RESponsible food for a sustainable future

It all comes down to the food. That’s what McDonald’s is all about. The food we serve...how and where we serve it...the welfare of our employees and our suppliers’ employees...where the food comes from...and so much more. Running restaurants is a multi-faceted endeavor, but ultimately, it all comes back to the food.

What does “responsible food” mean? Well, it depends on your vantage point. For some, it’s all about the nutritional aspects of the food we serve. For others, our environmental footprint is a critical factor. Still others are more focused on our people practices or animal welfare standards.

McDonald’s works with a lot of internal and external stakeholders to balance a complex and sometimes competing set of ethical, social and environmental considerations. There are challenges and potential trade-offs along the way, and there is always room for improvement. But as a company, we are committed to being a brand that our customers will trust to do the right thing.

What does it take to bring responsible food to the front counter? For McDonald’s, it means working closely together with suppliers and franchisees who are equally committed to delivering safe and ethically-sourced products to our customers in 118 countries around the world. It requires a holistic approach and a commitment to continuous improvement.

We are working toward a sustainable future - for our company and the communities in which we operate. Being a responsible company is not an end game, but a never-ending journey. And so it is with McDonald’s. Delivering responsible food – what it means and how we do it – is not just a goal, but a way of doing good business.
BEFORE YOU CAN DELIVER RESPONSIBLE FOOD, YOU NEED TO KNOW WHAT YOU STAND FOR

McDonald's faces an array of complex issues that reach from the farm all the way to the front counter, where our customers purchase a Big Mac, a Premium Salad or our world-famous French fries. We do not manage these issues alone. Together with our suppliers and independent franchisees, McDonald's employees work hard to deliver our products in the most responsible way we can.

We seek to understand the issues, set priorities, stick to them and work hard to make it happen. But first and foremost, we need to know what we stand for. Decisions are driven by what you find at the core. At McDonald's, it goes without saying that our actions, as a System and as individuals, must reflect our values.

<table>
<thead>
<tr>
<th>MCDONALD'S VALUES - WHAT WE DO AND HOW WE DO IT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>We place the customer experience at the core of all we do</strong></td>
</tr>
<tr>
<td>Our customers are the reason for our existence. We demonstrate our appreciation by providing them with high-quality food and superior service, in a clean, welcoming environment, at a great value. Our goal is Quality, Service, Cleanliness &amp; Value for each and every customer, each and every time.</td>
</tr>
</tbody>
</table>

| **We are committed to our people** |
| We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success. |

| **We believe in the McDonald's System** |
| McDonald's business model, depicted by the “three-legged stool” of owner/operators, suppliers, and company employees, is our foundation, and the balance of interests among the three groups is key. |

| **We operate our business ethically** |
| Sound ethics is good business. At McDonald's, we hold ourselves and conduct our business to high standards of fairness, honesty and integrity. We are individually accountable and collectively responsible. |

| **We give back to our communities** |
| We take seriously the responsibilities that come with being a leader. We help our customers build better communities, support Ronald McDonald House Charities, and leverage our size, scope and resources to help make the world a better place. |

| **We grow our business profitably** |
| McDonald's is a publicly traded company. As such, we work to provide sustained profitable growth for our shareholders. This requires a continuing focus on our customers and the health of our system. |

| **We strive continually to improve** |
| We are a learning organization that aims to anticipate and respond to changing customer, employee and system needs through constant evolution and innovation. |
FROM 2006 TO 2008 – THE JOURNEY CONTINUES

We’ve picked up where we left off. This report covers the progress we’ve made since 2006. As in the past, we are primarily reporting on our nine largest markets in terms of number of restaurants – Australia, Brazil, Canada, China, France, Germany, Japan, the United Kingdom and the United States. Our goal is to address issues of concern openly and honestly and in a clear and comprehensive manner.

You’ll see the word “food” a lot. Not surprising. After all, we are a food service company. But how we are striving to deliver responsible food has many aspects. Our priorities fall into six major areas, (pictured at left) which are central to how we do business.

WHAT’S IMPORTANT TO MCDONALD’S AND OUR STAKEHOLDERS

Delivering responsible food demands attention to a complex web of important social and environmental issues. Setting priorities is essential to achieving sustainable progress. To help us identify appropriate priority issues, we consult a variety of sources, including:

- Our global business plan, strategies developed to implement it and internal and external risk assessments
- Company management and internal subject-matter experts from across the McDonald’s System
- Representatives of leading NGOs and socially responsible investor and employee rights organizations
- Reports and recommendations from government agencies and other public policymakers

WHAT’S IMPORTANT FOR MCDONALD’S TO COMMUNICATE

As with our last report, we are using the Global Reporting Initiative (GRI) framework to prioritize key issues in this report. We’ve also engaged the help of Ceres—a coalition of investors, environmental organizations and other public interest groups that work with a select group of companies, including McDonald’s, to strengthen our corporate responsibility reporting performance.

Like many of our other internal and external stakeholders, Ceres and the members of our stakeholder group stressed the importance of communicating about our food and the many social and environmental considerations that come into play as we strive to bring responsible food to our customers.

Ceres has not endorsed or validated the information in this report but, rather, provided guidance on our approach. Throughout the development of this report, our Ceres stakeholder group has challenged us and provided expert guidance on what and how we need to communicate. We were not able to incorporate all the suggestions from the stakeholder team. For example, they would like to see McDonald’s set more specific quantitative goals and targets. For several reasons, this is a challenge for us.

Our decentralized business model, our approach to pursuing continuous improvement, our global “freedom within the framework” approach to innovation at local market and regional levels – all these argue for a less prescriptive approach, leaving individual business units able to set specific quantitative goals or targets.

We have explained this to Ceres and the members of our stakeholder team. We have all agreed to work together to explore opportunities for future improvement in this and other areas of our corporate responsibility reporting and performance.

ABOUT THE WAY WE ARE COMMUNICATING

This is the first year we’re providing an online-only version of our full corporate responsibility report. Given the way people are getting information these days, focusing on the web makes sense. We can communicate more information, more quickly, to more stakeholders. And since a picture is worth a thousand words, we’re also including videos to help tell the McDonald’s story.

And, of course, less paper is a good thing.
WHY CORPORATE RESPONSIBILITY IS IMPORTANT TO MCDONALD’S

It all begins with our food. We are committed to providing choices, assuring quality and safety, delivering great taste, and sourcing in an ethical manner. I believe our continued success is based on our ability to deliver on all these fronts. We will continue to focus our efforts on enhancing the sustainability of our supply chain and on providing quality, safe food and a balanced array of menu options that meet the needs of today’s consumers.

Our people are both the backbone and the face of McDonald’s. They are the ones who make it all happen – people who care, people who are motivated, people who are committed to lead the way, not follow the crowd.

In today’s world, we know we need to offer a compelling employment value proposition to attract and retain the committed and talented employees that are the foundation for any company’s success. This means providing a fulfilling workplace for today’s employees, opportunities for training and development and most of all, a work environment based on respect, diversity and inclusion.

Environmental responsibility has long been a key component of our commitment to corporate responsibility. In 1990, we first established our Global Environmental Commitment, and since then, we have been seeking out, and acting on, ways to enhance our environmental performance.

For example, we continue to seek additional ways to enhance energy efficiency in our restaurants. Resource conservation is a top issue for business and society. More efficient use of energy helps us save money and reduces our environmental impact. To me, that is what corporate responsibility is all about – finding the intersection of doing good for society and doing good for our business.

I thank you for your interest in McDonald’s corporate responsibility progress, whether you are part of our System’s efforts to translate our values into action, or an outside stakeholder, customer, shareholder, or neighbor. We welcome your comments and suggestions for improvement, and I can assure you, we will never stop working to be better tomorrow than we are today.

Jim Skinner
Chief Executive Officer
PROGRESS SNAPSHOT

In our 2006 Worldwide Corporate Responsibility Report, we established goals related to key social and environmental performance categories. The Progress Snapshot below provides a brief overview of our achievements and indicates where there is still more progress to be made.

While we’re reporting on our progress to date here, it’s important to note that many of these goals are long-term priorities that we will continue to pursue for the foreseeable future. The overarching goal of our corporate responsibility strategy is to focus on continuous improvement. Sometimes, progress comes more slowly than we would like, but the key is that we are always moving forward.

GOALS

<table>
<thead>
<tr>
<th>SUSTAINABLE SUPPLY CHAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue working with suppliers to promote supplier-led leadership on sustainability issues</td>
</tr>
<tr>
<td>Complete Project Kaleidoscope</td>
</tr>
<tr>
<td>Expand implementation of our environmental scorecard and use it as a tool to work with suppliers on effective management of their environmental impacts</td>
</tr>
<tr>
<td>Continue to evaluate fishery suppliers and align our purchasing specifications with our assessments of their sustainability</td>
</tr>
<tr>
<td>Maintain our strong animal welfare audit program</td>
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</table>

<table>
<thead>
<tr>
<th>NUTRITION &amp; WELL-BEING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to develop new menu offerings that provide our customers with a range of choices that correspond to their needs and preferences and can fit into a balanced diet</td>
</tr>
<tr>
<td>Develop more Happy Meal choices, including new entrée offerings and non-carbonated beverages without added sugar</td>
</tr>
<tr>
<td>Stick to our timetable for phasing in our new nutrition information initiative for core packaging items</td>
</tr>
<tr>
<td>Continue to assess, listen, and evolve our policies and marketing and communications practices so that we can continue our special regard for young people</td>
</tr>
<tr>
<td>Expand our engagement with experts to ensure that we are guided by the best scientific information and insight</td>
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<table>
<thead>
<tr>
<th>ENVIRONMENTAL RESPONSIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to pursue ways of reducing our use of energy from non-renewable sources</td>
</tr>
</tbody>
</table>

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**Progress Snapshot**

Overview – ProGress Snapshot

In August 2006, we engaged our top 15 global suppliers in dialogue on sustainability at the supplier symposium. We regularly put sustainability on the agenda of major product-specific supplier forums. There is additional work with suppliers in each area of the world to promote their sustainability leadership. For example, McDonald’s Europe held a supplier summit focused on the topic of sustainability in 2007. McDonald’s Europe, McDonald’s Canada, and McDonald’s USA have also introduced annual awards to recognize top suppliers in the area of sustainability each year.

Complete Project Kaleidoscope

In August 2006, we engaged our top 15 global suppliers in dialogue on sustainability at the supplier symposium. We regularly put sustainability on the agenda of major product-specific supplier forums. There is additional work with suppliers in each area of the world to promote their sustainability leadership. For example, McDonald’s Europe held a supplier summit focused on the topic of sustainability in 2007. McDonald’s Europe, McDonald’s Canada, and McDonald’s USA have also introduced annual awards to recognize top suppliers in the area of sustainability each year.

Expand implementation of our environmental scorecard and use it as a tool to work with suppliers on effective management of their environmental impacts

As of the end of 2007, the Environmental Scorecard had been rolled out to all direct suppliers of our five core products in Australia, Canada, the UK and all of our Asian markets. It was also rolled out to all bakery product suppliers and to a limited number of other suppliers in the U.S. Suppliers using the scorecard report increased awareness of resource use, and many have identified areas for immediate improvement.

Continue to evaluate fishery suppliers and align our purchasing specifications with our assessments of their sustainability

In 2007, 91% of our fish was sourced from fisheries without any unsatisfactory sustainability ratings, and our Filet-O-Fish suppliers to McDonald’s Japan and McDonald’s China finalized their move away from unsustainable (red light) Russian Alaskan Pollack (RAP). Suppliers to McDonald’s China completed their transition away from RAP in 2008.

