven in the U.S. and one in New Zealand.

McDonald's Support for RMHC

McDonald's Corporation covers the majority of general and administrative costs at the RMHC global office as well as free use of facilities, equipment and materials.

McDonald's support also helps defray certain costs that the Charity would otherwise incur to conduct fundraising activities and deliver program services. McDonald's supports RMHC through country and regional offices in numerous ways. In addition, many owner/operators and suppliers choose to support RMHC.



Ronald McDonald House Program

The first Ronald McDonald House opened in Philadelphia in 1974, when a National Football League team, a children's hospital and a group of McDonald's owner/operators joined forces to provide a home-away-from-home for families of seriously ill children. There are now 6,000 bedrooms available each night. By the end of 2003, there were 235 Ronald McDonald House programs in 24 countries around the world, including new programs in Japan and Romania. An additional 15 Houses will open during 2004. Since its inception, the program has helped more than 10 million families.



OWNER/OPERATOR LEADERSHIP

Among our owner/operators, PASSION is one thing that's never in short supply.

McDonald's is one of the world's largest small businesses, with more than 5,400 owner/operators and partners running our restaurants at the country and local levels. The corporation sets policies, standards and expectations, but they will go nowhere unless the people who operate our restaurants share the same values and impart their high standards and passion for the business to their staff.

*Passion is...**Going for the Gold.*

"I became a single mom when my children were in high school and I had to find a way to make their college dreams come true. I had always told my kids to go for the gold, so when I was applying for jobs, I applied at McDonald's. In my hometown of Reno, Nevada, one of the owner/operators was a local hero – a real community leader. I always thought, 'If I could be more like that owner, I would really be proud of myself.' When I applied to be an owner/operator, the company was worried I didn't have enough experience so I just kept saying, 'Just give me a chance and I'll never let you down.' I now own 11 McDonald's restaurants. After my first year as an owner/operator, I hosted a tutoring program at my restaurant for the local school district. We improved the kids' grades significantly, and I was awarded by the community for the program's success. I realized that I was becoming like the owner/operator I so respected in Reno – using my golden opportunity to really make a difference in my community."

MINDY MAYER
Portland, Oregon, U.S.
14 Years with McDonald's

*Passion is...**Pursuing Perfection.*

"As an owner/operator, I always strive for perfection. And I'm willing to do the hard work it takes to get there. My employees and management see eye-to-eye with my vision of how the store needs to operate. I work towards perfection in every way, from going the extra step to train employees to holding 'open days' for customers to learn about every part of the restaurant. Anything but the best requires us to review what we've done and work to make it better. And you have to want to make it better every day. My people work hard because they see me work hard. I want each of my 500 employees to love what they do and love working in my restaurants as much as I do. I am a role model because I demand of my employees exactly what I demand of myself - to work with passion."

HELMUT FROITZHEIM
Koblenz, Germany
20 Years with McDonald's

*Passion is...**Fostering Growth.*

"No,' was the answer I used to give my manager each time I was offered a promotion at McDonald's. Being a veterinarian was always my career choice, but through the years it was McDonald's that became my true passion. I've been a training consultant, supervisor, operations manager field service manager and taught some of the curriculum in French at Hamburger University. As an owner/operator of five restaurants, I have also been the chairman of the Canadian Partnering Committee and Chairman of COPNAD. It's been 33 years and I haven't looked back. I love to provide opportunity for all my employees.

I get them involved on a level beyond the restaurant, visiting my suppliers so they can see the people, standards, quality and care that go into the food we prepare and serve. I try to always operate on that higher level, whether it's conducting 'rap sessions' for employee feedback or greeting a former employee who brings her family to my restaurant for dinner. For me, the ultimate reward is helping my employees grow and develop, and it is because of McDonald's that I have been able to do just that."

FRED CASSIR
Montreal, Canada
33 Years with McDonald's

THE FUTURE

GIVING BACK

Continuing community leadership

Community leadership and responsibility are inherent to McDonald's heritage and values. Preserving the integrity of our land, water and air is part of our responsibility as well. This takes individual actions at each of our restaurants that, given the size of the McDonald's System, add up to broad environmental benefits.

ENVIRONMENTAL STEWARDSHIP

We will strive to:

- Reduce energy use, as we see this as the top environmental priority for our restaurants.
- Continually seek innovative packaging that comes from renewable or recycled resources.
- Develop sustainable forestry guidelines for all wood-based products, especially to help guide our packaging procurements.

COMMUNITY INVOLVEMENT

We will seek to:

- Continue McDonald's annual World's Children Day and increase the amount raised to support Ronald McDonald House Charities and other children's charities.
- Encourage local markets to continue and consider expanding program sponsorships including those in the area of physical activity, fitness and sports, which are part of our support for balanced lifestyles.
- Develop a corporate volunteerism program.

*Passion is...
Turning obstacles into
Opportunities.*

"In each area of my business, there are opportunities. For example, in Japan the restaurant business is very competitive. Customers have many choices and very high standards, which could have been a barrier for any restaurant company. I can make my restaurants my customers' favorite place to eat by daily exceeding their expectations. People with disabilities also face many barriers. In my community, there are three special education schools for handicapped children, so I have seen this first-hand. I try to counter those barriers by providing work experience for many disabled men and women. And I'm proud to say I've hired 48 such people in four years. I have a vision to one day operate a store in which a third of the positions are filled by employees who have a disability."

AKIRA SATO

Kansai, Japan

32 Years with McDonald's

i For further information about our economic, community and environmental impacts and programs, please see Supplement, pages 72-81.

Supplemental Report

*Corporate citizenship is a measure
of both spirit and substance.*



Many of my colleagues have told me stories about how McDonald's has touched their lives or the lives of others. And I have stories of my own. Having been with McDonald's for nearly 18 years, I know there's a reason people love to work here. There's an inherent spirit of doing the right thing.

We wanted this, our second Corporate Responsibility Report, to capture that spirit and to communicate the significant role that corporate citizenship plays in our operations. The first section of the report was designed to do just that. We also wanted this report both to build on the strengths of our first one and also to improve upon it. To that end, we have worked to make advances in two key areas: focusing on the corporate responsibility issues most relevant to our stakeholders and including more information – both quantitative and qualitative – to help indicate our progress on those issues. The pages that follow were developed to provide that additional information. As part of this effort, we worked with our top 10 markets, which account for about 72% of our revenues, to compile the relevant data. This is just a starting point in an incremental and evolving process. We will continue to add depth to the data we track and report.

In developing this report, we turned to the Global Reporting Initiative (GRI) – an independent organization that develops globally applicable sustainability reporting guidelines – to help guide us. We have tried to follow those guidelines as closely as possible. We are committed to working toward reporting in accordance with GRI guidelines, but we still have a way to go – both in terms of our own internal data collection systems and in our efforts to help continuously develop and improve the guidelines so that they meet the reporting needs of a business like ours. Towards this end, we have participated in feedback sessions about the GRI guidelines and have volunteered to participate in a supplemental study for the food service retail segment.

Our System is working on setting clearer objectives. In this report, we have outlined broad goals, which is what we do at the corporate level. We provide a framework within which our individual geographic business units have the freedom to execute strategies that work in their geographic areas. This also holds true in our reporting efforts. While we recognize the value of a report at the corporate level, we feel the most beneficial reporting efforts are those that happen at geographical business unit levels – like McDonald's Brazil, McDonald's Japan and McDonald's Europe, which all recently prepared reports.

Lastly, we are looking to improve the assurance and verification aspects of our reporting. We are currently evaluating the AA1000 Framework – a standard designed to improve accountability and performance – and hope that we can begin to follow that framework incrementally in future reporting efforts.

Much of our strength as a company comes from the pride and passion we have for this business. We strive to understand many perspectives and then to do what we believe is right and best. We believe this report demonstrates progress. I hope it helps you understand McDonald's a little differently and that it shows that we are a company with values, a company that cares and a company that is working to do better every day.

A handwritten signature in black ink, appearing to read 'Ken Barun'. The signature is fluid and cursive.

KEN BARUN
VICE PRESIDENT, CORPORATE RESPONSIBILITY

"We have an obligation to give back to the community that gives so much to us."

RAY KROC, FOUNDER AND CHAIRMAN OF THE BOARD (1955-1977)

1955-69



1955
Ray Kroc opens first franchised McDonald's restaurant

1961
Hamburger University opens



1963
Ronald McDonald makes initial public appearance

1967
First international McDonald's restaurants open

1968
Owner/operator Jim Deligatti invents Big Mac

1970-89

1973
McDonald's starts providing nutrition & ingredient information

1974
Workforce diversity program established in U.S.



1974
McDonald's collaborates with other stakeholders to open first Ronald McDonald House

"People make a company – not a balance sheet or a listing on the New York Stock Exchange."

FRED TURNER
CHAIRMAN OF THE BOARD AND CEO (1977-1990)

1987
First salads introduced



1989
Rain forest policy issued

1990-99



1990
McRecycle USA launched – pledge to buy \$100 million per year in recycled materials

1990
Global environmental policy issued

1993
McDonald's joins U.S. Environmental Protection Agency Green Lights program for energy-efficient lighting

1993
Code of Conduct for Suppliers developed

"The world should be a better place because of McDonald's."

JACK GREENBERG, CHAIRMAN OF THE BOARD AND CEO (1999-2002)

1999
Onsite supplier social accountability audits initiated



1999
Onsite animal welfare audits initiated

2000-

2000
Global Animal Welfare Guiding Principles issued

2000
Board of Directors Corporate Responsibility Committee established



2002
World Children's Day inaugurated

2002
First corporate responsibility report published



2003
Global balanced lifestyles approach established

2003
Global antibiotics policy issued

"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."

JIM CANTALUPO, CHAIRMAN OF THE BOARD AND CEO (2003-APRIL 2004)

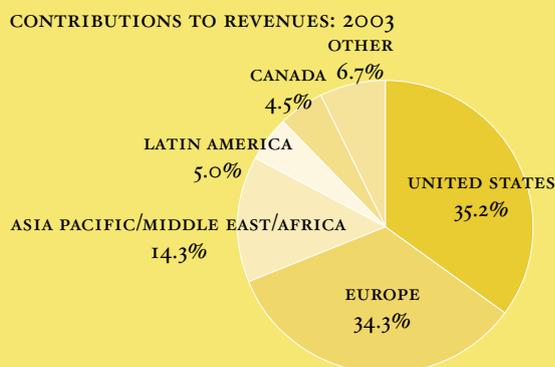
Company Profile

Basic Facts About the System

McDonald's is a leading food service retailer. The company and our independent owner/operators¹ operate more than 30,000 McDonald's restaurants in 119 countries and serve approximately 47 million customers a day – 21.8 million in the U.S. and 25.2 million in our other markets.

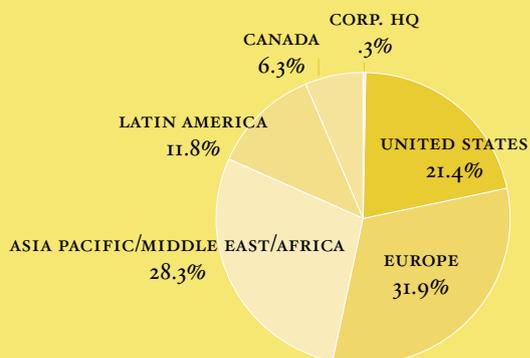
To many, our products may seem too familiar to need introduction. Our core menu items – burgers, fries and soft drinks – date back to our beginnings and are served in virtually all McDonald's restaurants around the world. However, our menu choices today are far broader and continually evolving in response to our local customers' tastes and preferences. Our new balanced lifestyle initiatives have generated a surge of new menu offerings in many markets.²

We manage the System based on geographic segments – the U.S., Europe, Latin America, Canada and a segment for Asia/Pacific, the Middle East and Africa (APMEA). There is also a segment for non-McDonald's brands,³ which operate principally in the U.S.



More than 1.6 million people worldwide work “under the Arches.” Of these, approximately 398,000 are company employees. The remainder are employed by our independent owner/operators.

COMPANY WORKFORCE



McDonald's is publicly traded on the New York, Chicago, Euronext Paris, German and Swiss stock exchanges.

¹ Here and throughout this report, “company” refers to McDonald's Corporation and its subsidiaries. “Owner/operators” includes affiliates that operate under license agreements.

² See, Products: Balanced Lifestyles.

³ In 2003, non-McDonald's brands accounted for approximately 6.7% of total revenues. Because they represent a small fraction of the business and function quite autonomously, this report concerns only the policies, operations and performance of brand McDonald's, except in the areas of revenues and sales.

McDonald's Business Strategy

In January 2003, the late Jim Cantalupo became Chairman and CEO of McDonald's, and Charlie Bell was named President and COO. Under their leadership, the company embarked on a new business strategy to increase McDonald's relevance to today's consumers and strengthen financial discipline. Central to the program is an unremitting System-wide focus on the Plan to Win, a global alignment around a common mission and five drivers of exceptional customer experiences – Products, People, Place, Price and Promotion.

The Plan to Win represents a major strategic shift from growing by being bigger, *i.e.*, by adding restaurants, to growing by being better, *i.e.*, by attracting more customers more often to existing restaurants. The Plan has had significant impact on our management structure, programs, operations and performance at all levels. A report on our business strategy is available at

i <http://www.mcdonalds.com/corp/invest/pub/revitalization.html>.

Financial Indicators

McDonald's revenues include sales by company-operated restaurants and fees from restaurants operated by owner/operators and affiliates, *i.e.*, joint ventures and development licensees. In 2003, McDonald's worldwide revenues totaled \$17.1 billion, an increase of 11.3% over 2002.

In 2003, sales by company-owned restaurants totaled nearly \$12.8 billion, an increase of 11.3% over 2002. Sales by franchised and affiliated restaurants totaled more than \$33.1 billion, an increase of approximately 10.4% over 2002.⁴

These revenue and sales results reflect the enhanced discipline and focus instituted by the company's new business strategy.

i Further detail about McDonald's organization, operations and performance is available in our 2003 Summary Annual Report, 2003 Financial Report and 2004 Annual Meeting Notice and Proxy Statement, which are at <http://www.mcdonalds.com/corp/invest/pub.html>, and in our annual and quarterly reports filed with the Securities and Exchange Commission, at <http://www.shareholder.com/mcd/edgar.cfm>.

Purchases

As a food retailer, McDonald's is a consumer and a quite significant purchaser of goods and services. In 2003, System worldwide purchases totaled approximately \$15 billion. On an expenditure basis, beef is our largest purchase, followed by packaging and chicken.

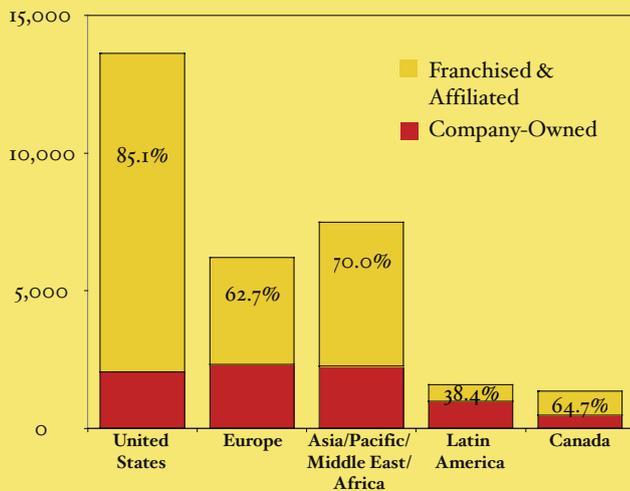
⁴ While franchised and affiliated sales are not recorded as revenues by the company, management believes they are important in understanding the company's financial performance because these sales are the basis on which the company calculates and records franchised and affiliated revenues and are indicative of the financial health of the franchisee base.

Business Model

From the outset, McDonald's has been committed to franchising as our principal mode of doing business. Worldwide, approximately 73% of McDonald's restaurants are operated by approximately 5,400 independent local business people. Our corporate structure is also decentralized and rooted in the markets we serve.

We view this business model as a significant strength. Our owner/operators and restaurant managers are attuned to local customs, expectations and preferences because they themselves are local. They also know the local business environment, and many participate actively in the civic, educational and philanthropic lives of their communities. Through them, the brand is part of the social and economic fabric of the local community.

FRANCHISED AND COMPANY-OPERATED McDONALD'S RESTAURANTS



Another essential aspect of our business model is our close relationship with our major suppliers. We view them as part of the System, expecting them to share our values and commitments and to work with us on ongoing objectives and specific projects. These relationships are institutionalized in supplier councils – joint committees of supplier representatives and corporate staff experts that meet regularly to discuss issues of common interest. There are supplier councils for specific types of major products and also for general priorities like quality assurance and safety.

Freedom Within the Framework

As indicated on page 4, the McDonald's System is doubly decentralized. Most of our restaurants are operated by independent business people who have wide latitude to develop their own business plans. In addition, our corporate structure vests significant responsibilities in our local geographic business units.

Such decentralization poses certain challenges. While we need to allow ample flexibility at the local level and to respect the independence of our owner/operators, we also need to sustain a genuine system – all pursuing the same basic goals and adhering to the same core values, principles and standards. We need to act collectively and to share best practices.

We characterize our approach to balancing these imperatives as “freedom within the framework.” The framework is rooted in our values and provides common goals, principles and guidelines. Within the framework, local geographic business units and ultimately restaurant owner/operators and managers have the freedom – and the responsibility – to decide how they can best contribute toward our common goals and ensure adherence to our standards.

Implications for Corporate Responsibility

The business model also presents particular challenges for coordination and for reporting. Because management is decentralized, performance data outside the financial area are not, for the most part, compiled in standardized formats or routinely channeled up to a single source.

We are, however, moving toward a global measurement system – the Restaurant Operations Improvement Process (ROIP). This system will evaluate how effectively our restaurants, franchised and company-operated, are meeting our standards for quality, service, cleanliness, food safety and people. It thus includes criteria directly related to corporate responsibility. The aim of ROIP is to ensure that every time a customer visits one of our restaurants, anywhere in the world, he or she receives hot, fresh, good-tasting food, served accurately in a fast and friendly manner and a clean environment.

ROIP evaluations include both announced and unannounced onsite visits, and restaurants receive scores correlated to compliance with our standards. The results are computed electronically and reported back to the people responsible for the restaurants. They are used to identify opportunities for improvement and systemic issues and to drive accountability at all levels. ROIP was implemented in the U.S. and Canada during the first quarter of 2002 and will be rolled out globally, starting with our larger local business units, in the first quarter of 2005.

i For further discussions of ROIP, see pages 61, 70 and 82.

In our 2002 corporate responsibility report, we committed to work further on social responsibility-related metrics. We have made a concerted effort to include more data in this report and will continue to build on the foundations laid.

i For further discussion of metrics within the McDonald's System, see page 82.

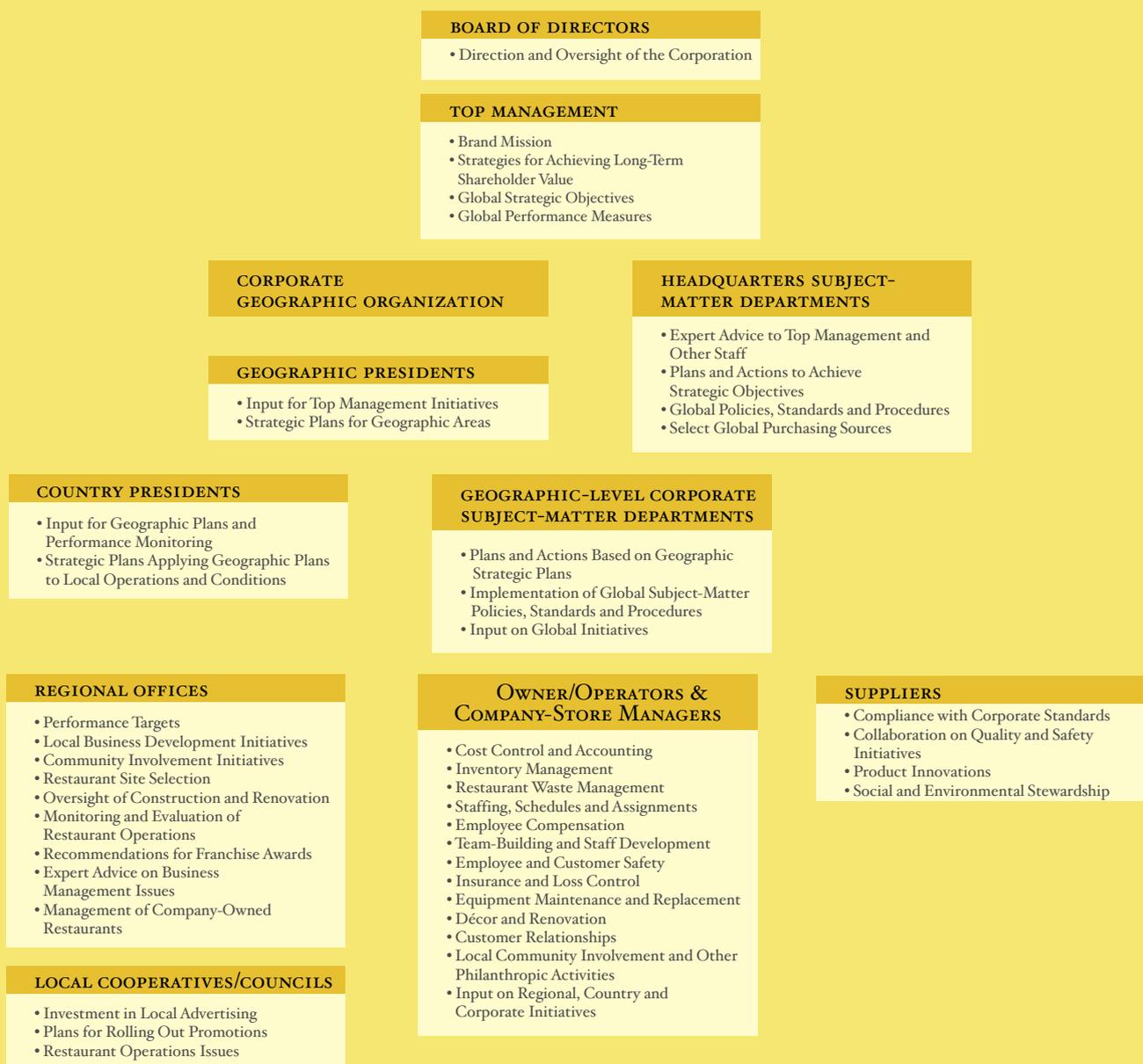
How the System Works

How entities in each part of the System add value to the whole depends in part on the subject-matter area. For example, supplier safety requirements emanate from a corporate headquarters department, whereas methods for raising restaurant staff safety awareness are determined at the local or restaurant level. The diagram on the following page presents a general overview of how the System works.

