

MAY 2016

McDonald's Journey Towards Sustainable Fiber-Based Packaging

WE'RE HALF WAY THERE

Learn more about our restaurant sustainability and waste efforts on our website, WWW.ABOUTMCDONALDS.COM/MCD/SUSTAINABILITY



Using our size and scale to make a positive difference

At McDonald's, we are keenly aware that our size, scale, and global reach means our operations can have significant impacts on people, animals, and the planet. At the same time, we also know that we have the responsibility to help drive meaningful change around the world. By working to develop policies and programs that enhance the social, environmental and economic impacts of our restaurant and supply chain operations, we're doing just that.



McDonald's aspiration is to source all of our food and packaging sustainably. One of our 2020 sustainable sourcing commitments – and the focus of this report – is our goal to source 100 percent of our fiber-based packaging from recycled or certified sustainable sources.

For sure, this is a shared journey. So we know it's imperative that we continue to partner with a wide range of stakeholders to reduce our sourcing footprint and to drive positive impact for forests, producers and communities everywhere we operate.

KEITH KENNY, VP OF GLOBAL SUSTAINABILITY

WHAT YOU'LL FIND IN THIS UPDATE

The following 2016 progress update outlines the key elements of our sustainable fiber-based packaging sourcing efforts, with a focus on:

- An overview of our sustainable packaging strategy
- Progress toward our goal to source 100% of our fiber-based packaging from certified or recycled sources by 2020
- Efforts to achieve zero deforestation for all fiber sourcing under our Global Commitment on Deforestation
- How we're partnering for success to drive progress

In 2015, we **doubled** our percent of certified or recycled content for consumer fiber-based packaging, getting us more than half way to our goal.

53% certified or recycled^{1,2,3}
UP FROM 23% IN 2014



McDonald's restaurants in the U.S. completed a transition to FSC™-certified fiber for all hot cups this year. All hot cups now incorporate the FSC logo to share this news with our customers. McDonald's Canada also achieved a certification milestone in 2015, moving to 100% PEFC-certified hot cups.

FSC – FOREST STEWARDSHIP COUNCIL™

PEFC – PROGRAMME FOR THE ENDORSEMENT OF FOREST CERTIFICATION

¹ Based on fiber-based consumer facing packaging for all McDonald's restaurants globally. Packaging categories included without limitation are the following: hot cups, cold cups, carry out bags, folding cartons, clamshells, wraps, food service bags, napkins, salad bowls, Happy Meal containers, drink carriers. Packaging metrics do not include operational supplies or pre-filled food packaging (e.g., sauce packets, salad dressings).
² Methodology for calculating metric was modified in 2012 to be in line with other fiber certification standards by requiring chain of custody documentation.
³ The metric covers 98.5% of global packaging (by sales). For the markets that didn't report, the remaining 1.5% data was extrapolated based on sales and assumed not certified / recycled.

McDonald's Sustainable Packaging Strategy

OUR HOLISTIC APPROACH

First and foremost, our priority is to optimize the amount of packaging we use, and to use only certified or recycled sources. Yet, we also recognize that recycling options in our restaurants are critical. In a nutshell, our sustainable packaging strategy includes three elements:

- Design – Optimize weight and simplify the number of materials used in our packaging
- Sourcing – Increase the use of recycled and certified sustainably sourced raw materials
- Recovery – Work to use recoverable packaging with viable end-of-life options

In April, 2014, we announced our goal to source 100% of our fiber-based packaging from certified or recycled sources, with a preference for Forest Stewardship Council (FSC) certified materials, by 2020. To support this goal, McDonald's also published its Global Fiber Sourcing Policy, which provides more detail on the Company's priorities for sustainable packaging.

Expanding on our fiber-based packaging goal and in line with McDonald's Global Sustainability Framework, the Company published its [Commitment on Deforestation](#) in 2015. The Commitment encompasses all McDonald's products and focuses on beef, fiber-based packaging, coffee, palm oil, and poultry.

Developed in partnership with NGOs and suppliers, the Commitment is based on a rigorous mapping of our supply chain to identify areas where deforestation could be a risk, and to act on strategies to mitigate that risk. For fiber-based packaging, as well our other priority products, this ultimately equates to a goal to achieve zero deforestation.



THE END GAME – REDUCE WASTE IN OUR RESTAURANTS

In addition to working towards our sustainable fiber-sourcing goal, we strive to improve the packaging we use by optimizing the type and volume of material selected. We also hope to empower our customers to recycle more and to promote infrastructure developments that enable a more circular lifecycle for food and beverage packaging.

Below are a few examples of how we are making progress:

- In 2015, efforts to optimize packaging design in the U.S. led to the elimination of 5.8 million pounds of packaging waste, surpassing our goal of 5.2 million pounds.
- Starting in 2013, 26 of McDonald's 38 European markets have set 3-year roadmaps to increase their restaurant recycling. Through annual tracking, we estimate that in 2014 34% of total waste (by weight) has been recycled from restaurants in the biggest 19 European markets. Several markets are currently testing and rolling out customer waste separation schemes to further increase recycling rates.
- The How2Recycle logo is incorporated on 18% of our packaging in the U.S., helping consumers to understand where and how to recycle.