Maintain our strong animal welfare audit program

99% of our approved abattoirs were audited for animal welfare in 2007, and 99.2% of those passed their audits. These included beef, poultry and pork processing plants that supply the McDonald’s System in all the major geographic sectors in which we do business.

Continue to develop new menu offerings that provide our customers with a range of choices that correspond to their needs and preferences and can fit into a balanced diet

We continue to test and offer consumer relevant products while also maintaining the quality of our global core products – hamburger, cheeseburger, Big Mac, chicken nuggets and our world-famous French fries.

Develop more Happy Meal choices, including new entrée offerings and non-carbonated beverages without added sugar

We are continuing to expand Happy Meal options by including fruit and/or vegetable offerings as a choice. Currently, all of our nine largest markets include fruit or vegetable options as Happy Meal choices.

Stick to our timetable for phasing in our new nutrition information initiative for core packaging items

We achieved our nutrition information initiative (NII) goal – NII packaging for core menu items in 20,000 restaurants, worldwide, by the end of 2006.

Continue to assess, listen, and evolve our policies and marketing and communications practices so that we can continue our special regard for young people

We enhanced our Global Children’s Marketing Guidelines to further unify our System around a common set of principles for responsible marketing.

Expand our engagement with experts to ensure that we are guided by the best scientific information and insight

We have engaged additional Global Advisory Council members and continue to work with our Global Moms’ Advisory Panel to guide our thinking. Markets around the world continue their work with highly regarded nutrition and children’s well-being experts.

Continue to pursue ways of reducing our use of energy from non-renewable sources

Our primary focus is on reducing energy consumption in our restaurants through operational improvements and advances in available technologies. We continue to explore the feasibility of generating renewable energy onsite at our restaurants through a limited number of small-scale tests.
| Enhance our ability to gather more comprehensive and detailed metrics on restaurants’ energy use. This information would enable us to correlate specific energy management practices, equipment and design choices to energy use and cost savings. We could thus better target our efforts and support energy monitoring and control at the restaurant level. | + | Energy use is strongly impacted by sales, building size, climate, and other variable factors. As a result, comparisons among our largest markets are difficult. However, energy managers in Canada, France, Germany, the UK and the U.S. have developed best-practice processes for gathering and tracking restaurants’ energy use data, and a Global Energy Team has been formed to facilitate sharing of these and other best practices. |
| Improve the environmental footprint of our consumer packaging | ++ | We continue working with our primary packaging supplier, HAVI Global Solutions, to minimize the environmental footprint of our consumer packaging. In 2007, approximately 82% of our packaging in our nine largest markets was from renewable materials such as paper. |
| Continue working with our principal packaging supplier, HAVI Global Solutions, and its suppliers to ensure our packaging is designed with the environment in mind, as outlined in the expanded packaging guidelines | ++ | We continue to pursue packaging improvements and are in the process of rolling out a global packaging scorecard to better guide our decision-making. The scorecard builds on best practices from our European and U.S. markets and advice from outside experts. |
| Evaluate and pursue viable options for a global forestry policy | ++ | Working with our global packaging supplier, HAVI Global Solutions, we are continuing to develop a global sustainable forestry policy for our packaging. Our draft recommendations call for sourcing from certified and other legal sources. We are also exploring traceability options in markets across the McDonald’s System. This work will be coordinated with a broader effort at McDonald’s to develop a global forestry policy that will apply to all of our products. |

**EMPLOYMENT EXPERIENCE**

| Continue our exploration of the meaning of diversity in our worldwide markets, with a view toward developing additional guidance and measures | ++ | Building on our history of inclusion and diversity, we have continued to further refine our approach to this essential aspect of our business. Gender diversity has been identified as a priority for the company moving forward. Based on feedback from our area of the world (AOW) leadership, we will be establishing “Diversity Champions” in each AOW. These individuals will be responsible for defining what diversity and inclusion mean in their respective markets. In addition, our global definition of diversity has evolved to include additional dimensions such as diversity of thought. |
| Execute our Restaurant People Strategy to drive higher levels of employee commitment and customer satisfaction | ++ | Our Restaurant People Strategy has provided a framework for many of our local business units to use in prioritizing their initiatives according to defined, and proven, critical success factors. |
| Define a framework for communicating about employment “under the Arches” that will help us and our owner/operators (franchisees) attract and retain top talent | +++ | The global employment brand framework is currently in its final stages of development and is scheduled for production in late 2008. Global initiatives such as the Voice of McDonald’s and the Olympic Champion Crew highlight unique opportunities associated with employment at the restaurant level. |
| Establish a global talent management plan supported by robust talent identification, succession planning, leadership development and staffing processes | Met Goal | A global talent management plan and related processes were completed shortly before our 2006 Worldwide Corporate Responsibility Report was issued. |
| Implement a global total rewards program and increase employee understanding of the rewards available for superior performance | Met Goal | We have implemented a global total rewards program at the corporate level. Commitment survey results indicate enhanced awareness and understanding of benefits and rewards available for superior performance among corporate staff. |
| Ensure a workplace where all employees are respected and valued | +++ | Under McDonald’s Global Restaurant Operations Improvement Process (GROIP), restaurants are regularly assessed for people practices. The criteria include an expectation that restaurant managers will treat all employees with respect and courtesy. They also specify an annual employee commitment survey and followup plans to create a positive work environment. Results from our nine largest markets in 2007 indicate that 82% of company-operated restaurant employees would recommend working at McDonald’s to a friend. |

**COMMUNITY**

| Enhance the reach and influence of World’s Children’s Day and other fundraising efforts to help children in need | ++ | In 2006, World Children’s Day raised more than $25 million. This represents an increase of approximately $14 million over 2005. In 2007, funds raised were not tracked on a global basis, but in the U.S. market, World Children’s Day raised close to $8 million. |
| Support the growth of Ronald McDonald House Charities (RMHC), thereby helping more children in need | ++ | Continued to increase awareness and support of RMHC though McDonald’s advertising and other forms of communications outreach. |
McDonald’s Key Performance Indicator Summary

For our 2006 Worldwide Corporate Responsibility Report, we took a major step forward by establishing initial key performance indicators (KPIs) for each of our most material issues. In the course of reviewing the 2006 KPI data, we have updated them to reflect improved processes for data collection, analysis and reporting. Working with subject-matter experts and our internal audit team, we have clarified terms and instructions, developed additional reporting forms, and worked with field staff to strengthen their understanding of the process.

With this report, we are able to report metrics representing a greater number of markets with improved accuracy. We will continue our work to embed the process in our ongoing operations and expand it, for all KPIs, to all of our largest markets.

Sustainable Supply Chain

Supplier Social Accountability (Worldwide)

Food, packaging and tier-1 equipment suppliers that have affirmed our Code of Conduct

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Supplier facilities</td>
<td>57.0%</td>
<td>89.0%</td>
<td>93.5%</td>
<td>92%</td>
</tr>
</tbody>
</table>

Animal Welfare (Worldwide)

Supplier meat (including beef, pork and poultry) processing plants audited

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Suppliers</td>
<td>534</td>
<td>521</td>
<td>562</td>
<td>513</td>
</tr>
</tbody>
</table>

Nutrition & Well-Being

Offering Menu Choice

Items, per market menu, that contain at least 1 serving of fruit or vegetables

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>NA</td>
<td>NA</td>
<td>6.1</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Items, per market menu, that contain at least 1/2 serving of fruit or vegetables

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>NA</td>
<td>NA</td>
<td>9.9</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Providing Nutrition Information

Nutrition information available in-restaurant

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Top 9 markets</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Nutrition information available out-of-restaurant (websites, etc.)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Top 9 markets</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Environmental Responsibility

Restaurant-Level Electrical Energy Use

Kilowatt hours used per transaction count (TC), resulting from electrical energy use in the restaurant

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>KwH/TC</td>
<td>NA</td>
<td>NA</td>
<td>1.15</td>
<td>1.15</td>
</tr>
</tbody>
</table>

Greenhouse Gas Emissions

CO2 emissions (in tons) resulting from electrical energy use in the restaurant

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of CO2</td>
<td>NA</td>
<td>NA</td>
<td>1.71m</td>
<td>1.88m</td>
</tr>
</tbody>
</table>

Environmental Impacts of Consumer Packaging

Packaging used, by weight, per transaction count

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount in lbs.</td>
<td>NA</td>
<td>0.1396</td>
<td>0.1387</td>
<td>0.1357</td>
</tr>
</tbody>
</table>

Packaging material that is made from recycled paper

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>NA</td>
<td>31.5%</td>
<td>33.1%</td>
<td>29.8%</td>
</tr>
</tbody>
</table>
EMPLOYMENT EXPERIENCE

EMPLOYEE TRAINING AND DEVELOPMENT

Crew members satisfied that they receive the training needed to do a good job

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>79.4%</td>
<td>80.6%</td>
<td>82%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Managers who feel the person they report to supports their professional development

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>80.3%</td>
<td>81.6%</td>
<td>82%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Company-operated restaurant managers who started as crew members

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>NA</td>
<td>63.6%</td>
<td>64.9%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Worldwide top management team who started as crew members

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>NA</td>
<td>42%</td>
<td>42%</td>
<td>42%</td>
</tr>
</tbody>
</table>

MANAGEMENT OPPORTUNITIES FOR WOMEN

Company-operated restaurant managers who are women

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>NA</td>
<td>44%</td>
<td>46.2%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Worldwide leadership (VP and above) team who are women

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>NA</td>
<td>NA</td>
<td>26.4%</td>
<td>26.7%</td>
</tr>
</tbody>
</table>

COMMUNITY

PHILANTHROPIC ACTIVITIES (WORLDWIDE)

Money raised by the McDonald’s System, including employees, owner/operators, and suppliers, and with the help of customers, for RMHC and other charities

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in millions</td>
<td>NA</td>
<td>$60.9m</td>
<td>$40.5m</td>
<td>NA</td>
</tr>
</tbody>
</table>

Total corporate cash & in-kind contributions

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions in millions</td>
<td>$9.2m</td>
<td>$13.3m</td>
<td>$13.6m</td>
<td>$10.6m</td>
</tr>
</tbody>
</table>

LOCAL ECONOMIC IMPACTS

Total capital expenditures worldwide (investments in new and existing restaurants)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in billions</td>
<td>$1.4b</td>
<td>$1.6b</td>
<td>$1.7b</td>
<td>$1.9b</td>
</tr>
</tbody>
</table>

SOCIAL TAXES

Total social taxes paid by McDonald’s

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Paid in millions</td>
<td>$345.3m</td>
<td>$382.3m</td>
<td>$493m</td>
<td>$621m</td>
</tr>
</tbody>
</table>

1 Except as otherwise noted, figures are for our nine largest markets: Australia, Brazil, Canada, China, France, Germany, Japan, the U.K. and the U.S. Organizational structures vary by market. McDonald’s Japan is a publicly traded company and is approximately 50% owned by McDonald’s Corporation. Effective 2007, McDonald’s Brazil is owned by a developmental licensee.

2 Total number of suppliers varies from year to year based upon business needs. Includes suppliers identified to and confirmed by our program management firm as having signed the Code. Data reported are based on a cumulative total.

3 Includes energy data exclusively from company-operated restaurants except in Brazil and Japan, where franchisee/developmental licensee restaurants are included due to organizational structure.

4 Data reported in 2004-05 cannot be compared with the most recent data and have been excluded from this chart to avoid confusion. Detailed methodology and historic data are available in the appendix of this report.