This diagram, though complex, does not do justice to the responsibilities of any of the entities represented or the interactions and collaborations involved in bringing our mission to life. Teams of staff experts from various departments are an important part of how the System works. As indicated above, we also work through joint committees of suppliers and staff. And owner/operator councils provide feedback on corporate policies and programs and ideas for new initiatives. In the U.S., we also benefit from the input of owner/operator diversity organizations – the National Black McDonald's Operators Association, the McDonald's Hispanic Owner/Operators Association, the Asian McDonald's Operators Association and the Women Operators Network.

As discussed below, independent expert advisory committees play a significant and growing role in our work on corporate responsibility issues. And we have worked through groups comprising industry, scientific expert and staff representatives – for example, in developing our global antibiotics policy.

HOW THE McDONALD'S SYSTEM WORKS



Stakeholder Engagement

As a local business involved in communities around the world and, at the same time, a global food retailer, we touch a wide variety of stakeholders in a wide variety of ways. Key stakeholder groups include our customers, our employees, our owner/operators, our suppliers and our shareholders. We also engage with certain non-governmental organizations (NGOs) that specialize in corporate responsibility issues, scientific researchers and practitioners in areas affected by our business, local community organizations and government policy-makers. We work in different ways to understand the views and priorities of these constituencies and to build ways of communicating with them.

Essentially, we seek to learn about stakeholders' interests, concerns and expectations for our business, to inform them about what we are doing and why and to gain feedback we can use as guidance. In some instances, we communicate to them or they to us. We issue a report like this. Stakeholders call or write to tell us what they think. In other instances, there is direct dialogue and negotiation or collaboration on some specific issue – the siting of a new restaurant, for example, or company sponsorship of a community program. In still other instances, we work with stakeholders on an ongoing basis to develop and assess priorities, policies and procedures. Our supplier councils, owner/operator leadership councils and owner/operator diversity organizations are all examples of such collaborations, as are the advisory councils discussed below.

McDONALD'S PROFILE

While we work to develop programs responsive to key stakeholder interests, we seek also to exercise leadership in our industry and to promote changes we cannot achieve alone. Thus, an important element of engagement for us is active involvement in our trade associations, voluntary self-regulatory organizations and other business and industry groups. We also work with producer trade associations, serve on government advisory committees and participate in a variety of consultations, conferences and workshops.

For example, in the U.S., McDonald's is represented on the Boards of Directors of the National Restaurant Association, the National Council of Chain Restaurants and the Children's Advertising Review Committee. In Europe, we were a founding member of the European

Modern Restaurant Association and serve on the board of the European Food and Information Council. We also serve on the Board of Directors of the International Franchising Association and the Executive Committee of the Worldwide Federation of Advertisers.

We have been a prime supporter of a cross-association collaboration to establish animal welfare standards and effective compliance mechanisms for the entire U.S. food retail industry. In Europe, we are a member of the Sustainable Agriculture Initiative Platform – a food industry coalition.

The following indicates some of our major approaches to consultation and communication, by stakeholder group. These are exemplary and not all System-wide.

STAKEHOLDER	APPROACH
Customers	Day-to-day contacts at the restaurant level Opportunities to initiate contact (toll-free numbers, e-mail facilities on websites) Focus groups
Employees	Staff meetings at work unit level, e.g., restaurant, corporate department Closed-circuit "town hall" meetings Intranet sites Employee satisfaction surveys Works councils and similar organizations
Owner/operators	Local or regional joint owner/operator and corporate cooperatives or councils Participation in owner/operator leadership council meetings Participation in meetings of owner/operator diversity organizations One-on-one consultations with owner/operator leadership Intranet sites Restaurant operations consultations and other one-on-one contacts
Suppliers	Direct contacts with supplier representatives Supplier council meetings Training workshops for suppliers Contacts with representatives of producer trade associations
Shareholders	Conference calls and webcasts Annual reports Proxy statements Shareholder meetings Corporate website Investor Relations Services Center Formal and informal meetings with investors and analysts
Local communities	Direct contact with community representatives
NGOs	Formal collaboration agreements One-on-one direct contacts Service on governing bodies and task forces
Scientific researchers & practitioners	Periodic advisory council meetings Direct contacts with advisory council members and other experts Participation in conferences, workshops and the like
Trade associations	Participation in meetings, conferences and task forces Service on Boards of Directors, issue working groups and the like
Government policy-makers	Issue-specific direct contacts Participation in government-sponsored workshops and consultations Participation in meetings of government advisory bodies

Advisory Councils

For certain major corporate responsibility issues, we have established advisory councils of independent experts. These councils meet periodically to provide scientific and technical guidance on appropriate priorities and approaches and feedback on our plans. Between meetings, we consult, as needed, with individual members. There are currently three such councils – the Animal Welfare Council,

the International Scientific Advisory Council for issues related to beef safety and the Global Advisory Council for Balanced Lifestyles.

Lists of members, with their professional qualifications, are available at

 <http://www.mcdonalds.com/corp/values/socialrespons/resrecog/btml>.

How McDonald's is Governed

Board of Directors

As a publicly-owned company, McDonald's is governed by a Board of Directors. There are currently 12 members, 11 of whom are independent members – that is, “free of any relationship with the Company or its management that may impair, or appear to impair, [their] ability to make independent judgments.” As a matter of policy, the only management member of the Board is the CEO.⁵

The Board's Governance Committee is responsible for setting criteria for Board membership, searching for and screening candidates to fill Board vacancies and recommending appropriate candidates for election. Shareholders may recommend candidates for the Committee's consideration and are so informed in the annual proxy statement. All members of the Committee are independent Directors.

Board Governance Principles

The Board operates under a set of governance principles. These cover such issues as the respective roles and responsibilities of the Board and corporate management, the composition of the Board, its functioning and the functioning of its committees, leadership development and performance evaluation, succession planning and shareholder communications. The governance principles and numerous other documents related to the Board's composition, responsibilities and functioning are available at

i <http://www.mcdonalds.com/corp/invest/gov.html>.

Oversight of Company Audits

A standing Audit Committee directly appoints the company's external auditors, oversees their performance and determines their independence from company management on an ongoing basis. It also reviews the overall scope and results of internal and independent audits, internal accounting and financial controls and the steps management has taken to monitor and control the company's major risk exposures. All members of the Committee are independent Directors.

Executive Compensation

On an annual basis, the Board's Compensation Committee evaluates the performance of the CEO in consultation with the other outside Directors and approves each element of his or her compensation package. The committee also approves senior management compensation and the compensation structure for all other officers. Compensation for the CEO and for the other most highly-compensated Executive Officers is published in the annual proxy statement, along with an explanation of the process for determining compensation. All members of the Committee are independent Directors. The company's 2004 proxy statement is available at

i http://www.mcdonalds.com/corp/invest/pub/2004_proxy.html.

Employee Code of Conduct

McDonald's approach to ethical business conduct reflects our governance philosophy and our relationships with our employees. We know that no set of rules can address every ethical issue that may arise or substitute for a personal commitment to doing the right thing. However, we also recognize the need to provide authoritative guidance.

Standards of Business Conduct

The core document for employee business ethics at McDonald's is our Standards of Business Conduct. These apply to all McDonald's employees worldwide.

The standards incorporate three basic principles of employee conduct:

- We accept personal accountability – not only for acting ethically, but also for preventing actions that could harm customers, the McDonald's System or its reputation.
- We communicate openly, listen for understanding and raise questions, even those that are difficult.
- We act in the best interest of the System – that is, the long-term benefit of McDonald's customers, owner-operators, employees and suppliers.

i Major areas covered by the Standards are summarized on page 5. The complete Standards of Business Conduct are available at http://www.mcdonalds.com/corp/invest/gov/standards_of_business.html.

Compliance Procedures

Under the Standards, employees are accountable for raising questions or issues and for reporting known violations. They may use a special toll-free Business Integrity Line for this purpose. Employees may report anonymously and are assured that no attempt will be made to identify them. Retaliation against an employee who raises a concern or asks a question in good faith is prohibited.

In 2003, a new edition of the Standards of Business Conduct was issued. As they receive the revision, employees are asked to sign and return a form certifying that they have read and agree to abide by the Standards. They are also required to complete an online training course in the Standards. Based on the translations initially available, copies of the Standards were distributed to all employees in the U.S., Canada, Mexico, Central America, South America, Spain, Portugal and the UK.

Drafts of 12 additional translations of the Standards have been completed. With these and the original English-language version, distribution to employees in 12 European countries is planned for 2004. 10 more translations are underway.

English-language summaries of the Standards of Business Conduct have been distributed to all U.S. owner/operators and suppliers to our U.S. restaurants. The distribution is to help the recipients identify potential violations and encourage them to report their concerns. The summaries have also been distributed to our international business units so that they may translate and distribute them locally.

⁵ The positions of Board Chairperson and CEO are currently separate. The Chairperson is an independent Director.

Oversight and Coordination of Corporate Responsibility

At the corporate level, various groups oversee and coordinate policies and programs related to our corporate responsibility commitments. These groups are also vehicles for ensuring consistent communications on global issues and for sharing best practices.

- *The Board of Directors' Corporate Responsibility Committee* acts in an advisory capacity to the company's management with respect to policies and strategies that affect the company's role as a socially responsible organization.
- *The Social Responsibility Steering Committee* is a core group of officers and senior staff representing a range of functions with significant ongoing involvement in our corporate responsibility-related efforts. The Committee oversees and advises on the company's social responsibility strategies and their implementation.
- *The Global Environmental Council* consists of staff experts from all McDonald's global geographic sectors and a number of disciplines. Its mission is to identify strategic global priorities, initiatives and projects related to the company's environmental stewardship and to advise and assist the System in learning, planning and making progress toward our environmental vision.
- *The Quality Assurance Board* consists of the quality assurance directors in each global geographic sector and senior-level supply chain and food safety specialists. The Board leads the development and execution of our worldwide food quality strategies, which include social responsibility in our food supply chains and in restaurant food handling operations.
- *The Global Communications Council* consists of officers and senior staff representing corporate communications and communications in our local and regional markets around the world. The Council has a role in crafting messages and in coordination.
- *The Corporate Social Responsibility Team* provides staff leadership, coordination and support for McDonald's global social responsibility policies and programs. It also has principal responsibility for corporate-level social responsibility reporting.

PRODUCTS

Balanced Lifestyles

More and more, people are thinking about what they eat and looking for ways to be physically active. While they may pursue their health-related goals in many different ways, our customers want choices – and the knowledge to make the decisions that work best for them.

Our responsibility is to recognize and respond to the important goal of enabling informed choice and supporting balanced lifestyles. To be effective, our responses need to address the realities of people's lives. That is why the majority of our actions are determined at the country and even the community level. We have developed a framework to guide our efforts across the McDonald's System. This framework consists of supporting the two halves of the energy balance equation – *menu choice* and *physical activity* – as well as a third element which is needed to empower choice – *information*.

Menu Choice

Responding to our customers’ menu choice needs begins with ensuring the quality and safety of the ingredients that go into all of our food products, so that our customers are comfortable fitting any of them into their personal eating styles. Providing menu choice also means respecting the individual and evolving needs of customers and offering a variety of products that can meet those needs, all within the framework of our business concept.

QUALITY

At the heart of our approach to menu choice is our consistent use of high-quality basic ingredients like potatoes, beef and fresh produce. Our product specifications carefully outline our ingredient standards. For example, our beef patty specification requires that hamburger patties be made from 100% beef, with no additives or fillers. We work only with suppliers who can consistently meet our quality standards. Many of these suppliers are brands that consumers know and purchase themselves.

i For further information about our food quality and safety standards, please see page 61-62.

PRODUCT VARIETY

Menu variety and choice are principles that run throughout our menu, from the types of sandwiches, sides and drinks we offer to the range of sizes they come in. Our restaurants typically serve several types of hamburgers, both fried and grilled chicken products, fish and, in many cases, a range of salads, fruits and additional sandwich choices.

Around the world, our product offerings vary beyond the core menu to meet local tastes. For example, McDonald’s restaurants in Japan serve a pork Teriyaki Burger, McDonald’s Germany offers the McRib sandwich and many McDonald’s restaurants in the Middle East serve the McArabia, which features two grilled chicken patties, lettuce, fresh onions, tomatoes and a garlic mayonnaise sauce on folded Arabic flatbread.

PORTION SIZES

At McDonald’s, a selection of portion sizes is an important part of our approach to overall menu choice, and we offer a number of different options. For example, each market offers a variety of hamburger choices of different sizes. Drinks and French fries also come in a variety of small to large sizes.

“Supersizing” is being phased out as a standard option across the McDonald’s System. For example, it has already been phased out in Canada and will be phased out in the U.S. by the end of 2004. Supersize drinks may be offered during specific, limited-time promotions.

We take particular care to ensure that portion sizes in our Happy Meals meet the unique nutritional needs of children. Happy Meals also provide nutrients that children need, such as protein, iron, zinc, calcium, vitamin C and others, depending on which Happy Meal combination is chosen.

HAPPY MEAL WITH CHICKEN McNUGGETS MADE WITH WHITE MEAT - McDONALD’S USA

(Option with Sprite and Option with 1% Low Fat Milk Jug)

Approximate contribution to a child’s recommended daily intake for:*

	Chicken McNuggets (4 pc) Small French fries, Sprite® (12 fl. oz. cup)	Chicken McNuggets (4 pc) Small French fries, 1% low fat Milk Jug (236 ml carton)
Calories	34%	33%
Fat	45%	50%
Saturated Fat	27%	37%
Cholesterol	8%	11%
Protein	64%	102%

*Calculations as of May 4, 2004, based on the average Estimated Energy Requirements (EER) for a six-year-old child with low activity level. Source: Dietary Reference Intakes, Institute of Medicine, 2001 – 2003.

While product variety is determined at the local business unit level, we have a System-wide goal of developing additional choices – particularly sandwich, side and drink alternatives for kids – to ensure that Happy Meals remain a choice both moms and kids feel good about.

Physical Activity

Physical activity is a critical component of the energy balance equation. More and more, our customers are interested in realistic and fun ways to incorporate fitness and exercise into their daily lives. McDonald’s recognizes an opportunity to contribute what we can to help people meet this need and be more physically active.

We have recently launched a global program called Go Active! The goal of this program is to coordinate and accelerate McDonald’s worldwide efforts to assist consumers in participating in more physical activity. The Go Active! program consists of several areas of focus:

• Continuing to support grassroots sports

In many countries, McDonald’s has a long-standing history of supporting grassroots sports. One of the primary ways in which McDonald’s restaurants give back to the local community is through the support of children’s sporting efforts. This support varies by restaurant and region, depending on the needs of the children and the community. The type of support McDonald’s restaurants’ provide ranges from supplying money, sports equipment and/or coaches to sponsoring community runs, skill development workshops and large-scale competitive tournaments.

• Promoting walking

In June 2003, McDonald’s announced the expansion of the successful “Step With It!”™ program, developed by The Coca-Cola Company in collaboration with the National Association for Sport and Physical Education (NASPE) and the President’s Challenge Physical Activity and Fitness Awards Program (a program of the President’s Council on Physical Fitness and Sports). Designed to encourage middle-school children and their families to incorporate physical fitness into their lives, the program features Stepometers™— small pedometers that track the number of

steps taken – and encourages participants to increase their daily walking to maintain good health. McDonald's approach is being implemented in the U.S. through McDonald's Go Active! Happy Meal for adults and in many countries in Europe as part of the region's Salads Plus program.

- *Helping kids “Get Moving with Ronald McDonald”*

Motivation is a key factor in helping people start and maintain physical activity as a regular part of their lives. “Get Moving with Ronald McDonald” is a 30-minute, fun-filled show that incorporates magic, music, dancing and games to get kids and families moving. The American Academy of Pediatrics provided technical review for the show, which can be performed at McDonald's restaurants, community events, summer camps and other appropriate venues around the world. The show debuted in the summer of 2003 and is being performed throughout the U.S., with plans for expanding globally during 2004.

- *www.goactive.com*

Goactive.com is a global website that McDonald's has developed in partnership with the International Olympic Committee. It is designed to inspire physical activity among consumers worldwide.



GO ACTIVE!
WEBSITE
The Go Active!
website, www.goactive.com, includes a variety of features designed to inspire physical activity worldwide.

It features a full resource library on fitness and physical activity provided by the internationally-recognized American College of Sports Medicine, high-profile athletes' stories and an interactive chat room that allows users to talk with fitness experts. The site also contains an innovative “virtual trainer program” that allows users to generate their own, personalized fitness programs based on their current health status, activity preferences and fitness goals. *Goactive.com* is available free of charge to web users. The site launched in April 2004 in the U.S., and will be available in multiple languages, including Spanish, German, French, Chinese, Japanese and Portuguese.

- *Olympic Games*

McDonald's has a long heritage of supporting the Olympic Games. Our relationship has grown since 1968, when McDonald's airlifted hamburgers to the U.S. team after they expressed a desire for McDonald's food. In 1998, McDonald's became a TOP (The Olympic Partnership program) global sponsor of the Olympic Games. Beginning in 2004, we will use our sponsorship of the

Olympic Games, as well as our relationships with the International Olympic Committee and Olympians around the world, to inspire physical fitness and activity among communities worldwide.

- *Olympic Day Run*

The International Olympic Committee fields an annual Olympic Day Run to commemorate the founding of the Olympic Movement and to promote fitness through sports worldwide. In addition to sponsoring the Olympic Games, McDonald's became the exclusive worldwide sponsor of this event in 2003. That year, more than 160 countries and two million people participated worldwide.

- *McDonald's Player Escort Program*

As sponsor of championship football (soccer) events such as FIFA World Cup™ and UEFA EURO™, McDonald's helps bring the inspiration of world-class sport to the global stage. At the 2002 FIFA World Cup™, the McDonald's Player Escort Program gave more than 1,400 children ages six through ten the opportunity to escort some of football's best and most popular athletes onto the pitch for each of the 64 FIFA World Cup™ matches. A similar program was put in place for the UEFA EURO™ 2004, with more than 650 children from 14 European nations participating.

Information and Education

Because relevant, useful, motivational information is the enabler that makes smart choices possible, it is a key part of our balanced lifestyles approach. We are working on ways to help customers access and use information about balanced eating and physical activity. Our current focus is on three vehicles – the Internet, trayliners and brochures. However, we are also implementing programs using other vehicles.

Communicating important information effectively – particularly to young people – is a key priority. Developing good habits during childhood pays dividends throughout life, so we are focused on using our ability to engage young people to help make communications efforts effective and appropriate.

WHAT'S ON YOUR PLATE NUTRITION SERIES

In 2003, McDonald's reintroduced the *What's on Your Plate* nutrition education program, first introduced in 1992. The program features Willie Munchright, a clay animation character who helps kids learn to make choices for balanced eating and a healthy lifestyle. The program consists of comprehensive classroom activity materials, including video segments and activity brochures. To help reinforce the nutrition messages, a series of 60-second *What's On Your Plate* vignettes began airing during children's programming in the U.S. in April 2003. Other countries, including New Zealand and the United Arab Emirates, are working to adapt and use the Willie Munchright program.

Further information about the program is available at <http://mcdonalds.com/usa/eat/willie.html>.

MARKETING AND COMMUNICATIONS STANDARDS

McDonald's has high standards and core business values and understands the importance of responsible marketing practices. Our advertising is designed to be clear, consistent and truthful. As a company, we strive to provide leadership in our marketing and communications efforts. While all of our customers are important, children are uniquely special to us. We take care to show our food, drinks and Happy Meals in the most accurate and truthful ways. We are mindful that the language we use and the messages we communicate must be appropriate for children, reflect our high standards and not condone violence or violation of the law. We involve Ronald McDonald to promote happiness, fun, self-esteem, wellness and active lifestyles. In this same spirit, we use discretion in selecting our spokespeople and partnerships for kids.

How We Work

While McDonald's has a long history of offering menu choice, supporting physical activity and providing information about our menu, our balanced lifestyles approach was formally articulated in 2003. Our intent was to accelerate and better coordinate our local and regional efforts to respond to growing customer interest in healthy lifestyles. While most of our balanced lifestyles efforts are developed and implemented at the local level, we provide guidance and direction from the corporate level to support implementation. This includes:

- A cross-functional balanced lifestyles team with representation from senior management and leadership of relevant departments from around the world. This team provides strategic direction and facilitates the sharing of best practices across the McDonald's System.
- A Global Director of Nutrition who serves as a resource and key point of contact for our global geographic business units. The Director also coordinates dialogue with many of our key external stakeholders, including government agencies, health professional organizations and consumers.
- A global network of nutrition consultants, including nutritionist teams in place in the U. S., Europe, Australia and Latin America.
- A 15-member Global Advisory Council on Balanced Lifestyles composed of outside experts in health, fitness and nutrition from around the world. The Council is charged with looking at trends related to balanced lifestyles and providing input and guidance to McDonald's based on members' subject matter expertise. The Council has encouraged McDonald's to consider initiatives that address:
 - Additional menu choices, including fruit and vegetable options.
 - Promoting physical activity.
 - Focusing on our employees.
 - Setting goals and working to measure the impact of our initiatives.
 - Supporting broader research in the areas of health and nutrition.

i A list of Global Advisory Council members, with their professional credentials, is available at http://www.mcdonalds.com/corp/values/socialrespons/resrecog/expert_advisorso/advisory_council_on.html.