In April 2016, McDonald's was honored to be recognized with two separate awards for leadership in sustainable packaging:

The "Trashies" Award, presented by the [Sustainable Packaging Coalition](#), for progress throughout the McDonald's supply chain to increase certified fiber while achieving significant cost reductions in partnership with supplier HAVI Global Solutions.



2016 Sustainability Gold Award, presented by the [Institute for Supply Management- Chicago](#), for sustainable packaging commitments and global supply chain collaboration.

Progress Toward Our 2020 Aspirational Goal

ASPIRATIONAL GOAL: 100% of fiber-based packaging from certified or recycled sources by 2020



In 2015, we continued to make progress, and we are on track to meet our goal. As of the end of 2015, 53% of McDonald's fiber-based packaging is certified (FSC, PEFC™ or PEFC-endorsed) or recycled, up from 23% in 2014.

DRIVING PROGRESS WHILE ACHIEVING POSITIVE IMPACTS

Underlying these results are tangible actions at market and/or regional levels, initiated in collaboration with expert NGOs such as World Wildlife Fund (WWF) and GreenBlue's Sustainable Packaging Coalition. And of course, our suppliers are a key ingredient to our success. While we continue to make progress toward our 100% goal, McDonald's is focused on the specific impacts we can have, such as:

- Eliminating deforestation and supporting best forest management practices
- Reducing waste
- Addressing climate change
- Protecting water resources
- Respecting and protecting human rights
- Supporting farming communities and family forest owners
- Ensuring humane treatment of animals

For example, McDonald's supplier International Paper (IP) developed a grassroots outreach program aimed at certifying the lands of small, private landowners and industrial suppliers who provide fiber from the southeastern United States. They are educating landowners about the benefits of certification, providing resources, helping shoulder the costs and offering incentives for fiber purchases from certified lands. Currently IP's FSC group forest management certificate includes approximately 220 landowners across 10 states, and more than 120,000 acres under responsible forest management.

HOW WE GOT TO 53% - PROGRESS ACROSS THE McDONALD'S SYSTEM

McDonald's in Europe

In 2015, McDonald's European operations achieved full recycled or certified content for all fiber-based consumer packaging. All of the centrally-sourced packaging in our 38 European markets is now chain of custody certified, coming from either recycled products or forests certified to the FSC or PEFC certifications. Chain of Custody certification from forest to finished packaging ensures that certified materials and products have been checked at every stage of processing.

McDonald's USA & Canada

McDonald's restaurants in the U.S. completed a transition to FSC-certified fiber for all hot cups this year. All hot cups now incorporate the FSC logo to share this news with our U.S. customers. McDonald's Canada also achieved a certification milestone in 2015, moving to 100% PEFC-certified hot cups.

McDonald's Brazil

Our Brazilian operations achieved full certification under FSC or PEFC certification in 2014, and in 2015, we transitioned to 100% FSC certification, with the exception of coffee cups.

"McDonald's decision to source FSC-certified fiber and label its hot cups in the U.S. helps the company communicate its leadership commitment on responsible sourcing to its customers. We look forward to working with McDonald's as it continues to make progress on its sustainable sourcing journey."

—Linda Walker, Director of Responsible Forestry and Trade for WWF-US



McDonald's Commitment on Deforestation

In April 2015, McDonald's announced a [global commitment to eliminate deforestation](#) from our global supply chains. Since then, we've been working with our suppliers and expert NGOs to lay the groundwork for achieving this goal, while simultaneously making progress toward it.

Our Commitment details the importance McDonald's places on protecting forests and High Conservation Value areas. This commitment focuses on avoiding the most negative impacts of deforestation, while promoting responsible production through our fiber sourcing policy that benefits people, communities and the planet.

McDONALD'S FIBER-BASED PACKAGING DEFORESTATION- FREE TARGET:

By 2020 we will have FSC certification in all high risk countries protecting our fiber-based consumer packaging supply chain from deforestation.

Through this Commitment, we aim to achieve the following:

- No deforestation of primary forests or areas of High Conservation Value
- No development of High Carbon Stock forest areas
- No development on peatlands, regardless of depth, and the utilization of best management practices for existing commodity production on peatlands
- Respect for human rights
- Respect the right of all affected communities to give or withhold their free, prior and informed consent for plantation developments on land they own legally, communally or by custom
- Resolve land rights disputes through a balanced and transparent dispute resolution process
- Verify origin of raw material production
- Support smallholders, farmers, plantation owners and suppliers to comply with this commitment

Our global Commitment on Deforestation builds on previous work McDonald's has undertaken to protect the world's forests. **In 2014, McDonald's became the first quick-serve restaurant chain to sign on to the New York Declaration on Forests, a call for global companies and organizations to do their part in an effort to end natural forest loss by 2030.**

HOW WE'RE ELIMINATING DEFORESTATION FROM OUR FIBER-BASED PACKAGING SUPPLY CHAIN

As with all aspects of our sustainability strategy, we're focused on the most high-risk – and high-impact – areas of fiber sourcing to drive progress.