5 Consumer packaging does not include pre-packaged items such as salad dressings.

6 Not including Brazil.

7 Not including China.

8 Data for restaurant employees are for company-operated restaurants.

9 Not including Australia, Canada, China, Japan.

10 Not including Australia, Canada, China, Japan, U.K.

11 Not including Australia, Canada, China, Japan.

12 Not including Japan.

13 Not including Japan, Brazil.
McDonald’s is a global food-service retailer with more than 31,000 local restaurants, serving 56 million people in 118 countries each day. In simpler terms, we’re a global brand of local restaurants. At the heart of our operations lies a trio of essential players: our employees, our suppliers and our franchisees (sometimes referred to as owner/operators). We refer to the close interdependency among these three players as a “the three-legged stool.” The stool forms the foundation of our business and represents our greatest strength as a company.

THE THREE-LEGGED STOOL: MCDONALD’S BUSINESS MODEL

McDonald’s is committed to partnership within the System – characterized as a three-legged stool with franchisees, suppliers, and company employees making up each of the three legs:

- **Franchisees** – own and operate the majority of restaurants
- **Suppliers** – provide food and packaging and other products and services
- **Company employees** – support and deliver restaurant operations around the world

MCDONALD’S FRANCHISEES – IN PURSUIT OF CONTINUOUS CUSTOMER SATISFACTION

Approximately 70% of McDonald’s restaurants are operated by independent franchisees. Under the conventional franchise arrangement, franchisees provide a portion of the required capital by initially investing in the equipment, signs, seating and decor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and the building or secures long-term leases for the restaurant sites. The remaining 30% of McDonald’s restaurants are operated under other ownership structures, depending on what best serves the needs of a particular market. For example:

- **Developmental Licensee (DL)** – Under this license agreement, a developmental licensee provides capital for the entire McDonald’s restaurant business, including the real estate interest, and operates the business.

- **Company-operated restaurants** – These restaurants are owned and operated by McDonald’s subsidiary companies.

GLOBAL RESTAURANT OPERATIONS IMPROVEMENT PROCESS (GROIP)

To ensure we are meeting customer expectations, we initiated the Global Restaurant Operations Improvement Process (GROIP) to continuously measure and improve restaurant performance and accountability in McDonald’s restaurants around the world. GROIP features onsite restaurant assessments that include ratings for quality, service (fast, accurate, friendly), cleanliness and treatment of employees. It also includes a focused verification of critical food safety procedures.

Under GROIP, both franchised and company-operated restaurants are subject to periodic onsite performance reviews (announced and unannounced) and coaching on areas of opportunity. We also conduct monthly mystery shops, which assess both drive-thru and front counter performance based on our quality, service and cleanliness standards. Results of these mystery shops are shared with the restaurants for diagnostic purposes and determine performance incentives.

All of the GROIP performance data are captured in our Global Data Warehouse and are then reported by restaurant via our performance matrix. Everyone responsible for the performance of the restaurants has access to the information. The information is used by the System to help determine which restaurants and areas we need to focus on to help drive continuous improvement. It is also used to identify people with leadership potential. An annual employee satisfaction survey elicits valuable feedback from restaurant employees.

In the end, the GROIP is all about the customer. Our customers expect a quality experience every time they decide to visit us. By constantly working to make sure that every aspect of a visit is a good one, we will increase loyalty, confidence and customer satisfaction. Our customers have told us that the better job we do at meeting or exceeding their expectations, the more often they will visit us.

HOW WE BRING RESPONSIBLE FOOD TO THE FRONT COUNTER
SUPPLIERS WHO SHARE OUR VALUES

McDonald’s works with suppliers who share our values. We expect them to have a customer-centric, long-term strategic view and to consistently meet our stringent standards related to safety, quality and social and environmental performance. Here’s a snapshot of how our supply chain works:

Indirect Suppliers

- **Primary Processing Plants & Production Plants** — Operate facilities such as grain mills and abattoirs.
- **Farms & Ranches** — Raise cattle; grow lettuce, wheat and other ingredients.

Direct Suppliers

- **Distribution Centers** — Coordinate purchasing and distribution to restaurants.
- **Final Processing Facilities** — Produce finished products like meat patties, buns, and beverages.

McDonald’s Restaurants

Restaurants

COMPANY EMPLOYEES

McDonald’s and our franchisees collectively employ more than 1.5 million people around the world. Approximately 390,000 are our own employees. About 97% of them work in our company-operated restaurants. We are committed to providing a respectful work environment and development opportunities for all employees, regardless of where and how they are contributing to the success of our system.

For many McDonald’s restaurant employees, McDonald’s is their first job. But our goal is to make sure that they recognize and consider the opportunities to turn that first job into a career.

WHERE THE FOOD COMES FROM: McDonald’s Supply Chain

DELIVERING RESPONSIBLE FOOD AROUND THE WORLD - A DECENTRALIZED APPROACH

McDonald’s operations are segmented into four Areas of the World (AOW):

- **Asia Pacific, Middle East and Africa (APMEA)** (16%)
- **Latin America & Canada** (10%)
- **Europe** (39%)
- **United States** (35%)

Each AOW is led by a president, who is supported by a leadership team that typically includes functional leads (finance, human resources, operations, marketing, consumer research, supply chain, etc.), along with geographic line leaders responsible for specific parts of the AOW.
4.1 Governance structure
Board Committees & Charters
Corporate Governance & Ethics
4.2 Whether the Chair of the highest governance body is also an executive officer
Board of Directors
4.3 Number of members of highest governance body that are independent
Board of Directors
Composition of the Board
4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization’s performance
Board Compensation & Share Ownership
Leadership Development
4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided
Responsibilities and Conduct of Directors
4.7 Process for determining qualifications and expertise of members of the highest governance body for guiding the organization’s strategy of economic, environmental, and social topics
Composition of the Board

4.8 Internally developed statements of mission or values, code of conduct, and principles relevant to economic, environmental, and social performance
McDonald’s Values
Standards of Business Conduct
Political Contributions Policy
Sustainable Supply Chain: Our Approach
Antibiotics Policy
Code of Conduct for Suppliers
Rainforest Policy
Animal Welfare Guiding Principles
Marketing Practices
Global Environmental Commitment
Packaging Guidelines
Total Compensation Framework

4.9 Procedures of the highest governance body for overseeing the organization’s identification and management of economic, environmental, and social performance
McDonald’s Corporation Corporate Responsibility Committee Charter
Processes for evaluating the highest governance body’s own performance
Leadership Development
Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses
Marketing Practices

4.10 Stakeholder groups engaged
About This Report
Public Policy & Political Contributions
Sustainable Supply Chain: Our Approach
Beef in the Supply Chain
Product Safety
Sustainable Supply Chain: Employee Welfare
Project Kaleidoscope
Animal Welfare Council
Environmental Responsibility
Rainforest Protection
Sustainable Fisheries
McDonald’s-CI Partnership
Nutrition & Well-Being
McDonald’s Announces
Global Moms Panel
Environmental Responsibility
Energy and Climate Change: Impact Assessments
Packaging and Waste
From the Center

4.11 Key topics and concerns raised through stakeholder engagement and how organization has responded
Beef in the Supply Chain
Specific Animal Welfare Practices
Rainforest Protection
Nutrition & Well-Being
Additional contextual information
- EN1: Materials used by weight or volume
  - Key Performance Indicators
- EN2: Percentage of materials used that are recycled input materials
  - Key Performance Indicators
  - Priority #1: Avoidance
- EN3: Direct energy consumption by primary source
  - Key Performance Indicators
  - Energy & Climate Change
- EN4: Strategies, current actions, and future plans for managing impacts on biodiversity
  - Progress Snapshot
  - Coffee
  - Sustainable Fisheries
  - Sustainable Supply Chain: Looking Forward
  - Rainforest Protection
  - Priority #1: Avoidance
  - Environment: Looking Forward
- EN6: Total direct and indirect greenhouse gas emissions by weight
  - Key Performance Indicators
- EN8: Initiatives to reduce greenhouse gas emissions and reductions achieved
  - Progress Snapshot
  - Energy Management and Climate Change: Innovations
- EN10: Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation
  - Progress Snapshot
  - Beef in the Supply Chain
  - Coffee
  - Resource Conservation
  - Sustainable Fisheries
  - Energy Management and Climate Change: Innovations
  - Packaging and Waste
  - Priority #1: Avoidance
  - Priority #2: Recycling
  - Priority #3: Proper Disposal
  - Green Building
  - From the Center

LABOR PRACTICES & DECENT WORK
- Management Approach
  - Standards of Business Conduct
  - Employment Experience
  - Inclusion and Diversity
  - Employment Value Proposition
  - Talent Management

Goals and performance
- Progress Snapshot
- Key Performance Indicators
- McDonald’s Employees
- Employment Experience
- Inclusion and Diversity
- Talent Management
- Employment Experience: Looking Ahead

Policy
- Standards of Business Conduct
- Total Compensation Framework

Training and awareness
- Inclusion and Diversity

Monitoring and follow-up
- Sustainable Supply Chain: Employee Welfare

LA1: Total workforce by employment type
- McDonald’s Employees

LA3: Benefits provided to full-time employees that are not provided to temporary or part-time employees
- Employment Value Proposition

LA11: Programs for skills management and lifelong learning
- Employment Value Proposition
- Talent Management

LA13: Composition of governance bodies and breakdown of employees per category according to gender
- Key Performance Indicators
- Inclusion and Diversity

HUMAN RIGHTS
- Management approach
- Standards of Business Conduct
- Sustainable Supply Chain: Employee Welfare

Goals and performance
- Key Performance Indicators

Policy
- Standards of Business Conduct
- Code of Conduct for Suppliers

Training and awareness
- Standards of Business Conduct
- Sustainable Supply Chain: Employee Welfare
- Inclusion and Diversity

Monitoring and follow-up
- Sustainable Supply Chain: Employee Welfare

Additional contextual information
- Project Kaleidoscope

SOCIETY
- Management Approach
- Standards of Business Conduct
- Public Policy & Political Contributions Policy
- Political Contributions Policy

Policy
- Standards of Business Conduct
- Political Contributions Policy

Training and awareness
- Standards of Business Conduct

Monitoring and follow-up
- Standards of Business Conduct
- Public Policy & Political Contributions Policy

Additional contextual information
- Supplier Diversity

SO5: Public policy positions and participation in public policy development and lobbying
- Public Policy & Political Contributions Policy

SO6: Total value of financial and in-kind contributions to political parties, politicians, and related institutions
- Corporate Political Contributions Made in the U.S.

PRODUCT RESPONSIBILITY
- Management approach
- Sustainable Supply Chain
- Our Approach
- Product Safety
- Toys
- Animal Welfare
- Nutrition & Well-Being
- Nutrition Information
- Marketing Practices
- Privacy Policy
- Corporate Governance & Ethics

Monitoring and follow-up
- Corporate Profile
- Product Safety
- Toys
- Animal Welfare: Facility Audits

Additional contextual information
- Antibiotics & Animal Cloning
- Nutrition & Well-Being: Products

PR1: Lifecycle stages in which health and safety impacts of products are assessed
- Corporate Profile
- Product Safety
- Toys

PR3: Type of product information required by procedures and percentage of significant products subject to such requirements
- Nutrition Information

PR5: Practices related to customer satisfaction
- Corporate Profile

PR6: Programs for adherence to laws, standards, and voluntary codes related to marketing communications
- Marketing Practices
SOUND ETHICS AND GOOD GOVERNANCE ARE THE FOUNDATION FOR RESPONSIBLE FOOD

McDonald’s is committed to being a company that the public can trust. We believe that good governance is more than a collection of laws and regulations. It is the intersection of the relationships among our Board of Directors, our management and our shareholders. It is informed by the values that have been the foundation of our business for more than 50 years – integrity, fairness, diligence and ethical behavior.