Summary Reports On Balanced Lifestyles Activities Within Top 10 Markets

Within the global framework described earlier, McDonald's is working to support balanced lifestyles in different ways around the world, depending on the needs and opportunities present in local markets. The following capsules highlight some of the activities underway in each of the top 10 markets in our System. The information is current as of May 2004. All claims about a food product are in compliance with the regulations of the country in which the claims are made.



AUSTRALIA

Salads Plus Menu

In August 2003, McDonald's Australia launched Salads Plus, a new eight-item menu platform that includes a Chicken Foldover, Roast Chicken Salad, Berrynice Yogurt Crunch, Raspberry Muffin Lite, Orange and Poppysseed Muffin Lite, Vege Burger, Garden Mixed Salad and apples. The Salads Plus items all feature 10 grams of fat or less per serving. As part of its Salads Plus approach, McDonald's Australia also committed to provide nutrition labeling on packaging for these menu items. A Salads Plus nutrition brochure was produced and made available in restaurants. In mid-2004, the Salads Plus range will be extended to include a new lean beef burger and real fruit smoothie. Development of a Salads Plus breakfast range has commenced.

QuickStart Breakfast Menu

In November 2003, McDonald's Australia and Kellogg's joined forces to address a growing need by introducing a new breakfast menu called QuickStart. Research indicated that 43% of all Australians were skipping breakfast at least once a month, that as many as one in two people in their 20's skips breakfast at least a couple of times a week, and that one in four children goes to school hungry. The QuickStart menu includes a selection of Kellogg's cereals, Berri fruit juices, Nestle 99% fat-free yogurts and Goulburn Valley fruit snacks. A QuickStart nutrition brochure was made available in restaurants.

Happy Meal Choices

In February 2003, McDonald's Australia launched a new Happy Meal option available for breakfast and afternoon meals. The new option includes a toasted cheese and tomato sandwich, sultanas (raisins) and orange juice and contains fewer than 6 grams of fat per serving.

Dietitian Partnership

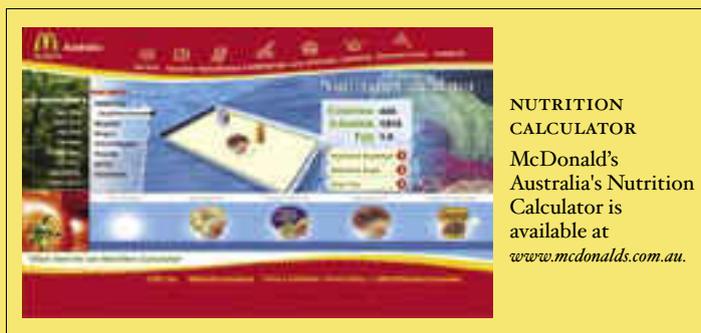
In September 2003, McDonald's Australia announced a partnership with The Food Group Australia, a team of accredited practicing dietitians (APDs) who provide advice to the food industry. The Food Group Australia will provide advice and recommendations to the company on childhood nutrition, development of alternative Happy Meals, the next generation of Salads Plus and ongoing communications with health professionals.

FitSmart Employee Fitness Program

In November 2003, McDonald's Australia announced a partnership with FitSmart, an online personal training service developed by a team of Australia's world champion athletes that provides fitness, diet, health and weight-loss advice. All 56,000 McDonald's Australia employees were given the opportunity to enroll for free access to tailor-made, 13-week diet and fitness regimes designed to suit their individual lifestyles. Participating crew members were given the opportunity to win private training sessions with Australian champions, tours to world-class events, valuable sporting memorabilia and other prizes.

Nutrition information

McDonald's Australia's web-based nutrition calculator allows users to drag menu items onto a tray and then displays nutrition information in table and graph formats. The site also provides information about the sources of key menu ingredients.



Open Doors Program

In July 2003, McDonald's Australia invited people across the country to visit their local McDonald's for a tour of the restaurant, from the dining room into the kitchen. This Open Doors Day was designed to offer customers a transparent look at what happens behind the counter at McDonald's and to provide an opportunity for them to ask questions about topics ranging from food preparation to the source of products to the training provided to restaurant staff.

- ❶ The McDonald's Australia nutrition calculator and other food-related information are available at www.mcdonalds.com.au.



New Menu Choices

New choices on the McDonald's Brazil menu include two meal-size salads – a mixed greens salad and a mixed greens salad topped with chicken – that replace salads introduced three years ago, a line of McFruit juices – 70% juice-based drinks in orange, grape, and passion fruit flavors – and two new chicken sandwiches.

Happy Meal Choice

Happy Meals offered by McDonald's Brazil feature the seal of the Sao Paulo State Pediatric Society, awarded for their nutritional content. Happy Meal choices include Chambinho, a cream cheese dessert that was introduced in the second half of 2002 and serves as a rich source of calcium. McFruit juices are also a Happy Meal choice.

Do The Ronald Program

During June 2003, McDonald's Brazil conducted a special program to weave together all three components of balanced living. The Do the Ronald program included:

- A Happy Meal containing a Petit Suisse yogurt-type dessert and a multimedia CD-ROM.
- A dance called "The Ronald Rock", which was taught on a website, CD-ROM, trayliners and dancing machines inside the restaurants.
- Live shows with Ronald McDonald and friends.

Supporting Grassroots Sports

McDonald's Brazil works at the local and regional levels to initiate and support grassroots sports and physical activity programs. For example, since 2002, the company has partnered with a local newspaper to organize one of the largest student competitions in Brazil, the InterMcDonald's. This event involves high school students from Rio de Janeiro in indoor soccer, basketball, volleyball, handball, swimming, judo and table tennis. More than 5,600 students from 131 schools participated in 2003. Since 2001, McDonald's Brazil has conducted a regional Learning in Motion program in Santos. In this program, physical education classes and sports are used as a means to strengthen children's bonds with their schools and their interest in other subjects in the curriculum. The program is now included as part of a public municipal policy for all nursery and primary schools. In 2004, it will be implemented in São José dos Campos and Sorocaba.

Website

In 2003, Brazil launched a new website that provides nutrition information for adults, adolescents and children. Developed by more than 20 professionals, the site offers four simulators:

- *McDonald's on a Tray* lets users drag menu items onto a tray and displays nutrition information as they build their meal.
- *Your Weight, Learn How to Control It* allows users to calculate Body Mass Index (BMI) and obtain information on adult obesity.
- *Move* calculates calories burned by adults and children doing various physical activities.
- *Check Children's Growth Curves* allows parents to check their children's growth curves based on four indicators – age, gender, height and weight.

The site also features a general nutrition table and a Happy Meal-specific nutrition table certified by the Sao Paulo State Pediatrics Society; a variety of articles on nutrition and physical activity for adults and kids; and a special section for health professionals.

Nutrition Guide

In May 2003, McDonald's Brazil launched its Nutrition Guide, offered free to customers in restaurants. The guide features detailed nutrition information on menu items; a table for customers to calculate protein, carbohydrate, fat, cholesterol, iron and calorie levels in their meals; and a "primer" of basic nutrition lessons. Approximately 2.3 million guides were produced and distributed during 2003.

- ❶ The McDonald's Brazil online tools and other information are available at www.mcdonalds.com.br and www.comendoeaprendendo.com.br.



CANADA

Corporate Award from the Canadian Institute of Child Health (CICH)

In November 2003, the Canadian Institute of Child Health honored McDonald's Canada for promoting health in Canadian youth. The CICH Corporate Award is given in recognition of sustained and broadly-based programs supporting the health and well-being of children and their families.

Industry Fitness & Nutrition Roundtable

McDonald's chairs the Canadian Restaurant and Foodservices Association's (CFRA) Fitness & Nutrition Roundtable.

Lighter Choices and Protein Platters

In June 2002, McDonald's Canada launched the Lighter Choices Menu consisting of products with significant reductions of calories or fat – and most often both. The menu includes the McVeggie Burger, the Whole Wheat Chicken McGrill with BBQ Sauce, the Fruit 'n Yogurt Parfait, Chicken Fajitas, as well as entrée and side salads. The company worked with a prominent Canadian nutritionist and leading Canadian companies like Yves Veggie Cuisine in the development of the menu.

In February 2004, McDonald's Canada announced the introduction of breakfast and lunch/dinner Protein Platters, each with fewer than six grams of carbohydrates. In-store displays provide customers with additional tips and suggestions on ways to modify their McDonald's meal to reduce levels of fat, calories and carbohydrates.

Happy Meal Choices

In April 2004, McDonald's launched Happy Meal Choices, offering customers more options to choose from when ordering their favorite Happy Meal. Happy Meal Choices offers customers four Happy Meals – hamburger, cheeseburger, white meat Chicken McNuggets or a grilled cheese sandwich – accompanied by a small-size French fry order, drink and a featured toy, with new expanded choices, including:

- A choice of 1% white milk, 1% chocolate milk, a 7 ounce serving of orange juice or apple juice, or a child-size (12 ounce) Strawberry Passion Awareness Fruitopia, ice tea or soft drink.
- An option of adding apple slices and caramel dip to any Happy Meal (an additional charge applies), or as a no-extra-charge substitution for French fries.

Nutrition Information

The *McDonald's Food Facts* brochure, which lists nutrition and ingredient information for McDonald's menu items, is available in restaurants throughout Canada. Nutrition information will also be displayed in poster format in front of the counter and included on the back of trayliners. It is also available at www.mcdonalds.ca, which includes a comprehensive Nutrition Calculator allowing customers to conduct analyses by selecting their own customized meal online before they visit the restaurant.

Ronald McDonald School Program

Ronald McDonald school shows bring Canadian school children fun and interactive messages on wellness, self-esteem and safety. In 2004, the McDonald's Canada Ronald program will roll out nationally with a renewed focus on nutrition, wellness and physical activity.

Concerned Children's Advertisers (CCA)

As a founding member of CCA, Canada's leading non-profit organization designed to encourage responsible advertising to Canadian children, McDonald's has been committed to promoting appropriate and educational advertising. Today, McDonald's is working with CCA to ensure that Canadian advertisers are focused on providing a reliable wellness program that concentrates on healthy eating, physical activity and media literacy education.

Grassroots Sports

McDonald's corporate and owner/operator contributions to local sports organizations in Canada, including soccer clubs, school fitness programs and local hockey teams, total approximately \$5 million per year.

Ronald McDonald Sports Activity Zone

The Ronald McDonald Sports Activity Zone is a mobile activity center that encourages children to come out, get active and have fun at local community events across the province of Ontario. In 2003, 15 festivals and fairs were served, reaching approximately 1.5 million people. McDonald's Canada will reinvest in this facility in 2004 as part of its broader balanced lifestyles program.

i Further information is available at www.mcdonalds.ca.



CHINA

Happy Meal Choice

In April 2004, McDonald's China added several choices to their Happy Meal offerings, including two new Happy Meal main course options – a cheese and egg sandwich on a steamed bun and potato and chicken Dino McNuggets – and a new drink option – milk.

Nutrition Information

McDonald's China provides nutrition information about menu products via nutrition leaflets in restaurants and on the McDonald's China website. The company will begin providing nutrition information on the back of trayliners in summer 2004.

The Marketing Store's Sports Gala 2004

Partnering with suppliers who share and support our goals is one of McDonald's approaches to issues. The Marketing Store, one of McDonald's Happy Meal toy suppliers in China, has developed a wellness program for its workforce. As part of this program, The Marketing Store held a large-scale gala in March 2004 to build awareness of the importance of health and wellness and provide an opportunity for fun, fitness, friendship and teamwork. Approximately 8,000 participants attended the event, including thousands from The Marketing Store's 14 factories across China, as well as area government officials and McDonald's representatives. The event featured a marching band show, track competitions, a cheerleading contest and an awards ceremony for individual and factory team winners.

Menu Choice, Physical Activity, Information and Education in McDonald's Hong Kong

New Menu Offerings

During 2003, McDonald's Hong Kong launched several new menu items to increase choice and variety for customers, including a Grilled Chicken Focaccia, and it re-launched the Happy Meal with a range of new side and drink choices. These include high-calcium strawberry fruit yogurt, high-calcium milk pudding sides, orange juice and high-calcium, low-fat chocolate milk. In early 2004, the Happy Meal menu was updated again with the addition of Fish McDippers – bite-size portions of fish fillet coated with bread crumbs – as a new main course choice. At the same time, fruit yogurt and pudding-flavor choices were changed to more popular mango and chocolate, all milk choices were converted to low-fat, high-calcium milk and a new drink was added – Qoo fruit drink.

In-Restaurant Nutrition Information

In McDonald's Hong Kong restaurants, trayliners feature nutrition information about standard menu items like hamburgers, French fries, shakes and apple pies. In addition, approximately 120,000 nutrition leaflets were made available in the restaurants.

Support for Physical Activity

McDonald's Hong Kong has been a sponsor of the Youth Football Scheme since 1998 and, in 2003, was a sponsor of the Olympic Day Run. The company also combined support for physical activity with another cause – raising money for Ronald McDonald House Charities. McDonald's Walker 2003 included 80 four-person teams of both staff and suppliers and covered a 25 kilometer route.

i Further information is available at www.mcdonalds.com.cn and www.mcdonalds.com.hk.



EUROPE - FRANCE, GERMANY, SPAIN,
UNITED KINGDOM

McDonald's Europe has developed a common approach to support balanced lifestyles and several shared activities for the region that take into account differing legislative environments and customer needs in Europe. This approach was developed by McDonald's European Nutrition Task Force, a multi-disciplinary team composed of McDonald's leadership from relevant departments that serves as a liaison between global and country-level balanced lifestyles plans. The following are among the key elements of McDonald's Europe's approach.

European Nutritionist Steering Group

McDonald's Europe works in very close collaboration with three top nutritionists from Germany, France and the UK, who form the McDonald's Europe Nutritionist Steering Group. This group acts as an independent, objective sounding board for McDonald's European strategies to support balanced lifestyles.

Salads Plus

In 2004, 16 countries in Europe are launching Salads Plus, a set of new menu options designed to enhance the choice and variety of products available to McDonald's customers. The Salads Plus offerings include two meal-size Premium Salads topped with grilled or crispy chicken, a mixed side salad, a pesto grilled chicken sandwich on olive and

sundried tomato ciabatta bread, a fruit and yogurt parfait with vanilla yogurt and an apple and grape fruit bag. The European Nutritionists Steering Group recognized the Salads Plus options as providing even more balanced lifestyle choices for McDonald's customers. For example, the group noted that it offers several items that contribute one or two portions of the recommended five portions of fruit and vegetables a day and three chicken items that are good sources of protein. A leaflet containing nutrition information about the Salads Plus menu has been developed and reviewed by the Nutritionist Steering Group and is being distributed in restaurants.

Media Smart®

McDonald's Europe has begun working with Media Smart®, a non-profit media literacy program that develops and provides in-school educational materials to teach children to think critically about advertising in the context of their daily lives. Media Smart® is a multi-sector collaboration between advertisers, media owners, government officials and academic experts. McDonald's Europe is partnering with Media Smart® in several countries, and broader participation is anticipated in 2005.

Employee Guide

McDonald's 6,000 plus restaurants in Europe employ more than 250,000 people who eat regularly at McDonald's. Employees are thus a large and important audience to reach with information that helps to promote balanced lifestyles. McDonald's Europe has worked with a team of external nutrition advisors to develop a balanced lifestyles employee guide. The guide includes tips for healthy lifestyles, detailed nutrition information on favorite McDonald's menu items and several daily menu suggestions showing how McDonald's can fit into a balanced diet and lifestyle. As part of the broader training program, pedometers will be distributed to all 250,000 McDonald's crew members across Europe.



In addition to the above pan-European approaches and initiatives, local business units within Europe are undertaking country-level initiatives to promote balanced lifestyles within their markets.



FRANCE

Quality Auditors Program

As part of the commitment to quality that lies at the heart of McDonald's balanced lifestyles activities, McDonald's France developed a program that allowed customers to "audit" each of five important product supply chains - beef, chicken, potatoes, wheat and salads. During May and June of 2003, a number of customers visited facilities associated with each supply chain. Testimonials from the customer auditors, itineraries and photos from the one-day visits are posted on McDonald's France's public website.

Happy Meal Choices

Among the Happy Meal choices offered by McDonald's France is a lower-sugar fruit compote dessert available in two different flavors that will be rotated during 2004.

Information and Education for Kids

Between June and December 2003, McDonald's France partnered with *Le Petit Quotidien*, a four-page daily newspaper for children ages seven to nine, to include a series of 12 announcements about health, balance and sports. Featuring Ronald McDonald, each announcement highlighted a specific topic, such as hydration, green vegetables and safety during sports, in an interactive way. Approximately 80,000 individual and school subscribers receive *Le Petit Quotidien* on a daily basis, and an additional four million copies a year are distributed to schools free of charge.

- 1 The customer audit reports and other information about McDonald's France's balanced lifestyles initiatives are available at www.mcdonalds.fr.



GERMANY

Happy Meal Choices

In January 2004, McDonald's Germany launched several new Happy Meal choices, including a Danone yogurt drink (Actimel) and organic milk.

Nutrition and Health Curriculum

In 2002, McDonald's Germany partnered with Dr. Petra Ambrosius to develop a school curriculum on basic nutrition for high school teachers. The curriculum covers topics such as food ingredients and production. Teachers can use these materials in classrooms and can arrange to visit a McDonald's restaurant with their classes. The company will also provide teaching materials on nutrition issues for elementary school teachers.

- 1 Further information is available at www.mcdonalds.de.



SPAIN

Happy Meal Choice

In 2003, McDonald's Spain began to offer customizable Happy Meals. Customers now create their own Happy Meal by choosing one of four main course choices, two of nine side and beverage choices and one of four optional additional desserts. Among these choices are a fat-free yogurt-based dessert, milk and a child-size bottled water.

Information and Education

In 2001, McDonald's Spain worked with nutritionists, pediatricians and experts in nutrition education to develop a book called *100 Questions on Children's Nutrition*. The book covers topics such as a balanced diet for children, nutrition for sports, nutrition at school and common questions about fast food. It was distributed to pediatricians, consumer organizations, opinion leaders and local schools. In 2002, content was incorporated into inserts that were provided, free-of-charge, with a leading parents magazine.

Leaflets on nutrition, food safety and food quality are made available in McDonald's restaurants across Spain. The nutrition leaflets provide information for children, diabetics and people with gluten intolerance. Food safety and quality leaflets offer information about ingredients and suppliers. In addition, restaurants display a nutrition poster with key nutrition data on menu items.

- 1 Further information about Spain's balanced lifestyles initiatives is available at www.mcdonalds.es.



UNITED KINGDOM

Happy Meal Choices

In 2003, McDonald's UK broadened its Happy Meal menu choices to include semi-skimmed organic milk and fruit bags. More than 10 million fruit bags were sold in the first 12 months. McDonald's UK also offers Fruit Shoots – non-carbonated no-added-sugar drinks available in apple and blackcurrant flavors. These made up 17% of all Happy Meal drink sales in 2003.

Information and Education

McDonald's UK offers customers a variety of sources of information about its menu and balanced lifestyles, including a website with an interactive Nutrition Counter, a printable *Our Food* brochure that provides nutrition, ingredient and allergen information for McDonald's menu items and a customer service team available to answer questions about the nutrition content of food and food allergens and intolerances. *Our Food* is also available in McDonald's UK restaurants.

McDonald's UK has also worked with noted nutritionist and author Anita Bean to develop a *Five a Day* brochure. This colorful foldout brochure provides parents with tips for helping kids get five daily servings of fruits and vegetables.

Community Football Programs

McDonald's Community Football Programme, in partnership with the four UK National Football Associations, will train and deploy 10,000 coaches by 2006 to develop and expand community football (soccer) throughout the UK. The investment will make possible an extra 1.3 million hours of qualified football coaching for youth across the UK. In addition, McDonald's sponsors the Rushden & Diamonds Football Club's Youth Cup, a football competition for 500 youth teams across the country.

- 1 Further information about the McDonald's UK Community football programme and other balanced lifestyles initiatives is available at www.mcdonalds.co.uk.



JAPAN

Menu Choices

In 2002, McDonald's Japan offered customers four different side items to choose from when ordering Extra Value Meals – a medium French fries order, a five-piece Chicken McNuggets order, hotcakes (pancakes) and a garden salad. In March 2004, the company added Fish McDippers.

Happy Meal Choice

McDonald's Japan offers both breakfast and lunch/dinner Happy Meals. Customers have a choice of four main dish choices at breakfast, including petite pancakes, and seven main dish choices at lunch/dinner, including a four-piece Fish McDippers. Happy Meal beverage choices include 100% orange juice, 100% apple juice, a 50% fruit – 50% vegetable juice blend, oolong tea (which accounts for over 60% of beverage choices), milk and carbonated beverages.

Nutrition Information

Recognizing that Japan has one of the highest penetrations of web-enabled cell phones, McDonald's Japan has developed special websites to allow cell phone users to access nutrition and allergen information about menu items any time and anywhere. Trayliners with nutrition information will become available in restaurants in summer 2004. McDonald's Japan also features menu item nutrition and allergy information on its website.

All Japan Rubber Baseball Tournament

Since 1986, McDonald's Japan has sponsored the All-Japan Rubber Baseball Tournament. In 2003, approximately 15,000 teams – 380,000 grade-school youth – competed in local tournaments. McDonald's restaurants offer celebration receptions to local championship teams, and the national championship team has been invited to the McDonald's Friendship Baseball competition held in Guam.

i Further information is available at www.mcdonalds.co.jp.