In 2015, we continued our collaboration with WWF to map the majority of our consumer-facing paper packaging fiber supply chain against countries where pulp plantations for paper are known drivers of deforestation. As of 2014, we found that less than 12% of the fiber for our consumer packaging may have come from these high-risk countries.

To address this risk and to avoid deforestation in our packaging supply chain, we will prioritize pursuing FSC certification for any fiber sources from these high-risk countries, and achieve that by 2020 at the latest.

FOREST STEWARDSHIP COUNCIL

In working toward our sustainable fiber-based packaging goal, McDonald's has a strong preference for FSC certification.

[FSC](#) is the standard that is recognized by most global NGOs as providing the most rigorous, holistic protections and assurances for the environmental and social issues that are associated with forest management. By highlighting to our suppliers and customers the positive impacts that FSC certification offers, including the use of the FSC logo on our U.S. hot cups, McDonald's is able to use our scale and reach to grow the demand for responsibly managed forest products far beyond our own operations.



The mark of
responsible forestry
FSC® N002365

Partnering for Success to Drive Progress

GLOBAL FOREST & TRADE NETWORK

Making progress on any sustainability issue hinges on a collaborative approach. Sustainable fiber sourcing is no exception. So we work closely with experts, industry leaders and producers – large and small – to identify lasting solutions and make them a reality.



A great example of this is our participation in WWF's Global Forest & Trade Network (GFTN). McDonald's joined GFTN in October 2014 as the group's first global restaurant company member. The GFTN is an initiative convened by WWF to bring together companies across the global forests product supply chain with a shared goal of eliminating illegal logging, improving forest management, and making the global marketplace for forest products a force for social and environmental responsibility.

McDonald's participation in GFTN brings us access to technical experts and industry leaders to help us achieve our 2020 fiber sourcing goal and our Commitment on Deforestation. In return, we bring to GFTN our global reach and influence to help WWF expand their protection of global forests and increase demand for and awareness of responsible forestry practices, particularly those detailed within FSC forest certification standards. We also commit to setting and reporting annually against our fiber sourcing targets.



ENGAGING WITH SMALL-SCALE FOREST OWNERS

In March of 2016, GreenBlue's Forest Products Working Group, and the American Forest Foundation (AFF) hosted its inaugural summit, Woodland Owner and Brand Owner: Opening a Dialogue about Sustainable Forestry, that brought together a diverse set of America's family forest owners and several well-known marketplace brands, including Mars, Incorporated; McDonald's USA; Time, Inc; McMillian Publishing; and Staples.

McDonald's sponsored the event, helping to make it possible for family woodland owners to attend and engage in meaningful dialogue about sustainable forest management, priorities and challenges, and future opportunities for working together toward shared goals.

"As a young fourth generation family forest owner, I was extremely impressed with McDonald's and other large corporations' interest and commitment to continuously improving their supply chains by looking beyond certification labels and going straight to the source. Anyone can buy a certification label; only people that care about people go straight to the producer to see how they can make their lives better."

–Alexandra Richman

Alexandra's family has been a member of the Moore County, Tennessee community since before it was officially established in 1871. They currently own 6,000 acres of forest land, which Alexandra is responsible for managing at the young age of 33. Given her interest in maintaining the health and economic viability of her family's forest land, Alexandra obtained a Bachelor of Science in Natural Resources and works with NGOs, government agencies and companies like McDonald's to better understand emerging threats to the future of forests and to proactively drive sustainability improvements.



ADVANCING FOOD SERVICE PACKAGING ACROSS THE INDUSTRY

In line with McDonald's commitment to accelerate access to recycling, the company is partnering with the [Foodservice Packaging Institute](#), an advocate for food service packaging recovery, to sponsor a "City Partnership." The goal of the City Partnership is to demonstrate the feasibility of recycling foodservice packaging, while also gaining insights on how to scale up similar efforts nationally. To support this, FPI continues making progress in conversations with potential communities, end markets and material recycling facilities, which began in Q1 of 2016. The ultimate timing of the City Partnership roll-out will depend on the results of those conversations. In addition to the Foodservice Packaging Institute, McDonald's will work closely with other industry groups, its supplier, HAVI Global Solutions, and relevant McDonald's approved packaging suppliers, to achieve these goals.

Moving Forward

WHERE WE'RE GOING FROM HERE

An underlying theme across all of the efforts we have shared in this update is McDonald's ability to use our size, scale, and reach to create positive change around the world. That equates to a holistic, long-term and collaborative approach. Supporting producers and suppliers in their efforts to sustain their businesses in an economically, environmentally and socially responsible manner is a key ingredient to our collective success.