Good governance starts with a Board whose independence ensures candid and constructive engagement with management about all aspects of our business. Our governance processes, which are set forth primarily in our Corporate Governance Principles, address matters relating to Board operations that are fundamental to shareholder interests. For example, McDonald’s has a majority voting standard for uncontested Director elections. In addition, all Directors, except the company’s CEO and President, must be independent of management, and all Directors must abide by a specific Code of Conduct for the Board of Directors.

In addition to matters addressed by the full Board of Directors, Board oversight is effected through six standing committees, including the Corporate Responsibility Committee. This committee acts in an advisory capacity to the company’s management with respect to policies and strategies that affect McDonald’s role as a socially responsible organization, including those pertaining to health and safety, the environment, employee opportunities, diversity, consumers and the communities in which McDonald’s does business.

At the corporate level, McDonald’s also has cross-functional and issue-specific governing bodies that monitor and manage issues on a day-to-day basis.

**Worldwide Corporate Relations Council** – Guides and aligns on issue positions, approaches and communications across the McDonald’s System related to social & environmental issues.

**Corporate Social Responsibility Department** – Provides corporate staff leadership, coordination and support for our global corporate social responsibility policies, programs and reporting.

**Quality Assurance Board** – QA directors in each of our major geographic sectors and senior-level supply chain and food safety specialists lead the development and execution of worldwide food quality strategies, including food safety.

**Sustainable Supply Steering Committee** – Guides the development of the strategies and tools necessary to accomplish McDonald’s vision of a sustainable supply system.

**Global Environmental Council** – Identifies global strategic environmental priorities and acts as a forum for best-practice sharing on local environmental initiatives and programs.
PUBLIC ENGAGEMENT ON ISSUES OF CONCERN TO OUR STAKEHOLDERS

McDonald's operates in a complex and continuously evolving world. Sometimes, addressing issues of concern to our business involves working with government agencies, both directly and through our trade associations.

We engage with policymakers at the international, national, and local level and provide education and guidance for McDonald's franchisees involved in the public policymaking process.

Not surprisingly, many of the issues on which we engage are related to food. For example, we have actively supported strong food safety regulations and enforcement for many years, and shared our technical expertise with government agencies in several of the countries where we operate.

In Latin America, we have worked with the Pan American Health Organization (PAHO) to secure harmonized, science-based food safety standards and improvements in food safety testing and inspections throughout the region. We have also, at PAHO’s request, shared our experience with reducing trans fatty acids in our food products.

We have also been engaged, on a global basis, in public policy deliberations related to nutrition and consumer well-being.

Both directly and through our memberships in the International Hotel and Restaurant Association and the European Modern Restaurant Association, we have participated in dialogues on implementation of the World Health Organization/Food and Agriculture Administration Global Strategy on Diet, Nutrition and Health.

In the U.S., we are actively involved in the Coalition for Responsible Nutrition Information, which seeks federal legislation to require specific, consistent nutrition disclosures by major chain restaurants.

MCDONALD'S APPROACH TO POLITICAL CONTRIBUTIONS

In March 2006, our Board of Directors adopted a political contributions policy, which formalized our long-standing practices regarding contributions to political parties, candidates for public office and political organizations. The policy recognizes that it may be in the company’s best interests to make political contributions. For these cases, the policy is intended to ensure that contributions are made in a manner consistent with the law and the company’s core values.

The policy reiterates the provision in the Standards of Business Conduct that requires advance approval of political contributions, and it establishes guidelines for reviewing requests. Under the policy, management reports semi-annually to the Board’s Audit Committee for political contributions made in the U.S. are posted semi-annually on mcdonalds.com.

HOW WE RUN OUR BUSINESS

Success in any marketplace isn’t just about results. At McDonald’s, each one of us has a responsibility to do the right thing. Our Standards of Business Conduct provide a framework for living up to this responsibility. These Standards provide clarity, guidance and resources on a wide range of issues for operating on a daily basis with fairness, honesty and integrity.

First published more than 40 years ago, the Standards are updated regularly. In 2008, we revised them once again (They were previously last revised in 2003). At the heart of the Standards are three basic principles—personal accountability, open communication and responsible action.

Enhancements in the 2008 Standards include:

- Affirmative statements on McDonald’s policies related to human rights and the right to association
- Explanation of special responsibilities of supervisors and officers and a greater emphasis on our policy protecting employees who report wrongdoing against retaliation
- An expanded explanation of our anti-bribery and anti-kickback policies
- The duty of employees to cooperate in internal investigations
- Description of appropriate use of electronic communications
- Importance of protecting confidential information and privacy of employee, franchisee and customer data

ALL EMPLOYEES HAVE A ROLE TO PLAY

Maintaining high ethics and integrity is everyone’s business. McDonald’s employees are encouraged to speak honestly and openly. They are expected to raise questions or issues and, where appropriate, utilize the McDonald’s Business Integrity Line - a telephone line reserved specifically for employee calls about ethics and compliance issues.

The McDonald’s Business Integrity Line is staffed 24 hours a day, 7 days a week, 365 days a year by an outside firm experienced in handling sensitive calls. Interpreters and reversal of charges are both available for callers outside of the U.S.

ONGOING EFFORTS TO STRENGTHEN OUR ETHICS AND COMPLIANCE PROGRAM

Employees are the face of our company. They have the power to shape and strengthen the McDonald’s way of doing business and protect our bottom line. So we expect them to exercise good judgment.

One of the most critical elements of the McDonald's compliance program is the continued training and education of employees on their obligations under applicable laws, regulations and company policies.

Each year, McDonald's provides training on the Standards of Business Conduct, as well as topics including anti-trust, confidentiality, e-compliance, HIPAA privacy and security, mutual respect, privacy, records management and trademarks. Finally, the company conducts anti-corruption training for employees outside the U.S., with special priority given to markets considered to have high levels of public corruption.

Since our 2006 Worldwide Corporate Responsibility Report, we have also expanded our compliance efforts to be more collaborative and global in scope. One of the most effective tools we’ve introduced is compliance service visits. These visits present unique opportunities for compliance staff to collaborate with our worldwide employees and business partners in identifying and responding to specific risk areas that are unique to certain countries.

We have also rolled out an expanded due diligence program, which involves cross-functional collaboration to ensure that the company is making well-informed decisions about business relationships. We communicate our anti-bribery policy to our suppliers, contractors, agents and partners and require them to certify that they will abide by all applicable laws and regulations.
WHERE THE FOOD COMES FROM – MCDONALD’S SUPPLY CHAIN

We are in the food business, so we care a lot about where our food comes from and how it is produced – well before it enters our restaurants. We strive to ensure that every link of the supply chain contributes positively to the safety, quality, and availability of our final products. We also want our product ingredients to be produced in ways that contribute positively to the development of sustainable agricultural and food manufacturing practices.

VARYING DEGREES OF INFLUENCE – THE MCDONALD’S SUPPLY CHAIN

As you might imagine, our supply chain is large and complex. We have numerous direct suppliers – companies that make or deliver final products for our restaurants. We have an even larger number of indirect suppliers – farms and facilities that grow and process the ingredients that get delivered to our direct suppliers.

McDonald’s does not actually grow or produce any of the food we sell. So we work closely with our direct suppliers to continuously improve the practices that impact their employees, their communities, the environment, their own suppliers and, of course, our customers. Examples of this type of work include our Social Accountability program and our environmental scorecard. Review of adherence to applicable requirements of these programs and others related to sustainable supply are included in McDonald’s Supplier Performance Index, the primary evaluation tool used to evaluate our suppliers’ overall performance in serving our needs.

Our suppliers are expected to extend our vision of sustainable supply to their own suppliers (our indirect suppliers). We also ask them to help us understand industry-wide sustainability challenges and opportunities related to the ingredients they use to make our products.

We don’t have direct control over such issues, but we can use our size and recognized brand to be a positive influence by raising questions, bringing people to the table and encouraging improvement.

MAKING PROGRESS TOWARD A SUSTAINABLE FUTURE

We have been promoting a range of sustainable practices in our supply chain for many years. Some recent accomplishments include the following:

- We launched an enhanced Social Accountability program, including online training for suppliers, their facility managers, and McDonald’s supply chain staff.
- 99% of our 523 approved abattoirs were audited for animal welfare in 2007, and 99.2% of those passed their audits.
- Seven of our nine largest markets have introduced the environmental scorecard to their suppliers.
- In 2007, 91% of our fish was sourced from fisheries without any unsatisfactory sustainability ratings.

We also know there is much more to do. We will continue working with our direct suppliers, advisors and relevant industry organizations to make sure our suppliers are aware of the issues. We will also continue to support the development of additional multi-stakeholder efforts that address sustainability issues in agriculture.
GLOBAL FRAMEWORK, LOCAL PROGRESS

The McDonald’s supply chain comprises many different local and regional supply chains around the world. They are tied together globally by strategic frameworks, policies and McDonald Worldwide Supply Chain Department. To guide the identification and oversight of issues related to sustainability, an additional global governance structure - the Sustainable Supply Steering Committee (SSSC) — was created in 2007.

The (SSSC) includes representatives from global supply chain, supply chain departments in each major geographic sector, or area of the world, Corporate Social Responsibility, Social Accountability and Corporate Communications.

This committee is responsible for guiding McDonald’s toward its vision for sustainable supply by identifying global priorities and ensuring progress in ways that complement local priorities and efforts.

VISION

We envision a supply chain that profitably yields high-quality, safe products without supply interruption while leveraging our leadership position to create a net benefit by improving ethical, environmental and economic outcomes.

**Ethical** - We envision purchasing from suppliers that follow practices that ensure the health and safety of their employees and the welfare and humane treatment of animals in our supply chain.

**Environmental** - We envision influencing the sourcing of our materials and ensuring the design of our products, their manufacture, distribution and use minimize lifecycle impacts on the environment.

**Economic** - We envision delivering affordable food, engaging in equitable trade practices, limiting the spread of agricultural diseases, and positively impacting the communities that our suppliers operate in.

We view this vision and its responsibilities holistically. As sourcing decisions are made, we consider our priorities for food safety, quality and costs, as well as our ethical, environmental and economic responsibilities. Our progress on beef and coffee sustainability illustrate how we are working to bring this approach to life.

McDonald’s Europe’s Agricultural Assurance Program (MAAP) is another example of how we try to approach sustainability holistically. MAAP standards require suppliers to achieve certain levels of safety, quality and sustainability in their agricultural production practices. Areas addressed include general agricultural practices, the environment, animal health and welfare, animal nutrition, genetics and transparency. Standards are updated annually to ensure that they reflect leading agricultural practices, and suppliers of all major products are audited against them.

**2006 CSR FELLOWS UPDATE – IMPROVING THE SUSTAINABILITY OF OUR BEEF**

In 2005, we invited a group of six students from the Haas School of Business at the University of California at Berkeley to become Corporate Social Responsibility Fellows and explore the McDonald’s U.S. beef supply chain system from the inside out. Then we published their insights, impressions and recommendations in our 2006 Worldwide Corporate Responsibility Report.

Our global and regional supply chain leaders continue to address many of the sustainability issues they raised by working with our suppliers and the beef industry.