USA

Premium Salads

In March 2003, McDonald's USA introduced three meal-size Premium Salads topped with grilled or crispy chicken breast paired with Newman's Own® dressings. A side salad is also offered. A fourth Premium Salad topped with seasoned beef, cheddar jack cheese and tortilla strips was launched nationally in May 2004, and the company continues to test further expansion of the salad line.

Each Premium Salad provides two servings of vegetables, and the side salad provides one serving of vegetables, based on the serving size defined by the U.S. Department of Agriculture's Food Guide Pyramid. In 2003, McDonald's USA sold approximately 150 million Premium Salads.



PREMIUM SALADS

McDonald's USA offers a variety of meal-size salads topped with a choice of Newman's Own® dressings.

Go Active! Happy Meal for Adults

In September 2003, McDonald's began testing the Go Active! Happy Meal for adults, which contained a Stepometer™, a Step with It!™ booklet developed by noted exercise physiologist, personal trainer to Oprah Winfrey and best-selling author Bob Greene, a McDonald's Premium Salad and bottled water or a soft drink. The Go Active! Happy Meal for adults launched nationally in May 2004.

Bob Greene Partnership

McDonald's USA is also partnering with Bob Greene to bring his expertise about health and fitness to a range of educational materials available in McDonald's restaurants and to internal and external events.

- In 2003, the Bob Greene Trayliner – featuring Greene's "Tips for Leading an Active Lifestyle," a quiz on balanced lifestyles and abbreviated nutrition information for key McDonald's menu items – was featured nationwide, reaching millions of customers each day.
- McDonald's Go Active! American Challenge

In Spring 2004, Greene walked and biked from Los Angeles to Washington, DC to promote McDonald's balanced lifestyles initiatives and to encourage Americans to lead active lives.

Other Menu Choices

McDonald's USA also offers a Chicken McGrill sandwich, Fruit 'n Yogurt Parfaits, 100% orange juice, 1% low-fat milk and, at many restaurants, soup. The Made For You cooking system allows customers to special order menu items to help meet their nutritional needs. In November 2003, McDonald's introduced new Chicken McNuggets made with white meat. By the end of 2004, all McDonald's restaurants in the U.S. will have a national core menu in place that simplifies restaurant operations and provides a balance of choices for customers. This core menu simplification includes the phase-out of the Super Size fry and drink options.

New Happy Meal Choices

McDonald's USA successfully tested a series of new menu choices that will be available in Happy Meals. They will be launched nationally during summer 2004, and include:

- 1% low-fat milk in regular and chocolate flavors.
- 100% pure apple juice.
- Apple Dippers (sliced apples served with a low-fat caramel dip). Each order of Apple Dippers contains one serving of the recommended daily intake of fruit.

Nutrition Website

The McDonald's USA Food & Nutrition website helps to educate consumers about the nutrition content of McDonald's menu items and plan menu choices that fit their needs. Registered dietitians helped develop and continue to manage the site. Site features include:

- *Bag a McMeal*, which lets customers get nutrition facts on a meal of their choice.
- *Customize a Menu Item*, which allows customers to recalculate the nutrition information of menu items based on personal changes they specify, such as leaving off mayonnaise.
- Printable nutrition tip sheets that cover topics such as how to cut calories, fat and carbohydrates at McDonald's, as well as meal choices for people with diabetes.
- McDonald's meal suggestions, Happy Meal nutrition values, Health Topics and frequently asked questions about nutrition.

Nutrition Information in the Restaurant

McDonald's USA offers a variety of nutrition materials about its menu. These include McDonald's & You brochures, wallet cards that show nutrient breakdowns and food exchanges, menu information for people with food allergies and sensitivities and nutrition fact sheets on topics such as how to cut calories, carbohydrates or fat at McDonald's and choices for people with diabetes. In 2004, trayliners will feature nutrition information for many McDonald's menu items and quick tips for achieving balanced lifestyles.

McDonald's All-American High School Basketball Game

McDonald's inaugurated this premier high school basketball classic 27 years ago to recognize exceptional student athletes around the country for accomplishments both on and off the basketball court. In 2004, 2,500 top male and female high school basketball players were nominated and 48 final team members selected. The program raises funds for Ronald McDonald House Charities. More than \$3 million has been raised since the game was first played in 1978.

i Further information is available at www.mcdonalds.com/usa.

PRODUCTS

Responsible Purchasing

McDonald's Supply Chain Management teams play a central role in helping to meet our overall business goals, as they oversee identification, purchasing, and delivery of high-quality food products to McDonald's restaurants around the world. Three strategic priorities help focus these efforts: food quality, providing competitive value and social responsibility.

We believe that creating and maintaining a socially responsible food supply chain both is the right thing to do and supports McDonald's business goal of pleasing every customer every time they visit our restaurants. Specifically, we believe a socially responsible food supply chain delivers core business benefits which include:

- Guaranteeing the long-term supply of the high-quality products we require.
- Maintaining our competitive advantage by helping to uncover new areas of opportunity and highlighting potential problem areas.
- Proactively managing issues to facilitate practical, collaborative, long-term solutions, rather than having to respond to issues that have already escalated.
- Allowing McDonald's to be aware of and responsive to broader societal trends, needs and expectations.

Development of Our Social Responsibility Approach

During the 1990s, McDonald's social accountability and animal welfare programs were developed and incrementally established as critical components of our supply chain approach. And a detailed plan was developed with Environmental Defense – a leading non-governmental environmental organization – to reduce our waste impacts. This resulted in a Waste Reduction Action Plan and 42 initiatives to reduce, reuse and recycle. It was a U.S.-based plan, but many of the changes migrated to our international markets.

Toward the end of the 1990s, we began to see the need to develop a more strategic framework capable of guiding our future social and environmental activities. We have partnered with Conservation International (CI) and The Natural Step (TNS) to assist us and our suppliers in this endeavor.

Partnering with the Center for Environmental Leadership in Business (CELB), a Division of Conservation International

In 2001, we expanded our partnership with CI's CELB to include the development of environmentally and socially responsible food sourcing guidelines for agriculture and fish products.

We began this work with CELB by conducting a review and assessment of environmental issues associated with the production and processing of key agricultural commodities used in McDonald's supply chain. With this assessment, we jointly identified priority areas for our initiative.

Learning from The Natural Step

Paralleling our work with CI, we partnered with TNS to learn about general principles of sustainability, with a particular focus on applications for our supply chain system.

McDonald's roots with TNS go back to the early 90's in Sweden, when McDonald's Sweden adopted the organization's "system conditions for sustainability" and began to train its people and adopt its business practices to meet them. In 2000, we began to work primarily with TNS USA on a vision and framework for our sustainability efforts. TNS conducted training for our senior supply chain leadership, helping us develop the vision and principles that now guide our work. In addition, in 2002, TNS completed a McDonald's sustainability analysis, much of which addresses key supply chain impacts and measures we can take to reduce them. We introduced our strategic approach to sustainability to our suppliers in April 2002.

Socially Responsible Food Supply Vision

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

Socially Responsible Food Supply Principles

Six principles guide the way in which we will work with our suppliers to achieve a socially responsible food supply:

1. *Systems-based approach.* We understand that we both rely on and impact the functioning of interrelated ecological, social and economic systems. As a framework for analysis and action, we have established the following goals, which were developed with the assistance of TNS based on their "system conditions for sustainability." Together with our suppliers, we will strive to:
 - Minimize the removal of materials from the earth's crust that cause harm if allowed to accumulate in the environment.
 - Reduce the disbursement of dangerous and persistent substances.
 - Reduce our contribution to physically degrading the earth.
 - Help meet human needs in our society.
2. *Long-term view.* Our commitment and effort are long-term. We recognize this is a journey involving short- and long-term actions, opportunities and benefits.
3. *Global perspectives, local actions.* Our restaurants source most of their ingredients locally, so we must consider issues in many different parts of the world, as well as those that transcend national borders. We will use this global perspective to develop and implement approaches that meet local needs and generate on-the-ground results.
4. *Based in science.* We will always seek the highest level of scientific understanding possible and will use outside expertise to assist us – including scientists, non-governmental organizations, academics and industry leaders.
5. *Partnership.* We will work with our supplier partners to integrate these principles as a critical part of our business strategy and to allow for flexibility in meeting these goals. We will work with our suppliers to monitor and track progress and will evaluate and reward positive performance. Understanding that McDonald's cannot make a significant, lasting impact on the health of agricultural systems by acting alone, we will work with others in the food service industry to find common approaches to sustainable agriculture.
6. *Balance.* We believe that a socially responsible food supply can be a business strategy that enhances our brand over the long term. We are aware that we must remain competitive in the marketplace to realize our goals.

Socially Responsible Food Supply Guidelines

We have developed guidelines that provide us and our suppliers with a common and more detailed framework for understanding the components of socially responsible food production. The guidelines draw from a variety of sources, including government agriculture and conservation agencies, research and non-profit organizations, private sector initiatives and leading universities.

We will use the guidelines as the long-term basis for guiding and prioritizing our actions. In the social and animal welfare areas, the guidelines offer high-level direction and refer to the more specific frameworks already established in our social accountability and animal welfare programs. Because we did not yet have a similar framework for the environmental area, the environmental guidelines provide an additional level of detail, outlining the key natural resources and impacts on which a responsible food supply system should focus.

In order to provide a long-term strategic framework, the guidelines

are designed to be broad enough to be relevant to a variety of commodities and to each of the phases of the supply chain, from farm through processing. Rather than prescribing specific practices, each guideline provides high-level direction by describing desired outcomes. This provides suppliers with the flexibility to use their creativity and technical expertise to identify ways of achieving outcomes that are most efficient and reflect differing geographic conditions.

We will work in a variety of ways to encourage suppliers' progress in implementing the guidelines. We already have established programs in the areas of supplier social accountability and animal welfare and will continue these. We are beginning to develop a similar approach for the environmental area, focusing on the four guidelines most relevant to the processing stage of the food supply chain that our direct suppliers oversee – water, air, energy and waste.

SOCIALLY RESPONSIBLE FOOD SUPPLY GUIDELINES



SOCIAL

- 1. Employee health and welfare.** Socially responsible food supply systems aim to provide for the present without threatening the ability of resources to support future generations and, as such, have people at their core. Agriculture and food systems should protect the health and welfare of employees and contribute to the development of the communities within which they operate. McDonald's Code of Conduct for Suppliers and supplier social accountability program further define our understanding of and expectations for a supply system that upholds the belief that employees deserve to be treated with dignity and respect.
- 2. Economic profitability.** Economic profitability is as important to agricultural production systems as healthy ecosystems and communities. By increasing resource use efficiency and harnessing the benefits of ecological services for agricultural and food production systems, suppliers can increase economic profitability while contributing to both environmental conservation and economic development.

ENVIRONMENTAL

- 3. Water.** Water is a fundamental input to agriculture, food processing and transport. Agriculture and food production systems should reduce withdrawal of ground and surface water by maximizing water use efficiencies and eliminate the release of wastes and by-products into the environment via water.
- 4. Air.** Clean air is vital to the health of all living things. Agriculture and food processing industries can have both positive and negative impacts on air quality. Agricultural systems should use practices that minimize the release of harmful by-products into the atmosphere.
- 5. Energy.** Although sunlight constitutes the most important energy requirement of agricultural systems, other energy sources are required for production, irrigation, harvest, transport and processing of agricultural and food products. Production systems should maximize energy use efficiency and use ecologically sustainable renewable sources wherever possible.
- 6. Waste.** Most agricultural and food production systems produce solid waste. Waste increases production costs, leads to increased demand for renewable inputs that can exceed their rate of replenishment and creates environmental problems if not treated and disposed of properly. Food and agricultural systems should minimize waste production, maximize recycling and ensure proper handling and disposal of solid waste.
- 7. Soil.** Soil is the living foundation on which the food and agriculture industry is built. Soil maintenance and regeneration are vital to long-term agricultural production. Agricultural systems should maintain soil health by controlling erosion and improving the soil's structure and fertility to ensure stability and productivity.
- 8. Biodiversity.** Biodiversity is the sum of all life on Earth. Through complex interrelationships of species and their habitats, biodiversity provides vital ecological services such as pollination, flood control, climate regulation and pest management. Food and agricultural production systems should protect native species and biodiversity by preserving natural habitats.
- 9. Pest Management.** Pests and disease pose constant threats to agriculture and food production. Agriculture systems should manage these threats to optimize production over the long term while minimizing the use of chemicals and other inputs that impact human health, wildlife and environmental quality.

ANIMAL WELFARE

- 10. Animal welfare.** Humane treatment of animals is consistent with the basic tenets of socially responsible agriculture. Livestock systems should seek to ensure that each animal's needs for food, water and space, as well as other physiological, behavioral and hygiene needs, are met consistently. McDonald's Animal Welfare Guiding Principles and program further define the elements of a supply system that protects animal welfare.

How Our Supply Chain Works

Purchasing at McDonald's is conducted by country purchasing managers who make procurement decisions and implement supply chain programs and policies. They work closely with their local suppliers, sourcing most food products from within their countries or regions. McDonald's Supply Leadership Board, which has members from each of the four geographic sectors by which we manage the System, is responsible for overseeing McDonald's strategic sourcing activities and objectives. Our Worldwide Supply Chain team supports country-level purchasing, overseeing global policies and standards and providing training and guidance. Together, all these individuals and groups share responsibility for meeting our supply chain strategic priorities.

Our social responsibility approach within supply chain is determined at a high level by our Quality Assurance Board, which establishes objectives and seeks the input of suppliers, industry leaders, government agencies, non-governmental organizations and academics. This group works with country purchasing management to implement policies and programs. The Supplier Quality Index – a tool used by many country purchasing managers and suppliers on a regular basis to help evaluate performance in key areas – contains a section devoted to social responsibility.

Working on Systemic Issues through Partnership

Partnering with others in the food industry is critically important to finding solutions to systemic issues and allows for the sharing of lessons and best practices. We are committed to collaboration and industry leadership and encourage such leadership from our suppliers as well. We have participated in industry initiatives in the areas of animal welfare and supplier social accountability, and we recently became a founding member of CI's Business & Biodiversity Council (BBC), a community of companies committed to leveraging their business experience and resources to conserve biodiversity.

i Further information on BBC is available at www.celb.org/xp/CELB/strategies/business_biodiversity.xml.

McDonald's has also joined a number of our suppliers as a member of the Sustainable Agriculture Initiative (SAI), a group of companies dedicated to developing and pilot-testing approaches to sustainable agriculture.

i For information about SAI, please visit www.saiplatform.org.

Responsible Purchasing: Social

Supplier Social Accountability

McDonald's believes that employees deserve to be treated with dignity and respect in each and every aspect of the employment relationship. We strongly believe that our suppliers should follow the same philosophy. We also believe we have an opportunity to use our relationships with suppliers as a positive force in the world.

To institutionalize these beliefs and put them into action, we have established a Code of Conduct for Suppliers and a supplier social accountability program. The Code and our program apply to our direct suppliers and their subcontractors' facilities where there is a significant McDonald's presence.

CODE OF CONDUCT FOR SUPPLIERS

McDonald's has had a Code of Conduct for Suppliers since 1993. It has undergone several revisions, the most recent in 1997. The Code establishes both substantive and procedural expectations for our suppliers, including a responsibility for ensuring that their subcontractors comply with the policy in their treatment of employees who work on product for McDonald's use. Key provisions of the Code:

- Require compliance with all applicable national and local legal requirements, customs and published industry standards pertaining to employment and manufacturing.
- Prohibit use of prison or forced labor and of child labor.
- Require that workers have established daily and weekly work schedules, adequate time off and fair compensation.
- Prohibit discrimination, physical and sexual harassment, and abuse.
- Outline standards for safe and healthy working environments and, when provided, living environments.
- Require that employees be effectively notified of the terms and conditions of employment set forth in the Code.

The Code requires that suppliers have management-level staff responsible for monitoring compliance with the Code in their facilities and the facilities of their subcontractors that work on products for McDonald's. There must be at least one internal compliance assessment annually, and the internal assessments will be periodically verified by external monitoring reviews.

i The Code of Conduct for Suppliers is available at <http://www.mcdonalds.com/corp/values/socialrespons/market/accountability.html>.

SOCIAL ACCOUNTABILITY PHILOSOPHY

Although violations of the Code may result in contract termination, our social accountability philosophy focuses instead on remediation and continuous improvement. Thus, we require our suppliers to create programs that will identify and correct unacceptable conditions in their facilities, while continually seeking to evaluate and improve their programs.

We insist that our suppliers identify and address challenges in a responsible manner and strive for solutions that meet the legitimate needs and expectations of all stakeholders – the supplier's affected employees, the supplier itself, our customers and our shareholders.

We emphasize remediation because our ultimate goal is improved

conditions for employees. Terminating contracts would put many employees out of work and do nothing beneficial for those who remain.

Because we view social accountability as an ongoing process, we continually challenge our suppliers to identify new ways to protect the health, safety and human rights of their employees. We believe that self-generated programs, born of an understanding of the issues and a commitment to basic principles, are the most sustainable.

SUPPLIER SOCIAL ACCOUNTABILITY PROGRAM

We initiated our supplier social accountability program in 1998 by focusing on our Happy Meal toy suppliers in China. The aim was not to confine the program to a specific industry or region, but rather to develop a process that could be effectively implemented in other regions and industries. Over the next few years, the program underwent several rounds of review and improvement based on our experience with onsite assessments, supplier feedback and the experience of other companies, trade associations and non-profit organizations. In 2001, we felt we were ready to expand the program beyond its pilot scope.

Compliance Agreements

As a first step, we redistributed the Code of Conduct to all current suppliers, with a request for a signature denoting their agreement to comply. Because the worldwide supply chain is continually evolving, this is an ongoing process. To date, we have received more than 3,000 signed agreements.

Supplier Training

Because we seek to encourage voluntary continuous improvement, social accountability training for suppliers has, from the outset, been a key element of our program. We provide in-depth training about our expectations and the assessment process using a wide range of techniques, including lectures, workshops, dialogue sessions, exercises, tests and question-and-answer sessions. The intensity and openness of the process are designed to help suppliers gain a true understanding of compliance issues and to encourage them to identify elements in their systems that will promote sustainable practices.

In 2003, our social accountability training program reached 1,137 suppliers from 70 countries in all McDonald's global geographic sectors. In all, more than 2,200 supplier representatives were trained.

SUPPLIERS WITH REPRESENTATIVES TRAINED: 2003 – 2004 (PLANNED)

	2003	2004 (Planned)
Asia Pacific/Middle East/Africa	394	554
Europe	235	514
Latin America	313	205
North America	195	208
Total	1,137	1,481

Facility Assessments

As noted above, suppliers are required to conduct at least one internal monitoring review each year. Our program also includes onsite assessments conducted by external monitoring firms retained by McDonald's. The firms we currently use are Intertek and Bureau

Veritas, both recognized internationally for expertise in this area. Except in unusual circumstances, onsite assessments follow training.

We notify suppliers of upcoming assessments so that their managers can be prepared for the onsite review of their hiring, employment and workplace practices. However, our Code expressly includes the option of unannounced reviews. Refusal to allow unannounced reviews may be cause for immediate contract termination.

The facility assessment process generally begins with a pre-visit phase where facility managers compile and submit specified records, which the monitors then review to familiarize themselves with the plant's basic operations. Onsite monitoring visits are conducted by teams of two to three reviewers. They review additional records, examine facility conditions, conduct private interviews with employees, meet with managers and then submit a fact-based report to McDonald's. The usual timeframe for submitting reports is within seven business days of a visit, but reports are due within 24 hours if serious compliance issues are involved.

FACILITIES ASSESSMENTS: 2003 – 2004 (PLANNED)		
	2003	2004 (Planned)
Asia Pacific/Middle East/Africa	161	650
Europe	39	350
Latin America	33	150
North America	76	400
Total	372	1,550

Enhancements Achieved

As the assessment process identifies opportunities, we work with our primary suppliers and their subcontractors to develop enhancement plans, using findings from the monitors' reports. These enhancement plans are the heart of our program because they are the supplier's vehicle for remediation and continuous improvement.

Enhancement plans have produced a wide range of improvements in working and living conditions at facilities that supply the McDonald's System, including:

- Procedures to ensure that:
 - All workers have valid employment contracts and understand their terms of employment.
 - Worker benefits are provided as required by law and our Code.
- Physical improvements in the workplace, such as:
 - Upgraded lighting, air quality and noise-reduction systems.
 - Safeguards for machinery and removal of potentially hazardous equipment.
 - Upgraded employee facilities and better access to drinking water.
- Other provisions for worker safety, such as:
 - Provisions for segregating and ensuring safe handling of toxic materials.
 - Personal protective equipment.
 - Requirements that equipment operators receive appropriate training and certification.
- Improved employee access to adequate health care.

Suppliers' enhancement plans have also created significant improvements in management systems to ensure ongoing

compliance, such as facility risk assessments, upgraded facilities maintenance schedules and provisions for monitoring relevant changes in laws and regulations and making appropriate modifications.

STAKEHOLDER ENGAGEMENT ON SOCIAL ACCOUNTABILITY

Suppliers

From the outset, we have engaged suppliers in the development of our supplier social accountability program. Through meetings, workshops and collaboration on enhancement plans, we have sought not only to inform suppliers, but also to learn about the practical issues they face and how to make the program more relevant to them. We also continuously enrich our training sessions with case studies and best practices learned from suppliers.

Non-Governmental Organizations

Certain labor rights organizations have focused considerable attention on conditions in some facilities that produce promotional items for McDonald's. We have reached out to these organizations and others who show interest in the issues. The effort has resulted in productive dialogue. Based on these discussions, we have enhanced our reviews of worker protections, developed approaches to evaluating health care delivery and strengthened emphasis on multiple approaches to employee involvement in facility operations.