In addition to supporting our direct suppliers in the work that they do to become more sustainable, we try to use our influence to improve the indirect parts of our supply chain and to raise the standards of the beef industry as a whole. At the global level, we hosted a gathering of global beef industry leaders in 2007 and invited an animal health expert and an expert from an environmental NGO to share their views on the most critical sustainability issues for the industry. We also invited some of our European beef suppliers to share outcomes of specific improvements they have implemented to reduce the environmental impacts of their processing facilities. At regional and local levels, many of these priorities and ideas are being acted upon. For example:

**Asia Pacific, Middle East & Africa (APMEA)**

Supplier Australian Food Corporation (AFC), a subsidiary of Keystone Foods, which supplies beef patties for Australia, Japan and Indonesia, has been using our environmental scorecard for nearly three years to measure and reduce environmental impacts. In 2007, AFC reduced water use per unit of product by 30% through such activities as collecting rainwater in tanks and installing new belts, easier-to-clean on equipment.
Europe

McDonald’s Europe has invested in a three-year Flagship Farms project. The aim of the project is to establish direct dialogue with progressive farmers and facilitate the sharing of initiatives and ideas across a wider producer/supplier network, beginning with beef suppliers. The hope is that such dialogue will identify genuine working solutions to current issues in animal welfare and environmental practices in food production. The Flagship Farms will be positioned as case studies to share within the McDonald’s Europe supply chain, demonstrating best practices that are scientifically underpinned and recognized by relevant NGOs.

Latin America

Supplier Braslo/OSI supported a McDonald’s animal welfare training session by Dr. Temple Grandin and Erika Voogd in São Paulo, Brazil in December 2007. The session included more than 100 participants from South America, including McDonald’s suppliers, representatives from abattoirs that support the McDonald’s supply chain, national government representatives and McDonald’s quality assurance staff. The Brazilian government was so impressed with the training that it invited McDonald’s Brazil’s animal welfare advisor, Daniel Boer from OSI, to participate in an ongoing Animal Welfare Technical Group to improve overall animal welfare standards in Brazil.

North America

McDonald’s USA has used, and will continue to use, purchasing preferences to support suppliers that advance innovative solutions to reducing waste and other environmental impacts. For example, supplier Beef Products Inc. (BPI) is a lead investor in the construction of a new biodiesel plant in South Sioux City, Nebraska. Once completed, in 2009, the plant will turn 100% of the 8 million pounds of high-grade beef tallow produced each week, as a byproduct of the ground beef production process, at BPI’s nearby beef processing plant into diesel fuel. Other suppliers are developing methane systems for energy generation.

Asia Pacific, Middle East & Africa (APMEA)

McDonald’s Australia announced in May 2008 that it will move its coffee supply toward Rainforest Alliance (RA)-certified sources by May 2009. The McCafe blend is already RA-certified, and the rest will be rolled out in 2009. A U.S.-based global nonprofit, RA certifies farms that meet specific, independent and verifiable standards of production, including protecting the environment, the rights and welfare of workers and the interest of coffee-growing communities.

Europe

In January 2007, McDonald’s UK became the first major retailer in the United Kingdom to source 100% of its coffee beans from RA-certified farms. The new coffee comes from Kenco, owned by Kraft Foods, and uses a high-quality Arabica bean. The approach has been expanded to all our 40 European markets. All our restaurants throughout Europe now serve premium, freshly ground coffee from certified sustainable sources, e.g. RA, Utz Certified - Good Inside.

Other McDonald’s markets such as McDonald’s USA are working with suppliers to learn more about sustainable sourcing options for coffee. They will continue to monitor customer preferences and develop their coffee sourcing accordingly.
ABOVE ALL, SAFETY FIRST

The safety and well-being of our customers is our first priority. That’s why we maintain rigorous, science-based standards and evaluations in critical areas throughout our food and toy supply chains.

Our food suppliers must have food safety management systems in place, including Good Manufacturing Practices (GMP), a verified Hazard Analysis Critical Control Point (HACCP) plan and crisis management, food security and other applicable programs. In 2007, we updated our Supplier Quality Management System to align food safety and quality expectations into one global document.

In addition to developing and implementing our own policies and programs, we have been leading the effort to harmonize food safety standards and audits within the food industry by working with the Global Food Safety Initiative (GFSI). This will reduce redundant audits and enable our suppliers to focus more resources on continuous improvement.

SEIZING OPPORTUNITIES FOR IMPROVEMENT

“The Guide to Minimize Microbial Food Safety Hazards for Fresh Fruit and Vegetables,” issued by the U.S. Food and Drug Administration more than 10 years ago and adopted by most U.S. farmers and food processors, is a solid foundation for ensuring Good Agricultural Practices (GAP) and Good Harvest Practices (GHP). However, McDonald’s and others in the restaurant industry believed that a further strengthening of preventive measures in the fields, where most harmful pathogens are located, were needed.

In the wake of the 2006 E. coli spinach crisis in the U.S., we began working with our suppliers, the United Fresh Producers Association and others in the food service industry to develop and implement an approach that included additional safety checks at critical points early in the production of produce and a re-verification step prior to harvesting. Under this approach, audits are conducted to verify the implementation and maintenance of GAP and GHP both prior to planting and after harvest.

As the next step in increasing verification of the raw material, we have been working with other end users in the food service and retail industries to implement a standardized pathogen testing process that is both reliable and meaningful. As protocols are developed and implemented, guidance from appropriate U.S. regulatory bodies will be sought to enhance the process application.

BEYOND THE FOOD - TOY SAFETY

Nothing is more important to us than the safety and well-being of our customers. The most important thing to know is that our Happy Meal toys are safe.

Happy Meal toys are backed by a proactive safety program that starts with the design, long before a toy makes it to production. The creative process, including ideas and sketches, starts with McDonald’s safety-approved suppliers about a year in advance. Our safety engineers are involved from the very beginning of the process to make sure McDonald’s safety standards are met.

Next, a hard model is made, typically, in gray resin. These models are examined repeatedly by experts to identify and resolve any potential safety hazards. Then molds are made and sample toys are produced. If the appearance and quality are approved, more safety tests are performed by McDonald’s-approved third-party safety laboratories.

Once full-scale production begins, these third-party safety laboratories monitor and test the product throughout the entire manufacturing process. Testing may be performed hourly, daily or weekly, depending on the production cycle. Upon completion of manufacturing and passing results of all safety tests, the toys are shipped to distribution centers in the United States, Hong Kong and Europe where they await their official launch date in the restaurant.

When it comes to toy safety, we take nothing for granted and remain ever-vigilant about watching every step of the process.
RESTRICTING ANTIBIOTIC USE

McDonald’s global minimum standard prohibits the use of antibiotics belonging to classes of compounds approved for use in human medicine when used solely for growth promotion purposes. This applies to all global suppliers where McDonald’s has a direct relationship in the meat purchasing supply chain. Today, that mainly means poultry suppliers. We can confirm that 100% of our direct relationship poultry suppliers around the world have acknowledged their compliance with our antibiotics policy. In the U.S. market, which accounted for 58% of our poultry purchases (by volume) in 2007, more than 80% of purchases were from suppliers compliant with our antibiotics policy.

For suppliers with whom we do not have a direct relationship, compliance with this policy is a favorable factor in purchasing decisions. Some McDonald’s markets have government regulations that supersede McDonald’s policy. In Europe, for example, use of antibiotics for any purpose other than disease treatment or prevention is prohibited for all products. McDonald’s Europe accounted for 25% of our global poultry purchases (by volume) in 2007.

MONITORING THE HEALTH AND SAFETY IMPLICATIONS OF ANIMAL CLONING FOR CONSUMERS

As agricultural practices evolve, complex considerations of what it means to deliver “safe food” continue to surface. McDonald’s continuously monitors these developments, and works cross-functionally to evaluate their potential implications for the safety of our food products. An example of emerging concern to consumers is the use of animal cloning technology.

Working through the McDonald’s Worldwide Corporate Relations Council, the Supply Chain Leadership Board, our suppliers, and outside experts, McDonald’s has been monitoring and evaluating scientific findings and consumer opinion on animal cloning for the past few years. We are not aware of any research that shows public health or safety concerns related to cloning. However, we do not currently support the use of animal products sourced from cloned animals in our supply chain.

We will continue to look to our customers to gauge their acceptance of products from cloned animals. In the meantime, we continue to support industry-led, government-enforced traceability systems, which have multiple benefits, including the ability to better track cloned animals in the food supply. We are also aware of the animal welfare concerns related to cloning and will continue to follow developments in this area with the help of our advisors around the world.
PEOPLE IN THE MCDONALD’S SUPPLY CHAIN

Like our own employees, our suppliers’ employees are critical to our success. While they are not our own employees, we strive to work with suppliers who share our values.

Specifically, our suppliers are expected to share our support of fundamental rights for all people - to treat their employees with fairness, respect and dignity and to follow practices that promote health and safety.

WORKING TO BUILD SOCIAL ACCOUNTABILITY IN THE SUPPLY CHAIN

The foundation of our program is our Supplier Code of Conduct, which lists McDonald’s minimum requirements in the areas of employment, workplace practices and workplace health and safety. We also require our suppliers to extend the same expectations to their own suppliers.

To monitor adherence to the specific elements of our Code of Conduct – and just as importantly, to help suppliers identify opportunities for improvement – we partner with independent third-party experts to regularly track and assess their performance.

Through consultation with outside experts and internal process reviews, we look for ways to make our Social Accountability Program more effective. We want to make sure that suppliers are engaged, that our own staff are closely aligned and that resources are used where they are most needed in order to improve performance in an efficient manner.

Some recent improvements include:

- Online training for suppliers, their facility managers, and McDonald’s supply chain staff. Now, anyone in these roles can log into a website at their own convenience and learn more about our expectations, why they are important and ways to improve.

- Additional tools for suppliers and facility managers, such as an online self-assessment and risk assessment that they can use to see very clearly how they are performing against our requirements.

In addition to requiring minimum standards from our suppliers, we are working with them to create more proactive and sustainable improvements in the workplace environment through initiatives such as Project Kaleidoscope.

IMPROVING CONDITIONS FOR TOMATO FARM WORKERS

We expect employee safety and well-being to be a priority throughout our supply chain, and we support our suppliers’ efforts in various ways. For example, in April 2007, McDonald’s USA, its produce suppliers and the Coalition of Immokalee Workers (CIW) agreed to address wages and working conditions for farm workers who pick Florida tomatoes that are served in McDonald’s restaurants in the U.S.

McDonald’s USA and our suppliers continue to support the initiative with CIW to pay an additional penny per pound for Florida tomatoes and to arrange for growers to pass the funds directly on to their workers. Despite resistance by the growers (who supply McDonald’s produce suppliers) to implementing this payment policy, McDonald’s produce suppliers continue to look for ways to achieve this important objective.

McDonald’s produce suppliers have also been working directly with the CIW to finalize a strong code of conduct for Florida tomato growers. Additionally, discussions are moving forward between our produce suppliers and the CIW to develop a third-party verification system of the code of conduct that could be adopted by a broader group of purchasers.
COLLABORATING TO CONTINUOUSLY IMPROVE – PROJECT KALEIDOSCOPE

Since 2002, we have been working with The Walt Disney Company and several responsible investment organizations (As You Sow Foundation, the Center for Reflection, Education and Action, the Connecticut State Treasurer’s Office, Domini Social Investments LLC, the General Board of Pension and Health Benefits of the United Methodist Church, the Interfaith Center on Corporate Responsibility, and the Missionary Oblates of Mary Immaculate) to create a more collaborative, dynamic approach to compliance.

Project Kaleidoscope pilots an approach to sustaining compliance based on ongoing internal management systems and worker input at the factory level. External reviews by third parties were conducted to ensure the systems were working and to encourage compliance with corporate workplace standards. Factory owners, managers, supervisors, and workers at ten contractor factories in southern China were trained as part of the pilot in 2004 and 2005.