Shareholders and Other Stakeholders

During the course of developing our social accountability approach, we have begun ongoing dialogues with a core group of stakeholders, including socially responsible investment firms, faith-based organizations and individuals involved in workers' rights issues. Their insights have helped us improve our assessment methods and our reporting, and have also enhanced our ability to benchmark on a continuous basis.

GOING BEYOND MONITORING COMPLIANCE

The requirements of McDonald's Code of Conduct for Suppliers as incorporated in the Supplier Quality Index state not only our expectations of compliance but also our expectation that suppliers act in responsible ways that demonstrate leadership. This type of leadership requires a daily focus on improving workplace conditions and caring for the welfare of workers.

Currently, our social accountability program uses external monitors to periodically monitor operational practices against defined standards. Such point-in-time assessment provides assurance of Code compliance and identifies the need for supplier improvements. The program also requires that suppliers engage in McDonald's-sponsored training and educate their employees on how to provide ongoing assurance of compliance. It uses the latest techniques for assessment and supplier engagement to ensure compliance in each of the geographic sectors where we operate.

Recognition of the dynamic nature of operations and the need to address issues as they arise has led us to work with key suppliers and external organizations on a pilot to test the use of in-factory dynamic controls, periodic factory assessments and regular reporting. Our aim is to help suppliers go beyond simply passing periodic compliance audits. We want also to help them develop the capabilities to address improvement opportunities as they occur and to actively manage their operations so they can provide regular assurance of their social

accountability. We are working with experts and key suppliers to develop better ways of using external resources to help suppliers focus on continuous improvement. This work with our suppliers is intended to develop dynamic systems of improvement that will provide the framework for sustained Code compliance over time. The project also aims for replicability, so that supplier systems can be implemented in multiple countries and across multiple product lines.

“McDonald’s has made significant strides to incorporate social responsibility into their global operations. It focuses on training its suppliers on Code of Conduct compliance across a range of important issues including health and safety, labor rights and the environment.”

- Reverend David M. Schilling, Director, Global Corporate Accountability Program, Interfaith Center on Corporate Responsibility

i For more information about McDonald's Supplier Social Accountability Program, please visit <http://www.mcdonalds.com/corp/values/socialrespons/market/accountability.html>.

Food Quality And Safety

Our responsibility to our customers and our success as a business depend on ensuring that our high standards of food quality and safety are met consistently. We provide leadership in the areas of food quality and safety through vigilance, ongoing research and innovation, dialogue with experts and support for improvement and innovation throughout the food industry. Our approach to food quality and safety is global and extends from the farm to the front counter. We collaborate with industry associations and with food and health regulatory agencies, sharing best practices and learning from their research while actively supporting strong, science-based food safety regulation.

PROVIDING HIGH-QUALITY FOOD PRODUCTS

We work to ensure the high quality of our food products in a number of ways:

- **Menu Standards and Product Specifications.** We establish standards for each food item and deal only with suppliers who can consistently meet those standards. Many are the same brands available to consumers – for example, Kraft, Nestlé, McCain and Tyson. Product specifications give direction about ingredient quality and processing, covering elements such as taste, color, appearance, texture, flavor and aroma.
- **Procedures to Preserve Quality.** High-quality finished food products also require operational care. Our suppliers are required to mark cases with use-through dates so that restaurant staff can ensure that products are used during the period of peak freshness. We also include quality considerations in our requirements for distributors and restaurant operations. For example, distributors must have a quality inspection program for products delivered to their facilities, and restaurant managers are required to check deliveries and follow procedures for prompt storage of frozen and refrigerated products.

ENSURING FOOD SAFETY

McDonald’s global food safety system is based on the Hazard Analysis Critical Control Point Approach (HACCP), a globally

accepted method of preventing food-borne illnesses. A HACCP plan identifies hazards to which products may be exposed and the critical points where prevention must occur. It then establishes a system for monitoring them, as well as plans for corrective actions. McDonald’s was a pioneer in introducing the HACCP approach at the restaurant level.

Our food safety system encompasses every stage from product design to crew training.

- **Product Design.** During development of a new food product, studies are conducted to determine such things as appropriate procedures for handling and/or cooking the new product, which are then used to develop product-specific procedures and training materials for restaurant staff.
- **Requirements for Suppliers.** Our requirements provide that all suppliers to McDonald’s have a written and externally-verified HACCP plan for every food product supplied to the System, a person responsible for food safety systems and safety training for all employees.
- **Product Specifications.** In addition to quality, McDonald’s product specifications include requirements related to food safety. For example, our specifications require daily microbial tests of every lot of beef.
- **Restaurant Equipment.** Food quality and safety drive the development of food handling and cooking equipment for our restaurants. For example, conventional cooking on an open grill can lead to under- or overcooking. We worked with our suppliers to develop a “clam shell” grill that cooks meat on both sides simultaneously and for a preset cooking time, thus reducing chances for human error.
- **Restaurant-Level Programs.** In addition to food preparation procedures, food safety is also incorporated through:
 - **Training.** Food Safety is integrated into McDonald's training curriculum for restaurant managers worldwide. For example, our U.S. company uses a food safety training and certification course called ServSafe, developed by the National Restaurant Association Educational Foundation. Our global curriculum for crew members, developed by McDonald's experts at Hamburger University, covers basic food safety and sanitation practices.
 - **Food Safety Monitoring.** The McDonald’s Food Safety Daily Checklist is a standard tool for our restaurants worldwide. It identifies important food safety standards and procedures that company restaurant managers must check and monitor daily.
 - **Restaurant Operations Improvement Process (ROIP).** Our new ROIP includes detailed food safety procedures as an essential system for all restaurants, franchised as well as company-operated. Restaurants are scored on compliance with these procedures as part of onsite operations reviews, thus reinforcing their importance and promoting attention to any problems. As earlier indicated, ROIP has been implemented in the U.S. and Canada, and we plan to expand it to a global system.
- **Assessments.** In addition to requiring third-party supplier audits, McDonald’s conducts an annual global food safety assessment that measures the implementation of key food safety standards and initiatives at supplier facilities, distribution centers and restaurants in all the countries where we do business.

“For more than two decades, McDonald's has quietly been at the forefront in helping the industry address food safety issues. From promoting the implementation of food safety interventions in the slaughterhouse to developing automated grills for cooking hamburgers to educating thousands of employees annually in safe food handling practices, McDonald's has had a far-reaching influence in providing greater public health protection through safer foods.”

- Dr. Michael P. Doyle, Regents Professor and Director, Center for Food Safety, University of Georgia

COMMITMENT TO BEEF SAFETY

For many years, McDonald's supply chain has included protections against Bovine Spongiform Encephalopathy (BSE) contamination beyond those required by government agencies. On a global basis, we have always banned beef from automated meat recovery processes. We also prohibit the use of “downers” (cattle that cannot walk when they arrive at the processing plant) as an extra precaution to reduce the chance of contaminated meat entering the production process.

Four years ago, following an outbreak of BSE in continental Europe, we took action to strengthen our firewalls. We convened a meeting of experts, including representatives from the federal agencies responsible for BSE prevention and control, the major U.S. beef and dairy producers associations, one of our key beef suppliers, our most senior Worldwide Supply Chain Management officer and our chief beef specialists. This meeting had several results, including the establishment of our standing International Scientific Advisory Committee (ISAC) to provide expert advice on beef safety.

It was also the basis for the development of our feed certification program. Where not already mandated by law, this program requires McDonald's beef suppliers to certify that their suppliers are not using cattle feed containing meat or bone meal from cattle or other ruminants. With guidance from an ISAC subcommittee, McDonald's has also funded research related to BSE prevention and firewalls. In addition, we have developed an agenda of regulatory priorities, initiated discussions with U.S. food safety and health agencies and built broad-based support in the food retail sector by educating and engaging the principal grocery and restaurant trade associations. Following the identification of BSE cases in Canada and the U.S., McDonald's again worked to provide input to government regulators to achieve stronger BSE safety measures.

One priority is the establishment of a system in which all of a cow's movements from place of birth to processing plant can be quickly traced. A traceability system would allow government agencies or suppliers to identify the likely source of BSE contamination or other food safety incidents, as well as to document management practices along the full supply chain. McDonald's Europe has had a traceability system in place since 1995, and Canada initiated a system two years ago. We are now moving to expand traceability globally.

Helping to Preserve Antibiotic Effectiveness

There is growing scientific evidence that disease-causing bacteria are developing resistance to antibiotics that were once effective. Research indicates a connection between increasing antibiotic resistance and antibiotic misuse in humans, but also links antibiotic

resistance among bacteria that cause food-borne illnesses to the use of antibiotics in animals production, including their use to promote animal growth.

In July 2002, McDonald's joined forces with Environmental Defense and Elanco Animal Health, an animal pharmaceutical company, to create an antibiotics coalition. Other members of the coalition included McDonald's suppliers Tyson Foods and Cargill, experts from Brigham and Women's Hospital and Oxford University, and Bon Appétit Management Company. Our intent was to develop an approach that would help sustain the long-term effectiveness of antibiotics as important weapons against illness and complement other ongoing scientific and regulatory efforts to address the problem of antibiotic resistance. The ultimate result was our Global Policy on Antibiotic Use in Food Animals, issued in June 2003.

The requirements of the policy apply to all meat suppliers that have facilities dedicated to producing products for the McDonald's System and that oversee the stages of production where antibiotics are used. These are primarily poultry suppliers. They are required to:

- Follow specific Guiding Principles for Sustainable Use, including emphasis on disease prevention strategies.
- Phase out, by the end of 2004, all growth-promotion uses of antibiotics that belong to classes of compounds approved for use in human medicine.

i The complete text of the Global Policy on Antibiotic Use in Food Animals, including the Guiding Principles and definitions is available at <http://www.mcdonalds.com/corp/values/socialrespons.html>.

Suppliers to whom the policy applies must certify their commitment to complying with the policy in all their operations, worldwide, that supply the McDonald's System. They must also establish procedures for assuring compliance, including keeping records of their use of antibiotics and undertaking regular audits. We are in the process of developing a validation process to accompany supplier-led actions.

We will continue to explore ways to encourage actions to preserve antibiotic effectiveness with suppliers who do not have dedicated facilities and do not oversee antibiotic use decisions – namely our pork and beef suppliers. For example, our policy states that compliance with the policy will be a favorable factor in purchasing decisions.

“Preserving the efficacy of life-saving antibiotics is critical for our health. Working together, McDonald's and Environmental Defense leveraged the Company's purchasing power to reduce antibiotics use in poultry, beef and pork production, helping to ensure antibiotics will remain effective for humans.”

- Fred Krupp, President, Environmental Defense

Responsible Purchasing: Environmental

As a food retailer, McDonald's can best encourage progress toward environmentally responsible food production in the same way we encourage progress in the social and animal welfare areas – by integrating our principles and guidelines into our business relationships with suppliers.

We are developing two approaches, one focused on environmental responsibility in our fish supply chain, the other focused on the different environmental resources and impacts associated with land-based agricultural production.

Encouraging Responsible Fisheries and Marine Conservation

Around the world, fisheries are under increasing pressure. Causes are complex and range from pollution and destruction of marine habitats to poor fisheries management practices and overfishing. It will take action on the part of all parties interested in the health of fisheries – regulatory agencies, companies throughout the fish supply chain and other stakeholders – to protect fisheries and the ecosystems that support them.

"Our fish products, including our Filet-O-Fish sandwich, come from only a few whitefish species approved by our global supply chain to meet our quality specifications," says Gary Johnson, Senior Director, McDonald's Worldwide Supply Chain Management. "We began working on a healthy fisheries initiative more than three years ago because we want to be able to continue to buy whitefish many years from now. Our Global Fish Strategy already included a mandate to develop additional approved whitefish sources. However, we recognized that we needed a more systematic approach for evaluating the management practices of our approved fish sources, as well as potential new whitefish fisheries, and encouraging those that are less well managed to follow practices that best protect them for the future. We began by considering an existing approach developed and administered by the Marine Stewardship Council (MSC). While the work of the MSC is exemplary, the geographic scope of the fisheries they have been able to evaluate to date is limited, and we needed the means to evaluate a greater number of fisheries."

In 2001, we created a working group composed of some of our country fish purchasing managers, key fish suppliers and Conservation International. The working group was charged with analyzing the state of whitefish fisheries around the world, developing an understanding of scientific analytic techniques and best management practices and developing a set of recommendations for McDonald's.

PROGRESS ON MCDONALD'S ENVIRONMENTAL GUIDELINES ON FISH SOURCING

The results of the working group were used to develop a first version of McDonald's environmental guidelines on fish sourcing. The guidelines outline clear and measurable criteria related to the environmental and management quality of whitefish fisheries. The criteria include:

1. Fisheries management quality. Compliance with all regulations, adequate monitoring to assess compliance, use of a multi-annual fisheries quota management plan or other long-term system of

management and of a management approach that is suitable, given the state of knowledge of the fish stock, the fishery and the ecosystem within which it occurs.

2. Fish stock status. A long-term fish spawning stock biomass maintained by management at or above the level required to support the maximum sustainable yield or recovery plans that are rebuilding depleted resources to these levels.
3. Marine environment and biodiversity conservation. Use of best practices for fishing techniques and technologies, reducing disturbance to and protecting critical habitats, avoiding significant by-catch of non-target fish and negative impacts on marine mammals and birds and a Marine Protected Areas (MPA) network protecting critical and vulnerable marine habitats and species being impacted by fishing.

The goal of analyzing fisheries against these criteria is to identify those that fall short and provide information that we and our suppliers can use to help develop or strengthen programs that contribute to the fisheries' productivity and the conservation of the environment and biodiversity of surrounding marine areas. We recognize that a fishery that already meets these criteria may still need or be able to improve management and conservation measures further and will continue to support efforts to strengthen the sustainability of all whitefish fisheries. However, our objective is to work with fisheries that do not meet the guidelines' criteria to encourage the development of improvement programs. If improvements are not evident over time, we will also reduce – and, if necessary, end – our purchases from these fisheries.

THE IMPLEMENTATION PROCESS

During 2003, McDonald's began to test the guidelines in Europe. During 2004, we plan to expand use of the guidelines to all other geographic sectors in the McDonald's System.

Recognizing that scientific and technical understanding of fisheries evaluation continues to evolve, our guidelines will be reviewed and updated on a regular basis to reflect new scientific information and findings in fisheries management and marine conservation, together with changes in laws, procedures and management approaches. The process of implementing the guidelines will include dialogue with experts to help ensure that our guidelines reflect the best science and management techniques available. Together with our suppliers and CI, we will work on processes to ensure that regular evaluations of individual fisheries against the guidelines' criteria are accurate and based on the latest available information. We will also continue to report on our progress in implementing the fish sourcing guidelines.

Socially Responsible Food Supply Initiative

Protecting natural resources throughout the food supply chain for land-based agricultural production is important to ensuring the uninterrupted, long-term supply of high-quality raw materials and finished products. It is also our responsibility to encourage the protection of resources that our suppliers share with surrounding communities. Our environmental guidelines provide the framework

for our efforts, and we are now working to create systems for measuring progress toward those guidelines.

i For further information, please see page 57.

McDonald's Europe led the System in this area with the McDonald's Agricultural Assurance Program (MAAP). MAAP provides a framework to manage sustainable and ethical agricultural production methods, as well as food safety and quality, at the farm level. MAAP's seven general policies lay out an overall direction, while product-specific standards define details for production of McDonald's products.

In many European countries, local organizations or groups of farmers have developed local or regional quality programs. Rather than trying to create an independent quality label, MAAP is used as an internal reference against which these already-existing quality schemes are compared. The MAAP specifications then refer to the elements in existing schemes. If gaps exist between the specifications of existing quality programs and those in MAAP, McDonald's Europe initiates dialogue and develops a plan with program managers to close the gaps. By building upon the quality schemes already in place, we are able to make faster progress. To date, standards have been developed for beef, chicken, dairy, potatoes, wheat and lettuce.

Building on the learnings of MAAP, we are now working to expand our efforts to implement our environmental guidelines. Our starting point has been to collaborate with CI and five of our direct suppliers in commodity areas important to our business (beef, bakery products, chicken, pork and potatoes) to develop and pilot-test a system for environmental goal-setting and continuous improvement at the stage of the food supply chain that they oversee – final processing. This system focuses on the four key environmental guidelines – water, energy, waste and air – that are most relevant at the processing level and consists of a self-assessment and an environmental impact scorecard.

The self-assessment is designed to provide a flexible format that allows suppliers to understand, monitor and communicate their social responsibility efforts and environmental performance. The self-assessment also allows suppliers to record and evaluate their social responsibility management practices, including policies, action plans, integration into strategic planning, training and participation in scientific research and stakeholder dialogue.

The scorecards are product-specific tools that consist of several performance indicators in each relevant guideline area. Rather than measuring adoption of specific food processing practices, the indicators aim to measure, wherever possible, actual impacts in each area.

Developing a global system for integrating our guidelines presents significant challenges that we will work to overcome in collaboration with suppliers and other external experts in agriculture and food production. These challenges include:

- Developing a system that is applicable to a wide range of industries.
- Accounting fairly for differences due to geography, scale and suppliers' experience with social responsibility issues.
- Developing a cost-effective yet functional approach to data collection and validation.
- Establishing appropriate goals and targets that are based on the latest scientific information and are able to stimulate continuous improvement.

We are already beginning to work on approaches to these issues. For example, in order to accommodate the variation in conditions around the world and to encourage continuous improvement by all suppliers, we plan to use the scorecard to work with each supplier individually to agree upon goals for performance improvement based on baseline performance results. Attainment of those goals will then be considered a favorable factor within our primary supplier performance assessment tool, the Supplier Quality Index, and we will work with suppliers to develop improvement plans when goals are not met. We expect the process to generate results that can be aggregated and analyzed to generate an assessment of McDonald's overall supply chain performance and to identify priority areas for action.

The challenges mentioned above are particularly pronounced at the farm and primary processing levels. Most of McDonald's direct suppliers do not control these stages of food production. As a result, we will need to identify innovative ways to encourage progress toward our guidelines at the farm level. We intend to begin exploring farm and primary processing possibilities beginning in 2005.

Rain Forest Policy

McDonald's first issued its Rain Forest Policy in 1989, when the preservation of tropical rain forests was at the forefront of environmental conservation efforts. The policy declares McDonald's commitment to beef purchasing practices that do not contribute to tropical deforestation.

Since that time, the scientific and environmental community has made advances in understanding the biological diversity contained within tropical rain forests and other ecosystems like grasslands and wetlands. Meanwhile, the important role that agriculture and livestock production can play in the preservation of these high biodiversity ecosystems has become increasingly recognized. In light of these developments, we are working to evaluate and update our policy to ensure that it reflects current global conservation and environmental priorities.

i The current rain forest policy is available at http://www.mcdonalds.com/corp/values/socialrespons/enviroment/rain_forest_policy.html.

Biotechnology

Biotechnology brings forth a variety of choices. Today, these choices are mostly centered on crops such as soy and corn that use recombinant technology to create herbicide resistance. Tomorrow, that potential can expand to the nutritional profile and quality of products, adding such attributes as drought resistance and other efficiencies that can help feed people in need around the world.

Marketplace acceptance varies. For example, in North America, the use of biotechnology continues to grow, while European customers continue to question the benefits of genetically modified (GM) foods and are, therefore, insisting on segregation of GM and non-GM crops and food products.

Biotechnology is an important issue to some of our key stakeholders. Many farmers and producers are welcoming this technology as a way to improve their livelihoods and make better use of their land (there is less tilling and reduced chemical usage with biotech crops). Some public interest groups have significant concerns about the environmental safety of such crops. The following factors will guide us on this issue:

- Awareness and engagement.

McDonald's will continue to monitor ongoing developments in our efforts to listen, learn and evaluate. We are engaged in constructive dialogue with the entire supply chain, from biotech providers to farmers and producers, as well as with governmental officials, scientific experts and non-governmental organizations— all to determine if biotech applications are appropriate, environmentally sound and driven by consumer needs and benefits.

- Customer-centric.

As a retailer, we are focused on providing our customers with what they want. In those markets where customer acceptance is an issue, we will source from non-GM sources as much as possible. For example, McDonald's Europe specifies non-GM ingredients. McDonald's supports biotechnology that will ultimately benefit the customer. We encourage biotech providers to accelerate their research and development in ways that can safely feed a global population, particularly in those parts of the world where drought, famine and disease prevent adequate nutrition. However, the legitimate concerns about the impact on safety and the environment need to be addressed in a transparent manner.

- Governmental regulations.

Scientific experts and government regulators carefully analyze existing and new biotech crops. McDonald's relies on these experts to provide the foundation of science needed to protect the public health and our natural environment.

Based on these factors, McDonald's will continue to evaluate whether to purchase new biotechnology products in the future. We will review the status of regulatory approvals, customer acceptance, consumer benefits and choice, environmental impact and the state of scientific research. We will continue to engage in constructive dialogue with key stakeholders.

Changing Batteries for Happy Meal Toys

We are responding to customer interest with sophisticated Happy Meal toys that include battery-operated features. The small round batteries that are used to power toys are known as button cell batteries. Traditionally, these batteries have contained a very small amount of added mercury, a substance that can be detrimental to the environment. (Mercury is a naturally occurring element and in its natural state is not toxic. It becomes hazardous only after it has been altered.) Identifying this as a key challenge, McDonald's has worked closely with its toy suppliers to develop an alternative battery. Effective in the first quarter of 2004, all toy batteries included in Happy Meals now use this alternative button cell battery with no added mercury.

Packaging and Forestry

More than 80% of the packaging used by McDonald's worldwide is paper-based. As a result, forestry and paper production issues are an important area of focus for us. During our packaging development process, we seek to increase our use of recycled and unbleached fiber as a means of reducing environmental impacts. However, there are practical limitations and regulatory restrictions to using recycled content in food service packaging, so we are dependent upon virgin fiber for the majority of our packaging.

In 2003, we began to examine more closely specific policies we could adopt to ensure that our paper packaging is sourced from well-managed forests. McDonald's Europe has led this effort, working with our suppliers and external forestry experts. This is a work in progress, with a goal to develop global sustainable forestry guidelines by the end of 2005.

In the meantime, we will continue to work with experts and other like-minded companies to gather information that can help us further refine our approach. For example, in 2004, McDonald's joined the Paper Working Group (PWG) to work with other major purchasers of paper to explore increasing the demand for more environmentally preferable paper.

- ❶ Further information about the Paper Working Group is available at www.metafore.org. For further information about our overall packaging approach and performance indicators, see page 76.

Responsible Purchasing: Animal Welfare

Animal Welfare

McDonald's has a long track record of leadership in animal welfare that includes establishing an independent expert advisory council, instituting global animal welfare guiding principles, and ensuring compliance through onsite processing facility audits and supplier training.

ANIMAL WELFARE COUNCIL

In 2000, McDonald's established an Animal Welfare Council of independent experts to guide the development of our program. The Council meets at least once annually to advise us on priorities and technical issues. It currently has six members: five prominent academic specialists in animal sciences and an authority at the Animal Welfare Institute.

i A list of Council members, including credentials, is available at www.mcdonalds.com/corp/values/socialrespons/resrecog.html.

ANIMAL WELFARE GUIDING PRINCIPLES

In 2001, McDonald's issued global Animal Welfare Guiding Principles, developed in consultation with our Animal Welfare Council. These establish the commitments that shape our worldwide efforts and additional program elements that local geographic business units initiate.

The Guiding Principles affirm, among other things, that we believe "animals should be free from cruelty, abuse and neglect" and regard animal welfare as "an integral part of an overall quality assurance program that makes good business sense." They also commit us to ongoing work with our suppliers to ensure compliance and continuous improvement, to industry leadership and to performance measurement and communication about our activities, plans and progress.

i The complete text of the Guiding Principles is available at www.mcdonalds.com/corp/values/socialrespons/market/animalwelfare/guiding_principles.html.

ANIMAL WELFARE COMPLIANCE AUDITS

The core of our global animal welfare program is verification of compliance with our Guiding Principles through processing facility audits.

In 1997, McDonald's began work with world-renowned animal welfare expert Dr. Temple Grandin of Colorado State University. Through extensive research and experience, Dr. Grandin had developed a methodology for objectively measuring animal welfare in abattoirs, or slaughterhouses, and specific audit protocols based on these measures. McDonald's adopted Dr. Grandin's objective system, and we have worked closely with her and our meat suppliers to integrate the audits as part of our overall quality assurance program.

McDonald's began abattoir audits in 1999, conducting more than 100 audits of U.S. beef, pork and chicken processors that year. The program now encompasses suppliers in all our global geographic sectors. In 2003, we conducted nearly 500 audits worldwide, reaching the majority of the facilities that provide meat products to McDonald's.

McDONALD'S PROCESSING FACILITY AUDITS: 2003

	Beef	Pork	Broilers
Asia/Pacific/Middle East	50	10	63
Europe	146	43	38
Latin America	32	2	20
North America	64	7	13
Total	292	72	134

Most suppliers passed their audits. Even in these cases, corrective actions were still noted as opportunities for continuous improvement. In a few cases, suppliers did not pass their audits. According to our audit procedures, these suppliers are given 30 days to make changes and are re-audited. If they fail this second audit, they are subject to the loss of McDonald's business.

ANIMAL WELFARE AUDIT SYSTEM

Dr. Grandin's animal welfare audit system, as applied in processing facilities that supply the McDonald's System, is based on five critical control points and related criteria – essentially, key indicators of quality in animal handling practices.

All audits are conducted by trained auditors whose role is to measure performance according to our rigorous standards while also promoting continuous improvement. Facility personnel thus receive advice and training in the context of audits. Audits may be conducted by trained facility managers, supplier representatives, McDonald's staff or third-party experts like Dr. Grandin.

FARM-LEVEL ANIMAL WELFARE

Addressing animal welfare issues at the farm level is much more complex than enforcing standards in meat processing plants. Thousands of farms around the world – including small, family-owned operations – produce products that ultimately supply the global McDonald's System. Practices, infrastructures, customs regarding voluntary association and collaboration and applicable laws and regulations are all highly variable.

For farm-level animal welfare issues, our main goal is to support advances through leadership and collaboration with others in the food retail and animal agricultural industries. In the U.S., we are pursuing this goal by supporting, financially and through active involvement, a joint initiative of the National Council of Chain Restaurants and the Food Marketing Institute. In collaboration with the producer community, these associations, representing more than 50 quick service restaurant chains and more than 26,000 food retailers and wholesalers, have developed animal welfare guidelines and a voluntary auditing program for livestock production and slaughter facilities. The initiative also includes an auditor training and certification program.

Where conditions permit, we are developing local and regional farm-level animal welfare programs. In the U.S. and Canada, for example, we have implemented guidelines for the treatment of laying hens. McDonald's Europe has developed comprehensive quality assurance standards that reach back to the farm level. For meat, dairy and egg products, animal welfare is incorporated as an element in various types of standards – for example, those for feed, animal housing, transport and employee training.

PEOPLE

Our People Priority

At McDonald's, we know that people are our most valuable resource. Our People Principles commit us to fair and respectful treatment, openness, appreciation of diverse opinions, support for personal and professional development and recognition and rewards for good work. These Principles are available at www.mcdonalds.com/corp/values/ppromise/our_commitment.html.

Learning & Development

McDonald's provides career-long learning opportunities for our employees worldwide. Providing these opportunities has long been a key business strategy. Through training, we do more than impart the skills needed to do a particular job. We instill our core values, a professional approach to work and a solid work ethic. We also provide a structured path for upward mobility. One measure of our success is the significant number of owner/operators and senior-level staff who began their careers as crew members.

Hamburger University

Since 1961, learning and development at McDonald's has been centered at Hamburger University (HU) – our own learning academy. HU has seven campuses around the world: a main 130,000-square-foot facility at our headquarters in Oak Brook, Illinois (the Hamburger University Fred L. Turner Training Center) and additional campuses in Australia, Brazil, Germany, Hong Kong, Japan and the UK. In 2003, more than 10,000 employees received training at HU facilities.

Global Learning and Development Sequence

CREW-MEMBER TRAINING

Standard operating procedures require training for all crew members. Global templates for the curriculum and materials help ensure high quality, consistency and comprehensiveness.

The standard curriculum begins with orientation and such basics as employee safety and security, food safety, cleanliness and hygiene, hospitality and teamwork. It then moves, in structured sequence, through one of two basic paths, production or customer service, and concludes with new station training, which allows crew members to gain experience in all crew duties.

Crew member training has traditionally been delivered by experienced crew members, using a trainer's guide, a handbook and a broad range of other materials. There is a special training program to prepare crew members for this responsibility.

We are now implementing a computer-based e-learning program as part of a blended approach. A self-paced, fun and highly interactive process, e-learning tends to produce faster learning and better retention than instructor-led training. Crew e-learning is currently available in the U.S. in English and Spanish. By the end of 2004, we plan to have appropriate translations available in all our major markets.

RESTAURANT MANAGEMENT TRAINING

As with crew member training, there is a global core curriculum for restaurant management. Completion of this curriculum is also a prerequisite for approval as a franchisee. Each course includes a self-study component and classroom sessions of three to five days each.

People practices are a major focus throughout the curriculum. For example, objectives of the first course in the sequence include “create a positive work environment” and “support a workplace where individual differences are respected, valued, appreciated and utilized.” Objectives of subsequent courses include, among others, “take actions ... to improve crew and customer satisfaction,” “evaluate the people practices in your restaurant” and “create a plan that addresses the opportunities in the restaurant.”

In McDonald's 10 major markets, more than 20,000 participants received restaurant management training in 2003.

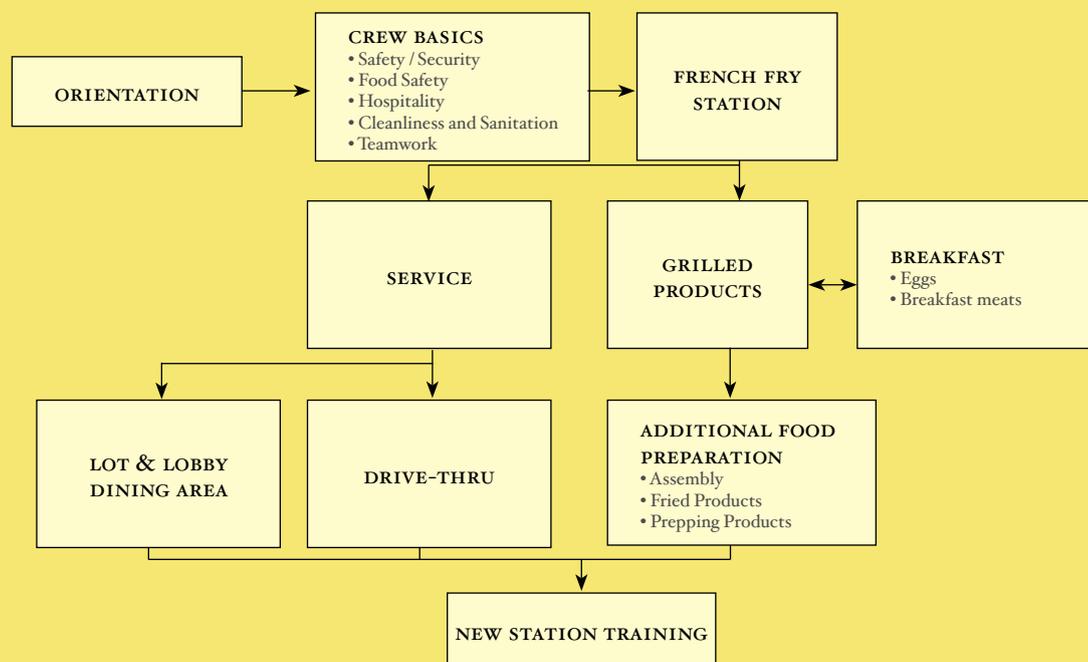
MID-MANAGEMENT TRAINING

Experienced restaurant managers may become what we call “business consultants/operations consultants” – that is, full-time, expert resources for restaurant managers and owner/operators. Two core courses at HU develop essential consultant skills such as data collection and analysis, planning and performance measurement. There is also a self-study course in financial skills and an additional course for consultants who will specialize in training.

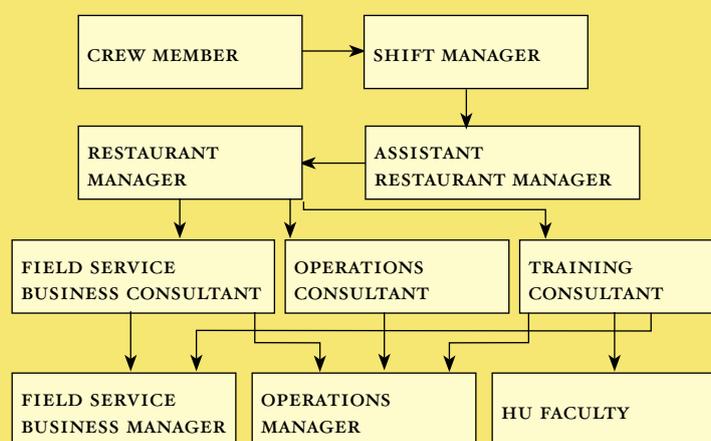
For department managers and directors, the mid-management sequence includes two further courses. One focuses on leading and coaching team members, the other on leadership principles. Thus, the emphasis again is on people skills.

A separate global in-class sequence provides progressively advanced training for our human resource experts.

CREW DEVELOPMENT PATH



RESTAURANT EMPLOYEE CAREER PATH



CORPORATE STAFF TRAINING

Corporate employees enjoy a wide range of online training opportunities. Through the McDonald’s intranet, we offer approximately 450 courses in business skills, software programs for essential business functions and programs used in graphic design and other media-related work. The library includes, where available, versions to accommodate disabilities. Employees may, in many cases, secure independent online verification and certification of skills.

OTHER SUPPORT FOR LEARNING AND DEVELOPMENT

Employees in some countries may receive financial support for college and university coursework or have opportunities to participate in special programs co-sponsored by McDonald’s. For example:

- In cooperation with the Hong Kong Productivity Council, McDonald’s Hong Kong offers crew members a free continuing education program consisting of 10 business-related courses. Certification is available at three successive levels. By November 2003, the end of the program’s first year, 105 crew members had received first-level certifications, and 35 crew members had also been certified at the second level. Twenty-eight crew members received promotions after completing their course work.
- McDonald’s Argentina provides scholarships for employees to study in a degree-granting program it developed in collaboration with a top national university. Twenty-two restaurant managers are currently participating. The company also provides 30 scholarships per year for crew members.
- In the U.S., employees may receive partial reimbursement for tuition up to \$5,250 per year for courses relevant to their present jobs or functions, jobs they may become eligible for in the future or business courses in approved programs, even if not directly related to their job. In 2003, approximately 640 employees received a total of more than \$1.6 million in tuition support.
- McDonald’s Brazil has secured validation for its crew development program (CDP) from Senac, the country’s principal institution for professional development in the service industry. Crew members who receive a score of at least 90% on the CDP assessment receive a Senac certification that can broaden their possibilities in the job market. Nearly 3,000 crew members received this certification in 2003.

- On an annual basis, McDonald’s UK offers 100 grants of £1,000 each (approximately \$1,800 USD) for crew employees to invest in their education, training or ongoing involvement in sports or the arts.

Some owner/operators and regional McDonald’s business units also provide financial support for employee education. Examples of U.S. programs are available at

📍 www.mcdonalds.com/usa/good/community.html.

Diversity

DIVERSITY AS A BUSINESS STRATEGY

We know that seeking diversity is not just good corporate citizenship. It’s also good business. We have long promoted inclusion with ever-expanding opportunities because we want the best people and the benefits of varied perspectives, skills and energies. Today, we have a diverse customer base and one that is becoming even more so in many markets. Employees and franchisees who speak our customers’ language can provide a uniquely welcoming, culturally-sensitive environment and insights into how to best serve our customers’ diverse needs and preferences.

DIVERSITY INITIATIVES PROGRAM

At McDonald’s, the cornerstones of inclusion and opportunity are global policies, including our People Promise, People Principles and Standards of Business Conduct. In the U.S., we have a formal diversity program, with three main points of focus:

- *Education*
We view staff education as key to embedding diversity throughout the organization. Uniquely designed diversity education seminars are offered on a regular basis, and diversity components are built into the training and development curricula for restaurant managers, mid-level managers and executive officers.
- *Guidance*
Home and field office staffs receive expert guidance on such issues as building diversity into business plans, coaching and problem-solving and developing partnerships in diverse communities.
- *Outreach and Leadership*
To maximize outreach, responsiveness and appreciation of our commitment, we maintain close relationships with diverse national and community organizations.

📍 A list of some of the organizations is available at www.mcdonalds.com/corp/values/diversity/organizations.html.

PERFORMANCE RESULTS

With strong top management support, guidance and outreach, we have achieved measurable results in building an inclusive, high-performing workforce.

📍 Examples in the U.S. are provided on page 24. Awards and other recognition of our diversity initiatives are listed on page 71.

People with Disabilities

McDonald's values our relationships with people with disabilities – as customers, employees and franchisees. We recognize their need and right to have opportunities to realize their full potential in society. In support of this goal, McDonald's Europe served as one of the principal corporate sponsors of the 2003 European Year of People with Disabilities (EYPD). Working with the European Disability Forum and national disability organizations, we launched or expanded initiatives to increase employment opportunities for disabled people, provide quality of life enhancements and raise public awareness of the need for maximum inclusion.

Our active commitment to inclusion of disabled persons has given rise to other programs and activities, many pre-dating EYPD. For example, since 2000, McDonald's Spain has been working with Fundación ONCE, Spain's principal association for the social and economic integration of disabled persons. Through this collaboration, 42 specially recruited and trained disabled persons are now working in our Spanish restaurants.

In the U.S., we have long supported such organizations such as the American Association of People with Disabilities and the World Congress on Disabilities. We also participate in various state Business Leadership Networks, through which businesses share best practices and conduct programs to promote the employment of people with disabilities.

Employee Health and Safety

GLOBAL HEALTH AND SAFETY POLICIES

In our Standards of Business Conduct, we state a commitment to providing a safe and healthy environment for our employees as well as our customers. The Standards direct employees “to abide by all safety rules and practices and to take the necessary precautions to protect themselves and their co-workers,” including prompt reporting of accidents and potential hazards. A separate global corporate policy reinforces the importance of preventing accidents and property damage.

RESTAURANT-LEVEL TRAINING AND OPERATING PROCEDURES

Our crew training templates include safe work practices as part of new employee orientation. Safety is also embedded in global training materials for company restaurant managers. These materials are made available, as resources, for owner/operators and their managers. Additional guidance is provided, both in the U.S. and internationally, to build safety awareness.

Safety is further integrated into business processes through the new ROIP. As earlier discussed, ROIP is a system designed to promote continuous improvement at the restaurant level in key areas (or “systems”) related to customer experience. Safety is one of the 12 management systems the process addresses. This should help maintain and strengthen the focus on restaurant employee safety and customer safety as well.

Other Issues

WAGE RATES

Setting appropriate wage rates is very important at all levels in the McDonald's System.

Wage rate determinations for our employees must consider diverse legal requirements. We have to comply with national and, in some instances, state or local wage laws and regulations. At the same time, we seek to reward employees for their productivity and ensure competitiveness in the local employment and consumer markets. As our employees acquire new skills, their wage levels increase on a commensurate basis. These same considerations enter into the wage rates our independent owner/operators set for their employees.

EMPLOYEE ASSOCIATION

Our working relationships with national unions and employees who are members of unions differ from country to country, depending on local laws, structures and cultures. In the U.S., McDonald's employees have not chosen to be represented by a union through the processes established under federal law, although they have the right to pursue union representation. In Europe, our relationships with unions and other organizations representing employees reflect the labor regulations and structures in place there.

Specifically, in many European countries, we participate actively in sectoral employers' associations. These country-level organizations negotiate with trade unions on behalf of the sector's employees, whether or not the employees are unionized. We also collaborate with relevant trade unions on issues of mutual interest, such as flexible work arrangements, diversity and employee training and development. Similarly, in some Latin American countries, including our two largest markets – Argentina and Brazil – our local affiliates deal with national, sectoral or local unions in negotiations and other topics of common interest.

In addition, in various European countries, we consult with country-level works councils where they are required by law or instituted by appropriate requests from our employees. Our employees select their own representatives to these councils. Since 1996, we have also regularly consulted with a broader works council – the European Communications Council. This organization was established by voluntary agreement and comprises company employees representing every EU country and Norway. Company employees have complete independence in deciding who will represent them. They may select union members to represent them on the Council, and in some cases, they have.

Recognition for Leadership

McDonald's and our local geographic business units around the world have received awards and other recognition for exemplary employment practices. In the last several years, these have included:

- Human Resources Initiative of the Year (2004) – Initiative magazine (New Zealand)
- Among 10 Best Companies to Work For (2000 – 2003) – Exame magazine (Brazil)
- Among the Best Employers to Work For (2003) – Hewitt Associates (Australia)
- Best Practices in Human Resource Management (2003) – Thailand Productivity Institute
- Among the 10 Best Places to Work (2003) – Great Place To Work Institute (Argentina)
- Among the 20 Best Places to Work (2003) – Great Place To Work Institute (France)
- Among the Top 10 Best Places to Work (2002) – Oxford Group (Denmark)
- Among the 20 Best Places to Work (2002) – Great Place To Work Institute (Mexico)
- Investor in Human Capital (2002) – Institute of Management & Institute of Labor and Social Affairs (Poland)

Our diversity initiatives, including those related to employment, have also earned recognition. Except where otherwise indicated, the following are based on U.S. performance.

- Best Company for Minorities (2003 – 2004) (also ranked among best, 2000 – 2002) – Fortune magazine
- Employer of Choice for Women in Australia (2003) – Equal Opportunity for Women in Workplace Agency
- Gold Standard Ranking for Realizing Women's Potential in the Workforce (2003) – Opportunity Now (UK)
- Patriot Award (2003) – League of United Latin America Citizens
- PUSH-Excel Corporate Partner Award (2003) – Rainbow PUSH Coalition
- Among Best Companies for Minorities (2003) – National Hispanic Corporate Council
- Among Top 10 UK Private Sector Performers in Ethnic Minority Diversity (2003) – Race for Opportunity
- Among 50 Top Companies for Diversity (2002 – 2003) – DiversityInc.com
- Social Responsibility Award (2002) – Mexican American Legal Defense and Education Fund
- Among the Top 10 Companies for Demonstrating Inclusion of Disabled Persons (2002) – Employers' Forum on Disability (UK)

PLACE

Managing Environmental, Community and Economic Impacts at the Restaurant Level

Community involvement is a cornerstone of McDonald's business approach and has been since the days of our founder, Ray Kroc. We place such high value on franchising in part because it puts our restaurants in the hands of local business people who belong to the communities they serve. Traditionally, involvement meant mainly giving back through philanthropic activities. Today we understand the term more broadly to also include responsibility for our restaurants' environmental and economic impacts.

Environmental Stewardship

As discussed in Products: Responsible Purchasing, our concern for the environment includes a focus on the upstream impacts of our supply chains. We also have, for many years, addressed the principal environmental impacts of our restaurants – the natural resources they consume and what they put back into the environment as a consequence of their receiving, preparing, packaging and serving food products. Today, we are moving toward a process of prioritizing and managing a broad range of these impacts.

Our global environmental policy, adopted in 1990, establishes guiding principles for our programs.

Our Commitment (Core Principles)

Our environmental commitment and behavior is guided by the following principles:

Effectively managing solid waste. We are committed to taking a "total life cycle" approach to solid waste, examining ways of reducing materials used in production and packaging and diverting as much waste as possible from the solid waste stream. In doing so, we will follow three courses of action – reduce, reuse and recycle.