Throughout 2006 and 2007, we continued to develop and test the approach, and a final Project Kaleidoscope report was published in 2008. The report concluded the following:

- The systems-based approach is becoming a regular part of business operations in the participating factories.
- Conditions for workers have improved in a number areas they consider high priorities.
- Personnel at factories see value in actively managing the compliance process.
- The factories have made progress toward full and continuing compliance with the Project Elements.

We are pleased the evaluation is complete, and we have incorporated these learnings into our program as part of continuous improvement.

WORKING TO ENSURE PROPER TREATMENT OF ANIMALS

McDonald's cares about the humane treatment of animals, and we recognize that being a responsible purchaser of food products means working with our suppliers to ensure industry-leading animal husbandry practices. Our approach is based on our Animal Welfare Guiding Principles, which express our commitment to ensuring that animals are “free from cruelty, abuse and neglect”.

Specific practices may vary slightly across the McDonald’s System depending on differences in scientific opinion and/or cultural norms and expectations, but our practices are always driven by the latest available scientific research, advice from respected animal welfare experts (such as those on the U.S.-based Animal Welfare Council), and potential environmental and food safety implications. We support these differences so long as each facility in our supply chain is operated in a way that aligns with our Guiding Principles. We audit all abattoir facilities for alignment with these Principles.

We also continuously monitor research related to specific animal welfare practices (e.g., broiler stunning, laying hen housing, and sow housing) to ensure that our System is aware of the most up-to-date best practices. We do this by consulting with animal welfare experts and actively supporting research. McDonald’s Europe, for example, is a founding partner of the Food Animal Initiative at Oxford University, a project that combines the best evidence-based science with practical applications to create sustainable commercial farming systems, with a focus on animal welfare.
MONITORING OUR PERFORMANCE

Animal welfare expert Dr. Temple Grandin helped develop our audit program and oversees our auditor training to ensure that our suppliers keep up with improvements in animal handling practices. Under our program, every beef, pork, and poultry processing plant that serves the McDonald’s supply chain is required to be audited annually by independent firms or McDonald’s staff. We also continue to train McDonald’s staff, suppliers, and auditors to ensure that we are incorporating the best advances in animal welfare standards into our audit system.

Our goal is for all abattoirs approved for use in our supply chain to pass an audit each year. Audits that did not occur in 2007 were scheduled to be completed in 2008. We are working with those four facilities that did not pass audits in 2007 to address specific problems, and they will be audited again to ensure that improvements have been made.

If any facility fails to make necessary improvements as agreed, it is removed from our approved abattoir list.

HOW WE’RE ADDRESSING ANIMAL WELFARE ISSUES

In general, our local supply chain leaders have the flexibility to implement country-specific requirements while working within the global Guiding Principles. They take into account such factors as scientific evidence and local customer preferences. In some specific cases where there is a lot of debate and uncertainty about a specific practice, global supply chain experts will study and make a recommendation for purchasers to follow. Here are some examples of global input.

Stunning of broiler chickens

In 2007, McDonald’s Global Poultry Board completed a thorough assessment of the various types of electrical and controlled atmosphere stunning (CAS) processes used by McDonald’s poultry suppliers. The study gathered input from poultry experts. In addition to animal welfare considerations, it examined other important issues such as safety, quality, cost and environmental impacts.

Based on its analysis, the Poultry Board recommended that McDonald’s continue to support its suppliers’ use of both CAS and electrical stunning, while advocating continuous improvement in animal welfare, quality and sustainability for both systems.

This is supported by the following key points:

- There is no consensus on the practice of CAS. Some experts believe it may improve animal welfare, while others disagree. It is generally understood that CAS may improve animal welfare by rendering birds insensible prior to shackling. However, other welfare implications of CAS, such as the experience of birds before insensibility, remain unclear.

- McDonald’s serves consumers in 118 countries with varying expectations regarding animal welfare practices. For instance, according to most religious experts, CAS is not compatible with halal requirements.

- We investigate and support the development of commercially relevant technology and standards about animal welfare and other sustainability implications for all stunning systems. Currently, McDonald’s USA and McDonald’s Europe are both actively engaged in learning more about stunning technology improvements.
This position is supported by the fact that McDonald’s 2008 Worldwide Corporate Responsibility Report exhibit more natural behaviors, but cage systems cage-free/free-range systems allow birds to continue improvement for all aspects of sustainability, including ethical, environmental, and economic components.

Based on our current knowledge, McDonald’s continues to support its suppliers’ use of both cage and cage-free laying hen housing within our supply chain. We require the most humane treatment of hens in either system and promote continuous improvement for all aspects of sustainability, including ethical, environmental, and economic components.

This position is supported by the fact that there remains disagreement among scientists globally about how to balance the pros and cons of different laying hen housing options. As in the case of broiler stunning, laying hen housing options are evaluated not just on the basis of animal welfare, but also with regard to other important issues such as safety, quality, cost, and the environment.

Laying Hen Housing

McDonald’s supply chain leaders have been working with egg suppliers for several years to understand the pros and cons of different laying hen housing options. As in the case of broiler stunning, laying hen housing options are evaluated not just on the basis of animal welfare, but also with regard to other important issues such as safety, quality, cost, and the environment.

Based on our current knowledge, McDonald’s continues to support its suppliers’ use of both cage and cage-free laying hen housing within our supply chain. We require the most humane treatment of hens in either system and promote continuous improvement for all aspects of sustainability, including ethical, environmental, and economic components.

This position is supported by the fact that there remains disagreement among scientists globally about how to balance the pros and cons of each laying hen housing system. For example, cage-free/free-range systems allow birds to exhibit more natural behaviors, but cage systems may pose less risk with regard to the spread of infectious diseases. We will continue to consult with animal science experts to understand the latest information and best practices for egg production.

Sow Housing

McDonald’s has long supported suppliers that choose to move away from sow gestation crates and tethers. Some recent examples of progress by our suppliers include the following:

Smithfield Foods - In 2007, Smithfield announced that it would phase out gestation stalls in the U.S. market over 10 years. It completed a three-year comparative study of sow housing, including on-site inspections of best practices and equipment in Europe, and concluded that group pens are just as good as individual gestation stalls in caring for sows. This intensive research resulted in a state-of-the-art system for group housing that offers animals the privacy of their own stall or the ability to wander with other sows in an open pen. The conversion process is currently underway at Smithfield company-owned farms.

Cargill Pork - Since 2005, Cargill Pork has decreased the use of tethers for housing gestating sows by more than 99%. The remaining usage of tethers will be phased out in the remainder of 2008. Approximately 40% of Cargill Pork’s sows are on farms that use group housing rather than individual housing for gestating sows. This includes a new farm that is using a “free access stall” system. This system allows animals to enter a stall for protection from aggression and to eat without competition from other sows, while also providing them the option of exiting the stall when they want to exercise and/or socialize. In the spirit of taking into account broader sustainability implications, the new Cargill Pork farm is also equipped for biogas utilization from the waste management system.

Dr. Jeff Armstrong - Dean, College of Agriculture and Natural Resources, Michigan State University; Chair, United Egg Producers Welfare Advisory Committee; Co-Chair of CREATE-21, an initiative with the goal of better integrating the USDA’s research, extension and education programs in food, communities, agriculture and natural resources.

Dr. Temple Grandin - World-renowned expert and advocate for animal welfare; design, research and practical experience with animal handling systems in the U.S., Canada, Europe, Mexico, Australia, New Zealand and other countries; author of over 300 articles on animal handling, welfare and facility design; Professor of Animal Science, Colorado State University.

Dr. Joy Mench - Professor, Department of Animal Science, and Director, Center for Animal Welfare, University of California at Davis; served as member of numerous committees and boards related to farm and laboratory animal welfare, including the United Egg Producers, the National Research Council Committees on Animal Biotechnology and the Council on Accreditation of the Association for the Assessment and Accreditation of Laboratory Animal Care; author of more than 100 papers, book chapters and books.

Dr. Edmond Pajor - Associate Professor, Department of Animal Sciences and Director of the Center for Food Animal Welfare, Purdue University; member of the National Pork Board’s Animal Welfare Committee and Humane Farm Animal Care; former U.S. Regional Secretary, International Society of Applied Ethology; former member of the editorial boards of the Journal of Animal Science and Applied Animal Behavior Science.


MINIMIZING THE ENVIRONMENTAL IMPACTS OF OUR FOOD

McDonald’s is committed to minimizing the environmental impacts of the food and other products in our supply chain. We are working with our direct suppliers to measure and reduce water, energy, air, and waste impacts through our environmental scorecard and to improve fishing practices through our Sustainable Fisheries program. We are also trying to make a difference further upstream in our supply chain by working with other companies and NGOs on rainforest protection.

HOW WE’RE KEEPING SCORE – OUR ENVIRONMENTAL SCORECARD

McDonald’s developed an environmental scorecard to make our suppliers more aware of the resources they are using and to help drive continuous reduction of their impacts in the categories of energy, water, air, and waste. In 2005, we began rolling out the current version of the scorecard with a goal of reaching all of our bakery, beef, poultry, pork, and potato suppliers in our nine largest markets. We are reaching that goal to varying degrees, with complete or partial rollout in seven of these nine markets as of the end of 2007.

Most of these markets only recently introduced the scorecard, but initial results suggest that the scorecard is driving many positive improvements. Many suppliers that have been using it for multiple years have reduced their use of water and energy and their production of waste.

In Canada, for example:

- All direct suppliers of beef, poultry, potatoes, and bakery products are using the environmental scorecard
- 56% showed a decrease in water used per unit of finished product between 2005 and 2006
- 67% achieved a decrease in energy used per unit of finished product between 2005 and 2006
- 100% showed zero air emissions violations in 2006
- 67% showed a decrease in waste production per unit of finished product between 2005 and 2006

Based on a sample of interviews from around the world, suppliers that have used the scorecard report increased awareness of resource use and many have already recognized opportunities for improvement.

Over the coming year, our goal is to complete the rollout of the scorecard to the remainder of bakery product, beef, poultry, pork, and potato suppliers in our nine largest markets. Those markets already using the scorecard will enhance its use by working with their suppliers to begin setting goals to measurably reduce their impacts. Based on success in these five key product areas, we will consider expanding the program to suppliers in other product areas. Similarly, we also encourage our direct suppliers to work with our indirect suppliers to become more aware of their resource use and to explore options for reductions.

Total For Top Nine Markets

<table>
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<tr>
<th>Facilities that received the environmental scorecard with explanation or training by end of 2007</th>
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<tbody>
<tr>
<td>Beef</td>
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<td>27%</td>
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*Data are aggregated from data for each of the nine largest markets (and all European countries, for which data were not available at a market level). A limited number of supplier facilities supply more than one of these countries (resulting in some double counting).*
Another successful sustainability effort is our work with Greenpeace and others to address the problem of rainforest destruction related to soya production in Brazil. It built on our previous commitment in 1989 to refuse beef sourced from recently deforested rainforest areas.

In April 2006, Greenpeace published Eating Up the Amazon, a major report describing how soya farmers in Brazil were cutting down virgin forest to grow soy beans. Greenpeace criticized McDonald's largest European Chicken McNugget supplier (Sun Valley Foods, owned by Cargill) for feeding soya from recently deforested Amazon land to its chickens. The report publicly asked companies like McDonald's to work with their suppliers to stop using soya from vulnerable parts of the Amazon.

We weren't aware of these practices in the Amazon, so we were caught by surprise. We felt it was our responsibility to explore the issue further. Our support of the rainforest was clear through our beef policy, so we immediately invited Greenpeace to meet with us to help us better understand the nature of the situation and identify possible solutions. After hearing more from Greenpeace and some of our other NGO partners, we agreed we needed to play a role in the development of a sustainable solution.