Conserving and protecting natural resources. We will continue to take aggressive measures to minimize energy and other resource consumption through increased efficiency and conservation. We will not permit the destruction of rain forests for our beef supply.

Encouraging environmental values and practices. Given our close relationship with local communities around the world, we believe we have an obligation to promote sound environmental practices by providing educational materials in our restaurants and working with teachers in schools.

We intend to continue to work in partnership with our suppliers in the pursuit of these policies. Our suppliers will be held accountable for achieving mutually established waste reduction goals, as well as continuously pursuing sound production practices that minimize environmental impact. Compliance with these policies will receive consideration with other business criteria in evaluating both current and potential McDonald's suppliers.

On all of the above, we are committed to timely, honest and forthright communications with our customers, shareholders, suppliers and employees. And we will continue to seek the counsel of experts in the environmental field. By maintaining a productive, ongoing dialogue with all of these stakeholders, we will learn from them and move ever closer to doing all we can, the best we can, to preserve and protect the environment.

i The full text of our global environmental policy is available at http://www.mcdonalds.com/corp/values/socialrespons/emiroment/our_commitment.html.

Development of Environmental Management System (EMS)

For some years, certain McDonald's geographic business units have managed specific environmental impacts. We are now working toward a more systematic approach by developing an Environmental Management System (EMS) framework. McDonald's Europe is taking the lead.

McDonald's Europe has been developing an EMS based on existing restaurant management procedures and the principles of ISO 14001 – a widely-accepted international voluntary standard that describes specific requirements for an EMS. The process has included:

- Developing an environmental policy.
- Designating an environmental coordinator.
- Understanding and complying with applicable legal requirements, as a threshold standard.
- Incorporating environmental considerations into the goals of all relevant departments.
- Determining and evaluating the company's impacts.
- Setting targets and objectives.

McDonald's Europe intends to continue developing internal controls for EMS implementation while bearing in mind that country-level environmental policies, situations and objectives differ widely. The goal is to keep raising the bar throughout the McDonald's Europe System.

We plan to review the effectiveness of the McDonald's Europe EMS, with a view toward possibly adapting it, as a template, for other McDonald's business units.

Energy Use and Climate Change

Energy is McDonald's most significant direct environmental impact. Our restaurants consume, on average, 350,000 kilowatt hours (kWh) per year – in all, nearly 11 billion kWh. This is perhaps to be expected, since retail food service is inherently an energy-intensive business, involving refrigeration, cooking, heating, venting, air conditioning and lighting.

For us and our owner/operators, energy management serves two compelling objectives – protecting the environment and controlling operating costs. In the environmental area, managing our energy uses can not only conserve energy sources like natural gas and coal, but also reduce emissions associated with climate change. On the cost side, we have found that local, regional and geographic sector energy management strategies can reduce energy expenditures by 10% – or perhaps more.

ENERGY MANAGEMENT APPROACH

Our approach to energy management involves tools and training in energy-saving procedures, like proper equipment maintenance, and promoting and using energy-saving technologies. We are also monitoring developments in uses of renewable energy sources.

Our training materials for managers of McDonald's company-owned restaurants include a utility management chapter that provides the business case for energy conservation, guidance for managing specific types of equipment and instructions for monitoring energy use. These materials are made available, as resources, for owner/operators and their restaurant managers.

Energy consumption is a factor considered when equipment is evaluated for use in McDonald's restaurants. In some instances, energy-efficient equipment is required for new restaurants and restaurant renovations. Additional energy-efficient equipment is recommended.

LOCAL AND REGIONAL ENERGY STRATEGIES



EUROPE

In 2001, McDonald's Europe initiated a study that measured the electricity and water consumption of 60 comparable free-standing restaurants in 13 of the largest European countries. The results, such as optimized energy audits, were incorporated in the countries' energy conservation plans.

One long-term goal for McDonald's Europe is to use energy from renewable sources such as wind and hydro power. Some local business units have made considerable progress towards this goal. McDonald's Sweden and McDonald's Denmark currently buy, respectively, 80% and 60%, of their electricity from renewable sources.

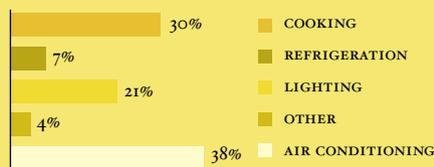
In 2002, McDonald's was invited to become a corporate member of the European Union's GreenLight Programme. Under this initiative, private and public sector organizations report on specific commitments to reducing their lighting energy use as a means of helping to combat global warming.⁶



AUSTRALIA

McDonald's Australia has managed restaurant energy use by measuring usage by equipment category and then targeting high-demand areas. In 2002-2003, electrical energy use was reduced from 508,539 kWh to 501,582 kWh per restaurant. These savings were achieved by such simple steps as turning off machines when not in use, using one cooking grill instead of two, turning the air conditioning system to vent mode and closing doors to reduce needs for air conditioning. Natural gas usage per restaurant increased during the same period from 30.1 gigajoules (GJ) to 54.8 GJ. The increase can be attributed to such factors as the addition of McCafes and introductions of new equipment to support a broader range of menu offerings and improved customer experience.

McDONALD'S AUSTRALIA: TYPICAL RESTAURANT ENERGY USE, BY EQUIPMENT CATEGORY



USA

During the last three years, McDonald's USA has pursued an aggressive initiative to address the increasing need for energy management at the restaurant level. Energy costs for McDonald's U.S. restaurants total approximately \$600 million per year. Preliminary research and analysis indicate significant potentials for reduction.

The company's current strategy addresses five areas and identifies priority actions and/or results for each.

- **Energy efficiency:** Reduce energy consumption by installing energy efficient equipment in new and existing restaurants.

- **Operational efficiency:** Improve energy information management. Utilize optimal operating and equipment maintenance procedures.
- **Energy commodity procurement:** Reduce gas and electricity commodity costs.
- **Price risk management:** Manage the energy commodity process through risk management products. Reduce energy price volatility to minimize cash flow impact.
- **Environmental & social responsibility:** Be recognized as an environmentally responsible company and an industry leader in energy conservation.

The U.S. Energy Team is implementing this strategy in a variety of ways, including:

- Developing energy tools that can be used by restaurant operations staff to reduce energy consumption and costs.
- Providing detailed step-by-step training on the energy tools and energy efficient behaviors.
- Maintaining an intranet site that includes the tools, online training and other energy-related information, including specifications and recommendations for energy-efficient lighting and equipment.
- Negotiating energy procurement contracts in gas and electricity markets that are no longer state-regulated monopolies.
- Implementing a tracking and benchmarking system for U.S. company-owned restaurants. This will help measure progress toward the ultimate energy reduction goal.

Greenhouse Gas Emissions

Our concern about the environment extends to our restaurant's impact on greenhouse gas emissions. As with other issues, certain geographic business units have taken the lead in efforts to understand and limit these emissions, providing potential models and lessons for others. At the corporate and local business unit level, one major thrust has been exploration of alternative refrigerants for restaurant equipment.



AUSTRALIA

McDonald's Australia has participated in the Australian government's Greenhouse Challenge Cooperative Agreement program since 1997. As a subscriber to the agreement, the company annually reports on the types, sources and amounts of greenhouse gas emissions, abatement initiatives, and other factors that influence emissions levels at its company-owned restaurants.



JAPAN

Reduction of greenhouse gas emissions has long been a priority for McDonald's Japan. Since 1990, the company has reduced CO₂ emissions by an average of 14.6% or 23 metric tons per restaurant.

- ① See page 31. McDonald's Japan's latest sustainability report, which includes additional data on its environmental performance, is available at http://www.mcdonalds.com/corp/values/socialrespons/sr_report/2004_cr_report.html.



EUROPE

McDonald's Europe participates in the Business Leaders Initiative on Climate Change – an international program for industry leaders committed to reducing the impact of business-related greenhouse gas emissions. The program brings together key public and private sector stakeholders to generate dialogue, increase transparency through better emissions monitoring and reporting and facilitate sharing of best practices.

⁶ McDonald's USA has been a member of a somewhat comparable program – the U.S. Environmental Protection Agency's Green Lights Program – since 1993.

McDONALD’S DENMARK HFC-FREE RESTAURANT PILOT

Use of refrigerants is, like energy use, a potentially controllable factor that can reduce our restaurants’ impacts on climate change. Restaurants use refrigerants primarily in air conditioning, refrigerating and freezing equipment and as blowing agents in insulation foam – for example, in refrigerators and freezers.

According to a Danish Technological Institute study, the average restaurant contains about 33.7 kilograms (approximately 74.3 pounds) of cooling refrigerants, most of which are hydrofluorocarbon (HFC)-based. The global warming impact of HFCs is 1,000 times that of CO₂. Most of the refrigerants are contained within equipment systems and thus enter the environment only when there is leakage or improper repair or disposal. In our industry, the annual estimated leakage rate is 5 – 7% – 3.7-5.2 pounds per restaurant per year.

In October 2000, McDonald’s joined with United Nations Environmental Programme (UNEP), the U.S. Environmental Protection Agency and The Coca-Cola Company to sponsor a refrigeration summit. At the summit, environmental organizations and representatives from more than 30 major refrigeration suppliers gathered to discuss how to find alternatives to the current set of HFC-based refrigerants. The challenge, they agreed, was not merely technological but to create the marketplace demand needed for commercial production.

We decided to play a role in creating that marketplace demand. So we volunteered to operate a pilot HFC-free restaurant and challenged our suppliers to find more sustainable alternatives to current technology by creating HFC-free equipment suitable for restaurant use.

In 2003, the first HFC-free McDonald’s opened in Vejle, Denmark. Another comparable McDonald’s in Denmark was selected as a benchmark. It was important to determine not only whether the test equipment performed effectively, but also whether it was, from a total perspective, environmentally preferable. The study thus monitored, on a comparative basis, CO₂ emissions and energy consumption. The latter is, of course, also a factor in potential marketplace viability.

Findings to date are significant. As the following table indicates, both total energy use and total emissions were lower at the Vejle pilot restaurant than in the HFC-using control.

The study also found that:

- Three pieces of the refrigeration equipment tested – the shake/sundae machine, the walk-in freezer and cooler and the heating, ventilation and air conditioning (HVAC) system – account for 97% of refrigeration electrical usage.
- The most promising equipment is the HVAC system.

COMPARATIVE TOTAL EQUIVALENT WARMING IMPACT (TEWI) CALCULATIONS.

Esbjerg					Vejle			
	Refrigerant	Charge	Global Warming Potential	CO ₂	Refrigerant	Charge	Global Warming Potential	CO ₂
Post-mix	R404A	1,616	3,200	10,601	Propane	646	3	4.0
Juice	R134a	155	1,300	413	Propane	70	3	0.4
Shake	R404A	2,835	3,200	18,598	Propane	1,419	3	8.7
Meat freezer	R404A	270	3,200	1,771	Propane	100	3	0.6
Wall freezer	R404A	270	3,200	1,771	Propane	100	3	0.6
Ice cube	R404A	1,200	3,200	7,872	Propane	450	3	2.8
Salad cooler	R134a	100	1,300	267	Isobutane	40	2	0.2
Walk-in	R134a	10,000	1,300	26,650	Propane	1,000	3	6.2
				0	CO ₂	5,000	1	10.3
HVAC	R407c	17,000	3,000	104,550	CO ₂	12,000	1	24.6
Direct emissions (kg CO ₂ in lifetime)				172,493 12%				58 0%
Indirect emissions (kg CO ₂ in lifetime)	Energy consumption (kWh)			1,208,181	Energy consumption (kWh)			1,116,414
	<i>Per week</i>	<i>In lifetime</i>			<i>Per week</i>	<i>In lifetime</i>		
	2,383	1,858,740			2,202	1,717,560		
Total emissions	1,380,674	1,116,472						
Reduction in Vejle								19%

Assumptions – Leakage rate 7% per year, Lifetime 15 years, Recovery rate 0.0, CO₂ emissions per kWh 0.65kg CO₂/kWh

Based on these findings, we have decided to:

- Focus most of our developmental work and testing on the three pieces of equipment that could have the greatest energy-saving impacts.
- Work with suppliers to establish a research and development program for alternative refrigerant equipment.
- Emphasize and accelerate exploration of CO₂ options, while

limiting hydrocarbon (HC) options to pieces of equipment with a charge size under 150 grams and to countries that permit HC use.

- In view of new developments in CO₂ technology, advocate CO₂ as a potential global solution.

In June 2004, we co-hosted a second refrigeration summit, where we shared the findings of the study and our commitments for further action. Partners in the summit were The Coca-Cola Company, Unilever Ice Cream, UNEP and Greenpeace.

Packaging

McDonald's has a long-established process for working with our suppliers to manage packaging impacts on the environment. The program focuses on reducing use of materials and incorporating recycled content. We also avoid use of non-biodegradable materials whenever possible. We balance environmental criteria, as we must, with functionality, product quality, legal requirements, cost and our own food quality and safety standards.

The packaging program began in the late 1980s, when we phased out use of foam packaging containing chlorofluorocarbons (CFCs). In 1990, we formalized a continuing collaboration with Environmental Defense to focus on packaging reduction and related solid waste issues. Through an ongoing series of changes in packaging design – for

example, reducing the size and weight of napkins and the thickness of straws – we achieved, by 2000, a total reduction in our U.S. business of 297 million pounds. The packaging reduction effort has continued and expanded to other major local business units.

For this report, we compiled recent results from six country-level business units – Canada, France, Germany, Spain, the UK and the U.S. Together, they account for 68.7% of total revenues from McDonald's restaurants. As the following table shows, between 2002 and 2003, their packaging use in weight increased by 48,492 tons or 12.0%. However, their sales increased by 11.3%. Measured by weight per \$1,000 sales, packaging use in the sample business units increased by an average of 0.7%

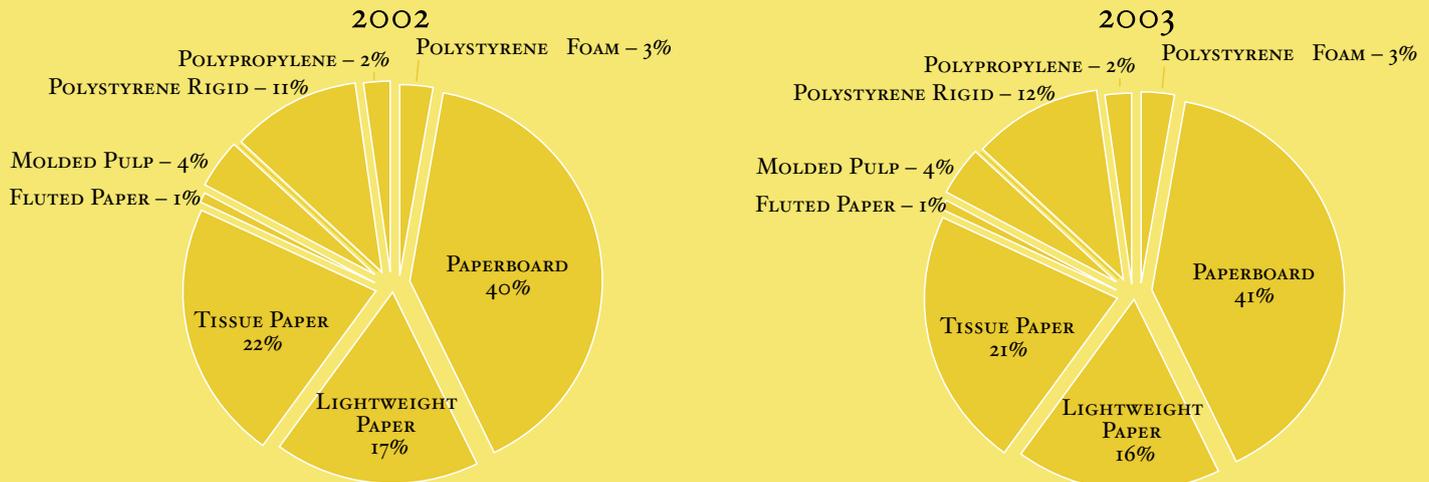
PACKAGING, BY WEIGHT FOR SIX MAJOR LOCAL BUSINESS UNITS
2002 – 2003 (IN TONS)



Our analysis of the six-country packaging data indicates that, while the weight of packaging increased, the same materials in basically the same proportions were used in 2002 and 2003. It also indicates that paper products in some form account for approximately 82.4% of the

packaging mix. One of our major objectives is to increase use of paper packaging based on sustainable forestry practices.

PACKAGING COMPOSITION FOR SIX MAJOR LOCAL BUSINESS UNITS



i For further information on our activities related to packaging and forestry, please see page 65.

HOW WE KEEP THE ENVIRONMENT IN MIND: BALANCING
CUSTOMER EXPERIENCE, OPERATIONAL PERFORMANCE AND
ENVIRONMENTAL RESPONSIBILITY

In 2003, McDonald's USA changed the packaging for some of its sandwiches and introduced new carryout bags. The changes were among the many initiatives undertaken to improve our customers' experience. The new packaging was designed with the environment in mind, but it still increased environmental impacts. To maintain our environmental leadership, we committed to more than offsetting these increases with other environmental packaging improvements.

The new packaging is used for the Quarter Pounder with Cheese, the Big N' Tasty, Filet-O-Fish and the Big Mac. Instead of flexible wrappers, restaurants began using rigid corrugated containers made of multiple layers of paper, which provide improved insulation. This packaging enhancement was aimed at making the sandwiches

stay hotter and fresher as they are served to our customers. The combination of layers and corrugated fluting also makes for a package that is stronger and more crush resistant but still relatively lightweight.

The new carryout bags contain 40% post-consumer recycled material, though less than the bags they are replacing. Because the bags are white, the paper must be bleached, whereas the brown bags they replaced were unbleached.

Working with our supplier and Environmental Defense, we initiated changes to offset 100% of the increased impacts by January 2004 and to achieve an additional 5% reduction in impacts by March 2004. Both objectives were achieved. The offsets included increasing the post-consumer recycled content in our napkins and using lighter-weight paperboard for our 5- and 6-ounce fry cartons.

Targeting Waste Reduction

At the corporate level, we have, since 1993, commissioned waste characterization studies to help us understand the makeup of our restaurant waste and target areas for reduction. Based in the U.S., these studies measure and track the amounts and types of waste discarded behind the counter, in the customer seating area and in the parking lot, using a sample of McDonald's restaurants. Waste is measured in pounds per \$1,000 in sales. 10 restaurants have thus far been audited.

While findings from the waste audits cannot reliably be used for global estimates, they do indicate some general characteristics and trends we know apply more generally.

- Since 1993, inputs into the waste stream have decreased.
- The majority of our restaurant waste – in the U.S., approximately 70% – is generated behind the counter.
- This waste consists largely of the packaging in which products arrive at our restaurants, principally corrugated paper, and organic materials, like used cooking oil.

DETAILED WASTE AUDIT COMPARISON: POUNDS OF WASTE PER ONE THOUSAND DOLLARS OF SALES

Restaurant Name	Tonawanda	Pine Ave	NF Blvd	Pine Ave	NF Blvd	Davis	Rio Linda	Grand Island	Niagara	Foothills Blvd	Harding Ave	
Location	NY	NY	NY	NY	NY	NY	CA	NY	NY	CA	CA	
Year	1993	1994	1994	1996	1996	1999	1999	2001	2001	2004	2004	
Waste Stream												AVG
Organics	36.8	30.1	24.5	28.4	27.4	25.8	22.6	28.4	19.8	17.8	27.6	26.3
Compostable Paper	29.6	30.1	34	24.1	30	22.7	18.6	27.4	21.5	17.2	21.5	25.2
Corrugated (Waste)	0.7	0.8	1.3	1.1	1.3	--	--	1.7	3.1	0.3	0.4	1.0
Poly-coated Paper	3.9	2.7	2.7	3.5	3.7	1.6	1.9	0.8	0.8	1.5	1.4	2.2
Low Density Polyethylene	5	4.1	3.6	2.8	3.5	3.1	3	3.7	2.3	4.1	4.6	3.6
High Density Polyethylene	1	1.2	0.7	0.7	0.7	0.4	0.7	1.1	0.9	0.8	0.8	0.8
Poly Pouches	1.3	1.6	1.7	1.8	1.8	1.9	1.9	1.6	1.2	1.1	0.8	1.5
Polystyrene	3.1	2.9	3	2.2	2.7	1.5	1.1	2.7	2.5	1.6	2.2	2.3
Condiments	2.1	2.5	3.3	3.2	3.8	1.4	1.3	1.3	1.4	1.0	1.1	2.0
Newspaper	3.5	0.5	0.5	0.6	1.3	1.5	0.4	4.2	0.8	1.7	1.1	1.5
Deep Fry Filter	1.1	0.5	0.8	1	0.9	0.6	0.3	--	--	0.1	0.3	0.5
Grill Cleaning Residue	--	11.2	5.7	5.2	5.1	5	--	--	--	0.0	0.0	2.9
Straws	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Sanitary Waste	--	0.3	1.3	1.3	1.3	0.4	--	--	--	0.9	0.3	0.5
Laminates	1.2	1.5	1.3	1.2	1	1.6	1.3	0.9	0.3	1.3	1.1	1.2
Miscellaneous	3.3	0.8	1.1	2.3	2.5	0.9*	1.4*	3.9	5.9	3.2	4.7	2.5
Foreign	1.8	2.5	4.5	2.6	4.1	2.7	0.8	2.1	1.3	0.7	0.7	2.2
Total Waste	94.6	93.6	90.2	82.2	91.3	71.2	55.4	79.9	62	53.9	69.0	76.7
Recycled Corrugated	18.4	22.1	17.2	18.7	17.7	19.2	20.2	13.4	10.9	15.9	18.1	17.4
Grand Total	113	115.7	107.4	100.9	109	90.4	75.6	93.3	72.9	69.8	87.2	94.1

LOCAL BUSINESS UNIT WASTE MANAGEMENT

In some countries, composting is an optimum method for diverting organic restaurant wastes. McDonald's Austria and McDonald's Australia have both initiated best practice composting programs. The McDonald's Australia program, which involves up to 20 restaurants, has reduced the amount of waste that would go to landfills by at least 80%. The diversion not only helps control landfills, but reduces greenhouse gas emissions associated with the decomposition of organic matter.