The challenge was finding a solution that could influence actions so far removed from our direct suppliers. McDonald's buying power was relatively small, less than 1% of soya purchases in the region. Additionally, we had to make sure all interests were respected, from both a global and local sustainability perspective. It quickly became clear that a meaningful solution required an industry-wide effort. So, we reached out to our partners and advisors for help—McDonald's global, European, and Brazilian leadership; Cargill; NGOs; and some other large European food retailers—to urge all Brazilian soy producers and exporters to come together and create a solution.

By late July 2006, all major soya buyers announced their commitment to a two-year moratorium on purchasing soya from deforested areas in the Amazon region. In June 2008, the same group, with the support of the Brazilian government, decided to extend the moratorium through July 23, 2009. This extension will support the development of a more transparent, independent and enforceable plan for monitoring and halting agriculture-related deforestation.

An in-depth case study on this effort - “McDonald’s Corporation: Managing a Sustainable Supply Chain” - was published by Harvard Business School in 2007.

We will continue to work with our suppliers to follow progress on this program and apply lessons learned from this collaboration to other difficult agriculture sustainability issues. We are currently working to address the challenge of deforestation related to palm oil, and our goal moving forward is to find an actionable way to extend our position related to deforestation to all products in our supply chain.
A FILET-O-FISH YOU CAN FEEL GOOD ABOUT

If we had to pick a single product that represents great strides towards ensuring the sustainability of our supply over the last several years, it would be the Filet-O-Fish sandwich. Our Sustainable Fisheries program defines sustainability standards that guide all of our purchases worldwide for wild-caught fish.

For example, McDonald’s Japan and McDonald’s Thailand advised their suppliers in 2007 to cease purchasing Russian Alaskan Pollack (RAP) for the production of Filet-O-Fish in their markets because those fisheries did not address sustainability concerns. Suppliers to McDonald’s China transitioned away from RAP this year, so none remains in our System today.

Our fisheries guidelines were developed in partnership with Conservation International and our key fish suppliers, and are currently implemented collaboratively with the Sustainable Fisheries Partnership. The guidelines outline clear, measurable criteria that rate currently approved and potential future fisheries with the latest scientific information.

Ratings address three criteria:

- Fisheries management practices - (e.g., compliance and monitoring)
- Fish stock status - (e.g., biomass levels)
- Marine environment and biodiversity conservation - (e.g., protecting vulnerable marine habitats)

This system is designed to help identify areas for improvement and provides McDonald’s with a sustainability snapshot for key source fisheries. If a fishery shows signs that something may be amiss, we first support improvements, but if those improvements are not made within agreed timeframes, we will cease sourcing from that fishery.

Our Global Fish Forum - a mix of McDonald’s supply chain and sustainability leaders, fish purchasing managers from our local markets and representation from the Sustainable Fisheries Partnership - reviews the ratings, shares updates on global sourcing, investigates alternatives for stressed species and develops recommendations for future species usage.

EXTERNAL VALIDATION

McDonald’s standards are consistent with the Marine Stewardship Council’s (MSC) Principles of environmentally responsible and sustainable fishing. The vast majority of McDonald’s fish is already sourced from MSC-certified fisheries. Working with the Sustainable Fisheries Partnership, McDonald’s is supporting efforts of remaining supply fisheries to seek additional verification of their own sustainability through MSC or other credible, third-party certification programs.

EVALUATING OUR FISHERIES: Our spotlight tool

GREEN

The fishery is well-managed.

YELLOW

Fishery management is satisfactory but could use some improvement. There may be early warning signs that something is amiss. We may need to investigate further and/or support the fishery to develop and implement a corrective action plan.

RED

Urgent need for action is recommended. This signals the need for an improvement program with specific milestones. Failure to meet these milestones can result in reduced business or elimination from our purchasing program.

2007 ratings by criteria: % of metric tons of fish blocks
MCDONALD’S GLOBAL ENVIRONMENTAL COMMITMENT

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, as well as 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.

Reduce. We will take steps to reduce the weight and/or volume of the packaging we use. This may mean eliminating packaging, adopting thinner and lighter packaging, changing manufacturing and distribution systems, adopting new technologies or using alternative materials. We will continually search for materials that are environmentally preferable.

Reuse. We will implement reusable materials whenever feasible within our operations and distribution systems as long as they do not compromise our safety and sanitation standards, customer service expectations and are not offset by other environmental or safety concerns.

Recycle. We are committed to maximum use of recycled materials in the construction, equipping and operations of our restaurants. We are already the largest user of recycled paper in our industry, applying it to such items as tray liners, Happy Meal boxes, carryout bags, carryout trays and napkins. Through our “McRecycle” program, we maintain the industry’s largest repository of information on recycling suppliers and will spend a minimum of $100 million a year buying recycled materials of all kinds. We are also committed to recycling and/or composting as much of our solid waste as possible, including such materials as corrugated paper, polyethylene film and paper. We will change the composition of our packaging, where feasible, to enhance recyclability or compostability.

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 the 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.

ENSURING ACCOUNTABILITY PROCEDURES.

We understand that a commitment to a strong environmental policy begins with leadership at the top of an organization. Therefore, our environmental affairs officer will be given broad-based responsibility to ensure adherence to these environmental principles throughout our system. This officer will report to the board of directors on a regular basis regarding progress made toward specific environmental initiatives.

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.
SUPPLIER DIVERSITY

Even though we’re a global brand, we haven’t forgotten the entrepreneurial spirit that got us here today. Partnering with diverse suppliers is one way that we’re trying to do our part to accelerate the development of historically under-represented entrepreneurs. Leveraging the unique talents, strengths and assets of our diverse supplier workforce will help enhance the overall McDonald’s customer experience and support continued economic growth.

In 2007, McDonald’s U.S. restaurants purchased nearly $5.3 billion in goods and services from minority- and women-owned companies, a 3.5% increase over 2006. This represents 54% of our total U.S. System spend for food, packaging, restaurant operating supplies, uniforms and premiums.

Today, we do business with 78 Tier 1 (direct) minority- and women-owned suppliers. McDonald’s USA recently brought on two new Tier 1 suppliers:

- **Sanchez-Keystone, LLC**, a new Hispanic-owned supplier, began supplying chicken products to our U.S. restaurants in June 2007. Annual purchases from this new supplier will total approximately $62 million.


SUSTAINABLE SUPPLY CHAIN – LOOKING FORWARD

CHALLENGES AND OPPORTUNITIES

To sum up, our biggest challenge as we move toward our sustainable supply vision is the fact that we do not directly do business with many parts of our extensive supply chain. We recognize our responsibilities related to sustainability among our indirect supply, and we will continue to use our size and influence to work with industry representatives, governments, and NGOs to make a positive impact, as we did in the case of soya farming in the Amazon. We aim to make our supply system not only more sustainable, but also safer, more efficient and more reliable.

**GOALS (2008-2010)**

Our Sustainable Supply Working Group has established three top priorities for our global supply chain over the next two years:

1. **Educate and communicate with our supply system about sustainability.**
   In our highly decentralized company, it has been difficult to organize around a common understanding of what sustainability means to us and to work together with our suppliers to move forward as a system. By laying out our key responsibilities and priorities and ensuring that our purchasing managers and suppliers are aware of them, we expect to empower our entire supply chain to work together to make faster progress toward our common vision.

2. **Develop a comprehensive global forestry policy.**
   We have forestry policies for beef and packaging, but in recent years we have learned that there are many other products in our supply chain that are sometimes associated with deforestation of rain forests or other valuable natural habitats. Our goal is to create a holistic forestry policy that will apply to all products purchased anywhere in our System and ensure that we are doing our part to protect those natural ecosystems.

3. **Measure environmental impacts in our supply chain.**
   By continuing to roll out our environmental scorecard to suppliers, we will be able to help them identify their biggest impacts and opportunities for improvement in the areas of energy use, water use, air emissions, and waste production. McDonald’s Europe is also helping our entire system to better understand its biggest impacts and opportunities in the area of carbon reduction, by completing a carbon footprint analysis of its regional supply chain.
Nutrition & Well-Being

WHAT WE SERVE AND WHAT WE SAY ...
HELPING CUSTOMERS MAKE THE RIGHT CHOICES

McDonald’s is committed to the well-being of our customers. We work together with our employees, franchisees and our suppliers to serve a balanced array of quality food products, and to provide the information needed to make individual choices.

There is increasing concern about obesity rates and related risks to well-being among consumers, governments, NGOs, and health and nutrition experts. We take these issues seriously, and we are working to do what we can as a company to positively influence the situation. We know we cannot address the problems alone, but we are committed to being part of the solution.

As always, we encourage a “freedom within the framework” mindset and support the development of best practices in our individual markets and areas of the world. We know a “one size fits all” does not fit well within the McDonald’s System. So we support innovations that meet the needs of specific countries or regions.

ENGAGING WITH THE EXPERTS – THE MCDONALD’S GLOBAL ADVISORY COUNCIL

Our Global Advisory Council (GAC) is an international team of independent experts assembled by McDonald’s to provide us with professional guidance in the areas of nutrition and children’s well-being. The Council plays a vital role in helping us to continuously evolve our thinking and approach in these areas. Members provide us with valuable insights, direction and recommendations about how to continue delivering a more beneficial experience to children and families.

Since 2004, the GAC has provided McDonald’s guidance on key areas such as:

- Global nutrition labeling
- McDonald’s “what I eat, what I do” children’s well-being platform
- Potential risks and issues in the marketplace
- Future trends

MCDONALD’S 2008 GLOBAL ADVISORY COUNCIL MEMBERS

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Tom Baranowski  
PhD, Professor of Pediatrics, Baylor College of Medicine, Houston, TX

France Bellisle  
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Dennis Bier  
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Paul Gately  
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Gary Wittert  
MD, PhD; Nutrition, University of Adelaide School of Medicine, Adelaide, AUS
Responsible Food for a Sustainable Future

MCDONALD’S FRANCE – BEING CHILDREN’S FAVORITE RESTAURANTS GIVES US RESPONSIBILITIES

The McDonald’s France strategy for achieving holistic well-being for kids is a great example of putting a comprehensive approach into practice. In 2007, McDonald’s France launched a comprehensive set of commitments that epitomize a holistic approach to children’s well-being. Building on best practices in France and other parts of the McDonald’s System, these commitments establish a specific framework designed to guide the company as it strives to be responsible to children, their families and the world at large.

**Quality and safety** – This is the first priority across all McDonald’s markets and in every McDonald’s restaurant. McDonald’s France is committed to upholding these standards and pursuing additional policies and procedures to ensure the safety and quality of McDonald’s products for all consumers.

**Happy Meal choice** – Adjusting to the taste preferences and dietary needs of consumers is an ongoing priority for the entire McDonald’s System. Choice in Happy Meals is especially important. McDonald’s France Happy Meals offer a choice of meat, fish, vegetables, mineral water, dairy products and fruits. In addition, options for balanced meals are regularly recommended to consumers at the restaurant counter.

**Responsible marketing** – McDonald’s France airs advertising only during television programs that are watched by both parents and children. Advertisements are not broadcast during programs designed solely for consumption by children. In addition, Ronald Gym Clubs and various physical activity programs encourage children to engage in sports.

**Environmental responsibility** – Preserving the environment is a priority for the entire McDonald’s System. McDonald’s France continues to make enhancements in all aspects of its operations to minimize environmental impacts. For example, in many French restaurants, used cooking oil is transformed into biodiesel and used in McDonald’s delivery fleet, and environmental education programs to help children understand how they can minimize their impacts are currently under development.
Lots of Flexibility and Regional Variety to Meet Customer Preferences

Many equate the Golden Arches with classics such as the Big Mac and our world-famous French fries. These consumer favorites are part of our core menu, but we have continued to expand our selection of food and beverage choices to meet the diverse needs and preferences of customers in every country where we operate.