Composting opportunities depend on numerous local factors, including infrastructure capacities, markets and laws and regulations. The same is true for recycling opportunities. For example, the EU prohibits use of post-consumer recycled material in food packaging, and some European countries have additional restrictions.

While approaches vary, numerous local McDonald's business units recycle corrugated cardboard and used cooking oil. There are also initiatives to reduce packaging waste by changing the way products are delivered to the restaurants.

McDonald's Canada, for example, has nationwide recycling programs for both corrugated cardboard and used cooking oil. Eighty-six percent of the restaurants recycle corrugated cardboard, and 97% recycle used oils. As preferable to recycling, reusable materials are utilized, whenever feasible, in company operations and distribution systems. For example, sandwich buns are delivered to restaurants in reusable plastic shipping containers, and a reusable pallet system (the portable platforms used to move and store products) is used throughout the supplier network.

BULK COOKING OIL INITIATIVE

Since 1999, McDonald's USA has been engaged in a supplier initiative to develop a bulk cooking oil management program, as an alternative to transporting new and used cooking oil in plastic jug containers. The program eliminates, on average, 1,500 pounds of packaging waste per year – both jugs and the corrugated cardboard boxes that hold them. It also eliminates the waste of residual oil in used jugs.

Although costs are slightly higher, the program has offsetting advantages. Because employees need no longer handle cooking oil, safety and security are improved, potentially reducing insurance costs and increasing job satisfaction. And the labor saved may be reallocated to value-adding tasks. According to a study by Restaurant Technologies, Inc., bulk delivery of oil eliminates management and handling of, on average, 17,080 pounds of cooking oil per restaurant per year. The labor savings are thus considerable.

The program is voluntary for owner/operators. There is an ongoing effort to communicate the business case for participation. As of May 2004, approximately 3,500 McDonald's U.S. restaurants were participating. Of these, approximately 70% were franchised operations. The target is to achieve participation by all restaurants capable of receiving bulk oil (approximately 87% of all U.S. restaurants) by 2008.

RECYCLING INTO BIODIESEL FUEL

A promising alternative for used cooking oil is recycling into biodiesel fuel. Such fuel may be used pure or blended with conventional petroleum diesel. From an environmental perspective, biodiesel fuel has many benefits. It:

- Produces lower CO₂ emissions than petroleum diesel and is essentially free of sulfur and aromatics, thus reducing pollutant emissions by 10 – 50%.
- Is produced from a renewable energy source.
- Is nontoxic.
- Biodegrades quickly (95% within 28 days).

A number of local McDonald's business units have initiated biodiesel recycling programs. For example:

- McDonald's Austria has approximately 90% of its used cooking oil reprocessed as biodiesel fuel. This fuel is used in the trucks that deliver products to McDonald's restaurants – in effect, creating a closed chain. This best practice may be expanded to other McDonald's European markets.
- McDonald's Brazil is collaborating with the Federal University of Rio de Janeiro on a biodiesel project. The government of the State of Rio de Janeiro is already using the biodiesel – a blend of 5% used cooking oil from McDonald's restaurants and 95% diesel fuel – in some of its public fleet cars. The project aims to reduce greenhouse gas emissions – a severe problem in heavily-populated Brazilian cities like Rio de Janeiro.
- McDonald's France is collaborating with a leading biodiesel producer and two major collectors and reprocessors of used cooking oil. Two types of biodiesel are produced from the restaurants' used oil. One is used to heat buildings in Italy, and the other is used as fuel for diesel engines. This project is a priority for McDonald's France. In 2003, 6,000 tons of used cooking oil were collected and used for biodiesel. The company's goal is to have all used cooking oil used for biodiesel by the end of 2004.
- McDonald's Italy contributes approximately 1,200 tons of used cooking oil per year to biodiesel production—approximately 20% of the total volume of oil used by McDonald's Italy restaurants. The biodiesel is used to heat buildings.

Water

We have begun to examine issues associated with our use of water. In most countries where we do business, water is widely available. However, we want to ensure long-term availability of the amounts and quality of water needed by our restaurants and are taking proactive steps to address this objective. At the corporate level, a Global Water Team is working to assist markets worldwide to develop systematic approaches to delivering adequate supplies of safe, quality water for restaurant use at a reasonable cost.

Some of our local business units have taken a closer look at reducing water consumption. Notably, McDonald's Australia has responded to recurrent droughts in the country with a water conservation program that has achieved significant results.

At the outset of the program, the company commissioned audits, which indicated that, for large, free-standing restaurants, more than 60% of the water was used outside, for landscape maintenance and cleaning.

Based on the audit findings, new procedures were developed for the high water usage areas. For example, hand watering, when necessary, replaced use of conventional garden watering systems, and

in new restaurants, water-efficient drip-fed irrigation systems were installed. The company also established water usage targets for its restaurants, added advisory notes to relevant sections of its restaurant operations manual, modified outdoor cleaning procedures and introduced a checklist to encourage regular checks for leaks and other water conservation measures. Between 2002 and 2003, total water usage was reduced by 300 kiloliters, or approximately 79,255 gallons.

Litter

Preventing litter is ultimately an individual responsibility. However, McDonald's restaurants have long played an active role in controlling litter. Our training materials for company-owned restaurants include procedures for regular clean-ups in areas immediately surrounding the restaurants. These materials are made available, as resources, to owner/operators and their managers. Litter control is also incorporated into the new ROIP. In addition, our local business units collaborate with non-profits and government organizations in clean-up and anti-litter education programs.



GERMANY

McDonald's Germany has developed and sponsored a range of programs to promote responsible litter disposal. The company has:

- Sponsored major clean-up campaigns in three German states and the city of Cologne.
- Launched a Ronald McDonald program, with special songs and a coloring book, to teach young children to respect the natural environment and dispose of waste properly.
- Provided ongoing anti-litter reminders through in-restaurant brochures and signs, tapes, videos and outdoor waste containers with signage. In 2003, messages were expanded to carryout bags (approximately 60 million) and trayliners (approximately three million).



UK

For 20 years, McDonald's UK has collaborated with local community groups on anti-litter campaigns throughout the country. These typically involve "Just Bin It" events, in which restaurant staff work with local community organizations and individual volunteers to remove litter from their neighborhoods. In 2003, more than 550 "Just Bin It" events, involving more than 5,000 McDonald's employees and 12,000 members of the general public, were held throughout the UK.



AUSTRALIA

McDonald's Australia has been a major supporter of the Clean Up Australia Day program since its inception in 1989. During this annual event, hundreds of thousands of volunteers help clean up Australia's parklands, waterways and roadsides. The company has also developed its own anti-litter program – Clean Streets. This program aims to increase awareness of litter and decrease the amount of McDonald's packaging that enters the litter stream. While educating consumers, it also acknowledges our restaurants' responsibilities by:

- Redefining litter patrol areas around the restaurants.
- Providing crew and restaurant manager training.
- Introducing a more comprehensive restaurant litter management system.
- Incorporating shared responsibility messages on restaurant packaging.

Economic Impacts

McDonald's has been a force in the communities in which it does business since 1955, when the first store in Des Plaines, Illinois opened its doors. Nearly 50 years and more than 30,000 restaurants later, McDonald's continues to impact local economies in the 119 countries in which it now operates.

We are seeking to better understand our economic impacts so that we may improve and better communicate about our investments in local communities. This involves going beyond the data in our own management records to projections of the impacts of the business we do with local suppliers. The "multiplier effect" includes, among other things, the people other local businesses hire to supply us with goods and services, the additional taxes they pay and the additional sums our investments ultimately make available for purchases from still other local businesses. We are also interested in the impacts of the taxes paid and generated and, internationally, in the revenues generated by exports to McDonald's in other countries.

McDonald's USA has been working with Professor Dennis H. Tootelian, a business school faculty member at California State University at Sacramento. Professor Tootelian has developed a customized model to measure our restaurants' economic impacts. He has thus far completed studies of four U.S. metropolitan areas and five western states. His findings may be illustrated by this summary of three of his recently completed state-level studies. The Texas and Oklahoma data are from 2002. The California data are from 2003.

McDonald's Economic Impact on Local U.S. Communities

Summary of Reports by Professor Dennis H. Tootelian

McDonald's restaurants are major contributors to states' local economies. They employ a large number of people who reside in the communities which the restaurants are located and spend large amounts of money locally on labor and goods and services. The combination of restaurant employment and expenditures has a pronounced impact on local economies because they recycle money back into the states that is used to purchase other goods and services and thereby create jobs.

Because of the volume of business, McDonald's incurs substantial expenses in the form of business taxes, licenses and payroll taxes. The heightened economic activities McDonald's stimulates generate additional taxes from those who benefit.

The following table indicates the impact of McDonald's restaurants in the sample states.⁷

Other state impact studies are underway, and a somewhat comparable study has been completed in Brazil. McDonald's Russia has developed case studies on its impact on local supplier development.

i For further information about McDonald's Russia's activities, please see the company's social responsibility report on our corporate website at http://www.mcdonalds.com/corp/values/socialrespons/sr_report/2004_cr_report.html.

	Texas (1,139 Restaurants)	Oklahoma (170 Restaurants)	California (1,297 Restaurants)
People employed in management, support & operations staff positions	37,265	8,480	56,060
Expenditures on salaries & wages	>\$381.8 million \$1.05 million/ day	~\$71.9 million \$197,000/ day	>\$550.1 million \$1.5 million/ day
Expenditures on benefits	Nearly \$130.6 million	Nearly \$17.9 million	Nearly \$72.1 million
Percent of sales revenues consumed by wages & benefits	33.4%	34.3%	23.5%
Spent in the community ⁸	\$611.2 million ~\$1.7 million/ day	\$110.1 million >\$301,725/ day	>\$1 billion >\$2.7 million/ day
Returned to the local economy/ \$1.00 earned	>40¢	>42¢	43¢
Investment in area ⁹	> \$911.2 million	>\$136 million	Nearly \$2 billion
Jobs created	> 96,900	>22,050	>145,600
Spending created	~\$2 billion	~\$371.3 million	>\$2.8 billion
Payments in business taxes, licenses & payroll taxes	\$55.2 million Nearly \$151,100/ day	\$7.4 million Nearly \$20,375/ day	\$75.4 million Nearly \$206,500/ day
Taxes created by generation of new jobs & purchases from other local businesses	\$347.8 million	\$50.5 million	\$385.8 million

⁷ All data in the table are from Professor Tootelian's reports of his studies.

⁸ Totals consist of expenditures for employee wages and benefits, plus purchases of local goods and services.

⁹ Investment figures represent value of physical facilities, based on average construction costs.



Local Community Involvement

At the corporate level, McDonald's helps support programs that benefit children and families around the world, principally through its support for Ronald McDonald House Charities and World Children's Day. At the local level, virtually every business unit sponsors programs that meet community needs, including the local independent RMHC Chapters. Owner/operators participate in these programs and, in some instances, create and/or sponsor programs on their own. Suppliers are also often active supporters.

While the programs are enormously various, they tend to reflect emphases consistent with our brand, our core values and our relationship with customers – children's health, education, youth sports and amateur athletics. Owner/operators and local business units also play a significant role in disaster relief efforts.

The following is an illustrative sample from our 10 major markets.

CHILDREN'S HEALTH PROGRAMS



BRAZIL

Since 1998, annual McHappy Day events sponsored by McDonald's Brazil have brought together customers, owner/operators and suppliers in one of the country's most significant public health events conducted by a private sector organization. In the past 15 years, the McHappy Day events have raised a total of nearly \$14.2 million (USD) for charities benefiting children and adolescents with cancer. The 2003 McHappy event Day mobilized more than 30,000 volunteers.



FRANCE

McDonald's France also celebrates an annual fundraising day – Big Mac Don (Gift). A portion of the proceeds from sales of Big Mac sandwiches are contributed to support the operations and expansion of Ronald McDonald Houses.



AUSTRALIA

McDonald's Australia is another of the many local business units that sponsors an annual McHappy Day event. In Australia, McHappy Day culminates a two-week long fundraising period. In 2003, the program raised nearly \$1.3 million (USD), which was donated to 200 charities throughout the country that address the needs of seriously ill and special needs children.



SPAIN

During 2003 World Children's Day, McDonald's restaurants in Spain raised nearly \$133,970 (USD) for the local Ronald McDonald House Chapter (Fundación Infantil Ronald McDonald). Additional funds were raised through change boxes for customer donations and the Give A Hand promotion.

EDUCATION



UNITED STATES

U.S. owner/operator Sybil Pici founded a program – Camp Mickey D's – to help students learn about workplace values and the connection between school and work. The program is now sponsored by the Greater San Antonio (Texas) Operators Association and serves 38 high schools in 14 school districts in and around San Antonio. Four hotel chains have used Camp Mickey D's as a model for similar programs of their own.



GERMANY

McDonald's Germany has developed folders of environmental teaching materials for high schools. Between September 2003 and April 2004, 9,500 folders were ordered and an additional 2,000 copies downloaded. The company also has developed folders of nutrition materials for high schools and plans to create a version for elementary schools.



CHINA

McDonald's China has used funds raised during World Children's Days to provide dictionaries to needy children.

YOUTH SPORTS



UK

McDonald's UK is collaborating with four UK National Football Associations to help develop their nationwide amateur football (known in the U.S. as soccer) program. The joint initiative focuses on increasing the number of qualified coaches for schools and local communities. Thus far, more than 4,000 coaches have been trained. It is estimated that more than one million children will benefit from the program.



JAPAN

As reported on page 10, McDonald's Japan sponsors an annual All-Japan Rubber Baseball Tournament. Rubber baseball is an original Japanese product, created to provide a safe way for children to play baseball.

HELP IN NEED



CANADA

In 2003, after a massive flood of the Badger River in Western Canada, owner/operators Peggy and Barry Bartlett established a relief fund. They personally contributed approximately \$25,000 in supplies and other in-kind donations to affected families, and the Newfoundland owner/operators association donated an additional \$25,000.

Developments Since 2002 Corporate Responsibility Report

Much has happened at McDonald's since we issued our first corporate responsibility report in April 2002. We have a new senior management team and have committed to a business strategy that involves a disciplined focus on key drivers of customer experience – the five P's of the Plan to Win. The Plan to Win is reflected not only in the structure of this report, but in our understanding of what corporate responsibility means for the McDonald's System – how it is rooted in the essentials of our business, heritage and values. The Plan To Win has also influenced our social and environmental priorities and our approach both to programs and to reporting.

Our priorities have also been influenced by large-scale social developments, evolving stakeholder interests and their impact on our business. Notably, we are placing great emphasis on support for balanced lifestyles – an issue not addressed in our 2002 report. We are also reporting more fully on our food safety program and corporate governance.

What We Have Learned

Our approaches have also evolved because of what we have learned since our first report, when we were just starting out on our journey.

GOALS AND PRIORITIES

In our first report, we established a number of goals and priorities. We have made significant progress on many. However, we have learned that, in certain areas, priorities and related monitoring systems are better set at the regional and local level. Thus, we are now more carefully distinguishing between corporate programs, like supplier social accountability, and programs to be developed by geographic business units within a corporate framework.

For example, our global environmental policy establishes conservation of natural resources as a System-wide objective. McDonald's Japan emphasizes energy management because Japan's commitment to a greenhouse gas reduction target under the Kyoto protocol makes that an appropriate priority. The company also places great importance on solid waste management. While aggressively addressing many environmental issues, McDonald's Australia gives particular priority to water management because the country has experienced severe droughts. Significant recycling initiatives in some of our local markets would be impractical in others.

METRICS

As we acknowledged at the time, our first report was short on performance measures and other numeric data. We have made concerted efforts to develop more robust metrics. For this report, for example, we surveyed McDonald's top 10 local business units and collected more data from corporate sources. We are working on initiatives that should produce further improvements. However, the freedom-within-the-framework approach that guides our management philosophy means that reporting of multi-market metrics will have continuing limitations.

Approximately 73% of McDonald's restaurants are operated by independent business people – many of them operators of small business. There are limits to their data collection and reporting capacities. Moreover, many established performance measures, particularly in the environmental area, were developed for manufacturing companies, not food retailers – and certainly not for those who franchise. We want to help lead an effort to develop corporate responsibility reporting standards that better reflect key issues in the retail sector. To this end, we have volunteered to advance a retail sector supplement to the Global Reporting Initiative's guidelines.

Perhaps most importantly, a comprehensive standardized metrics scheme would conflict with the geographic business unit freedom we consider so essential. Metrics are, properly, an inherent part of program management. Thus, different geographic business units will have different performance measures according to their objectives, capacities and, in some instances, legal compliance obligations. Standardizing their data collection and reporting requirements would inevitably limit effective management and/or program flexibility.

We are, however, moving toward global metrics as a tool for promoting continuous improvement at the individual restaurant level, where certain elements of performance can and should be consistent throughout the System. As discussed earlier, our new Restaurant Operations Improvement Process (ROIP) involves evaluations related to 12 areas (or "systems") that directly impact customer experience and, hence, business results. The systems include issues addressed in this report, including food safety, employee learning and development, safety and litter control.

ROIP assessments result in numerical ratings, which are compiled as a management tool for owner/operators, company store managers and the staff business consultants responsible for assisting them. They are also used for decision-making at higher levels. Initiated in the U.S. and Canada in 2002 and revised in 2003, with input from owner/operators and company staff, ROIP will be rolled out globally, beginning in the first quarter of 2005.

Looking Forward

At the corporate level, we will continue to define and provide leadership on the most material corporate responsibility issues. We will also continue to support research and sharing of best practices. And we will again report on corporate policies, priorities and programs, with salient examples and results from our geographic business units. We will also endeavor to increase readership of their reports through our corporate website.

Since our 2002 report, some McDonald's business units have begun to issue their own corporate responsibility reports, and others are planning to do so. We view this as a further, very positive evolution

of freedom within the framework and a reflection of shared commitments within the System.

In the first half of 2004, two geographic business units issued corporate responsibility reports. A third is scheduled for publication in July 2004.

i Business unit corporate responsibility reports are available at http://www.mcdonalds.com/corp/values/socialrespons/sr_report/2004_cr_report.html.



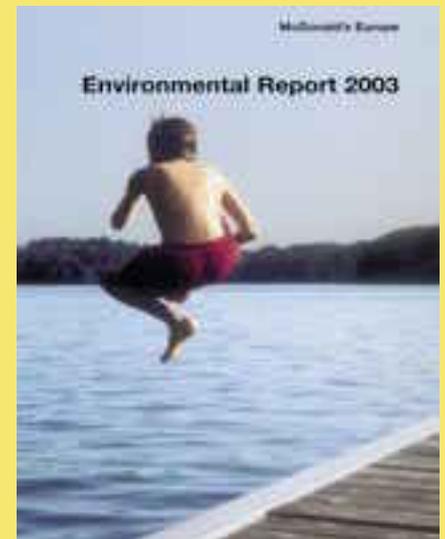
MCDONALD'S JAPAN

- Second sustainability report.
- Approximately 3,770 restaurants.
- Nearly 80,000 restaurant employees.



MCDONALD'S BRAZIL

- Second social responsibility report.
- Approximately 1,180 company and franchised restaurants and kiosks.
- Approximately 1.5 million customers a day.



MCDONALD'S EUROPE

- First McDonald's Europe-wide environment report, covering efforts in 42 countries.
- More than 6,000 company and franchised restaurants.
- More than 10 million customers a day.

Feedback

Hearing your thoughts and perspectives helps us to improve our corporate practices. We value and welcome your feedback.

Please write to:

Social Responsibility Department
McDonald's Corporation
Oak Brook, IL 60523

E-mail us at:

cr_feedback@mcd.com

And take our survey at:

http://www.mcdonalds.com/corp/values/socialrespons/sr_report/2004_cr_report.html

Please visit our website to download the report and for more information about our corporate responsibility initiatives:

<http://www.mcdonalds.com/corp/values/socialrespons.html>

Acknowledgements

We thank the following organizations for their help and guidance with this report:

Business for Social Responsibility, *www.bsr.org*

CERES, *www.ceres.org*

SustainAbility, *www.sustainability.com*

The Natural Step, *www.naturalstep.org*



The topics addressed in this report were identified based on feedback from stakeholders and the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, *www.globalreporting.org*. McDonald's is a registered organizational stakeholder of the GRI and supports its mission to develop globally-accepted sustainability reporting guidelines through a global, multi-stakeholder process.

Credits

This report was designed by VSA Partners, Chicago, Illinois, *www.vsapartners.com*, and reflects additional work by McDonald's Creative Services Department.

The primary photographer for the report was Mark Smalling, *www.marksmalling.com*.

Other sources also provided photography, including:

The photograph of Bob Beavers and Ed Honesty, Best Harvest Bakery, was given as a courtesy by *Franchise Times*.

The photograph inside the Brazil restaurant was taken by Rafael Costa.

The photographs of Temple Grandin were taken by Rosalie Winard, *www.birdfactory.org*.

The photographs of the McCain facility was given as a courtesy by McCain Foods, Canada.

This report is printed on Mohawk Options, 100% post-consumer white, which contains 100% post-consumer waste fiber, is Forest Stewardship Council certified and is manufactured with wind power. The report is printed with waterless ink.

This McDonald's Corporate Responsibility Report, issued June 2004, provides information about pertinent aspects of our business related to our products, the communities we serve, the environment, our people, and our relationships with suppliers. The report presents our progress through the first half of 2004. Forward-looking statements included in the Report reflect management's expectations regarding future events and future performance as of June 2004. 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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In memory of Jim Cantalupo
and the indelible mark he left on the McDonald's System.

1944-2004