For example, McDonald’s India has a menu with vegetarian selections to suit local tastes. Chicken and fish choices are offered, but no beef or pork items. Israel has both kosher and non-kosher restaurants. We’ve also introduced a line of Premium Salads in the majority of our nine largest markets and several Premium Chicken offerings, including smaller portion-sized offerings like the Petit Plaisir sandwiches in France and chicken wrap choices in Germany, the UK and the U.S.

“A lot of people are a little bit surprised when they hear that McDonald’s has a chef, and they say, ‘Well, McDonald’s is just hamburgers…’ I don’t think people really truly understand all of the different evolutions that the McDonald’s menu has gone through over the years.”

-Chef Dan Coudreaut, McDonald’s USA

Food Options for Children

Our Happy Meals provide portion sizes suitable for young children. They also deliver essential nutrients that growing children need—protein, calcium, vitamins A and C, and others. In our Happy Meals, we deliver choices in the form of entree, side-dish and beverage options that help balance children’s preferences with their nutritional needs. In all of our nine largest markets, we have added fruit and/or vegetable options such as fruit bags, cherry tomatoes, whole grain corn cups and Apple Dippers. Yogurt desserts with fruit are also available in most of these markets, as are sugar-free soft drinks. 100% fruit juice is on a number of menus worldwide.

In many markets, customers can mix and match main course, side beverage and dessert choices to create custom-tailored Happy Meals. For example:

- McDonald’s France offers a choice of entrées, three side dishes, fruit bags, nine beverages and three desserts. Sides include cherry tomatoes and two types of potato offerings. Beverages include bottled water, two juice options and a soft drink with no added sugar. For dessert, customers may choose a drinkable applesauce or a yogurt drink.
- Happy Meal choices in the UK include carrot sticks, bottled water, juice, a soft-drink with no sugar added and semi-skimmed, organic milk, along with a fruit bag side/dessert.
- In Hong Kong, Happy Meal choices include whole grain corn or mango-fruit yogurt as sides, and for beverages, juice, low-fat milk or soy milk.
- In the U.S., Happy Meals can be ordered with Apple Dippers and 100% apple juice or 1% low-fat milk.
- McDonald’s Australia offers a range of pasta choices developed especially for children.
In response to customer requests, and as part of our ongoing dedication to offering quality products and balanced choices, McDonald’s restaurants in a number of markets have eliminated—or substantially reduced—the trans fatty acids (TFAs) in their food offerings.

**McDonald’s USA**

All McDonald’s USA restaurants now serve fried menu items with 0 grams of trans fat per labeled serving. This includes French fries, hash browns, all chicken choices and the Filet-O-Fish sandwich.

After spending several years working with our suppliers to develop and test many different cooking oil options, McDonald’s USA selected a canola oil blend that delivers the great taste McDonald’s customers expect at our restaurants.

McDonald’s USA also successfully reformulated the baked goods on its national core menu to deliver 0 grams of trans fat per labeled serving. This includes McGriddles, biscuits and McDonaldland cookies. Apple pies and baked cookies were on track to be reformulated by the end of 2008.

**McDonald’s Australia**

In 2004, McDonald’s Australia introduced a canola oil blend containing less than 20% saturated and trans fat. Two years later, a second-generation alternative cooking oil was introduced. The current oil is a blend of canola and high-oleic sunflower oil. It is virtually TFA-free, contains less than 12% saturated fat, and is high in monounsaturated fat. The canola oil used in the blend comes from seeds grown by carefully selected local farmers who meet stringent quality standards.

French fries, Filet-O-Fish, Chicken McNuggets, McChicken, Hot Apple Pie, hash browns and Crumbed Chicken Breast Filets are all cooked in the premium oil blend.

**McDonald’s Europe**

McDonald’s Europe has nearly completed its plan to substantially reduce TFAs in its cooking oils in more than 6,300 McDonald’s restaurants across the continent. The new oil blends are the result of years of intensive research and planning in conjunction with suppliers to improve the nutritional value of the cooking oil used and to guarantee sufficient availability of the products to meet needs across Europe.

McDonald’s Europe replaced the previously used rapeseed and sunflower oils with blends containing high-oleic (low-linolenic) rapeseed oil and/or high-oleic sunflower oil. Doing this achieved a significant reduction in the TFA content (down to a maximum of 2%) while limiting the saturated fat content to a maximum of 12%. The change of cooking oils substantially reduces TFAs in French fries, fried chicken and fish products, fried pies and other promotional fried products.
WHEN IT COMES TO NUTRITION, THE MORE YOU KNOW, THE BETTER

Experts agree that being able to read and understand nutrition labels is essential to making informed dietary choices. We couldn’t agree more. McDonald’s was one of the first restaurant companies in the world to provide customers with nutrition information about the products we offer back in 1973. Since then, the ways we make our nutrition information available have evolved with emerging technology. For some years, we offered it on in-store trayliners, posters and/or brochures. Then we began offering it on the Web, and in 2006, on our packaging. Our expansion of alternative sources of nutrition information helps consumers make informed choices based on facts, not perceptions.

THE NUTRITION INFORMATION INITIATIVE AND BEYOND

As projected, we completed rollout of the Nutrition Information Initiative (NII) to 20,000 restaurants worldwide by the end of 2006. This industry-leading initiative provides easy-to-understand and globally relevant bar chart icons to illustrate the number of calories, fat, sodium/salt, carbohydrates and protein in most of our core products.

The development of this iconic approach to communicating nutrition information involved extensive research and consultation with our Global Advisory Council, the McDonald’s Europe Nutritionist Steering Group, other independent experts and government officials. We also solicited customer perspectives on the most user-friendly ways to communicate nutrition information.

The resulting format enables customers to grasp, at a glance, how our food can fit into a balanced diet. For example:

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

INFORMING CONSUMERS IN THE FUTURE

We are reviewing the effectiveness of the NII and exploring other ways to make nutrition information practical for today’s consumer. Many McDonald’s local business units are already using the latest advancements in technology to make nutrition information even more available. In several of our markets, customers can create their own McDonald’s meal and get its nutrition facts – all with a few key strokes on a computer. McDonald’s Japan uses a code on packaging that allows customers to access nutrition information via web-enabled cell phones.

While we continuously work internally and with outside experts to develop better ways to communicate nutrition information, we are also committed to complying with local laws and regulations that lead to alternative methods of informing consumers. The recent legislation involving menu board labeling in some U.S. communities is an example.

We are not sure that menu board labeling is the most effective way to enable our customers to make individual choices, but we are in compliance with laws and regulations that have been implemented. We will continue to monitor the effectiveness of this approach, and we remain confident that as customers learn more about the nutrition profiles of our food and the choice and balance we offer, it will reflect positively on our commitment to serving responsible food.
FOOD COMMUNICATIONS – HOW AND WHAT WE ARE TELLING OUR CUSTOMERS

First and foremost, we are committed to communicating responsibly. Second, we want to use our brand to make a difference. For many years, our global marketing guidelines have helped to ensure that our advertising and marketing are clear, appropriate and truthful and address age-appropriate communications to children.

This year, we strengthened our position through enhancements to our Global Children’s Marketing Guidelines, which further unified our system around a common set of principles for marketing to children. Ultimately, they will further improve our strategic framework and guidance to the McDonald’s System to keep improving our performance in regard to responsible marketing practices to children.

MCDONALD’S CHILDREN’S MARKETING GLOBAL GUIDELINES

Communicate to children that fit within a child’s nutritional needs.

Use our licensed characters and properties to encourage activity and balanced food choices for children to make food, such as fruit and vegetables, fun to eat.

Promote positive messages to children that support their well-being, body, mind and spirit.

Provide nutrition information for our food to help parents and families make informed food choices.

Engage the support of subject-matter experts and informed third parties to help guide our efforts for children and families worldwide.

BRINGING THE MARKETING GUIDELINES TO LIFE

Implementation of the marketing guidelines is facilitated by our worldwide marketing officers. The guidelines are used by marketing agencies with whom we work to communicate about McDonald’s products at country and regional levels. Bringing the guidelines to life has taken many innovative forms.

For example:

- Featuring licensed characters on packaging for fruit bags, carrot sticks, and milk in the UK
- Sponsoring activities involving Ronald McDonald appearances and educational programs for children on a variety of wellness topics in Brazil
- Launching a series of advertisements with Chinese Olympic athletes to promote food quality and safety in China
- Consistently featuring active children playing outside in commercials in Japan
- Implementing a long-term advertising program focusing on fruits and vegetables in France
DEMONSTRATING LEADERSHIP – MARKET-LEVEL ADVERTISING INITIATIVES

In some markets, we have collaborated with others in the food service industry and NGOs to further improve our marketing practices to children.

McDonald’s USA

In November 2006, McDonald’s USA signed on, as one of 10 charter members, to the Council for Better Business Bureau’s Children’s Food and Beverage Advertising Initiative. As part of the initiative, McDonald’s USA announced specific pledges to use advertising and marketing resources to promote children’s well-being. National commercials geared toward children under 12 feature only meals that meet specific nutrition criteria consistent with healthy dietary choices (no more than 600 calories, no more than 35% of calories from fat and 10% of calories from saturated fat and no more than 35% total sugar by weight). McDonald’s USA also advertises healthy lifestyle messages and limits use of third-party licensed characters to scenarios that promote healthy lifestyle choices.

McDonald’s Canada

McDonald’s Canada signed on, as a charter member, to a similar Canadian initiative in which participants agree to devote at least 50% of their advertisements directed to children under 12 to the promotion of healthy dietary choices and/or active living messages.

McDonald’s Europe

McDonald’s Europe, which encompasses 39 countries with different legislative and marketing environments, is in the process of developing a number of ideas which add to the initiatives already undertaken on a market by market level. Europe has a comprehensive balanced lifestyles framework based on 3 pillars: expanded menu choice (including Happy Meal menu items such as carrot sticks, fruit bags, juices and milk products), consumer-friendly nutrition information and investing in partnerships and incentives to promote physical activity, particularly among children.
LOOKING FORWARD

CHALLENGES AND OPPORTUNITIES

Since we launched our increased efforts on nutrition and well-being in 2003, our ongoing challenge has been finding additional ways to make positive impacts on the lives of children and their families. While we have made substantial progress in the area of increasing menu choices, identifying additional balanced food options that are appealing to our consumer base is an area we will continue to focus on. In general, increased menu choices have helped our business grow, and we think that, as more customers become aware of the choices we offer, our efforts will contribute to sustainable financial performance for McDonald's.

GOALS (2008-2010)

1. Accelerate and expand food and beverage choices for kids.
2. Continue to enhance children's well-being through programs and initiatives that provide “fun with a purpose.”
3. Continue to provide useful nutrition information in ways most relevant to today's consumers.
WE’VE BEEN THINKING AND ACTING “GREEN” FOR MORE THAN THIRTY YEARS

McDonald’s has been working to minimize our environmental footprint for a long time. Over 30 years ago, we initiated energy conservation measures. In 1990, we formally established our Global Environmental Commitment and forged a pioneering alliance with Environmental Defense Fund. During the 1990s alone, we eliminated 300 million pounds of product packaging by redesigning items and reducing materials used.

Since then, we’ve continued to seek ways to improve our environmental performance – not just because it’s the right thing to do, but because it’s smart business. Efficiency and innovation are natural byproducts of thinking “green.” And when we conserve energy, produce less waste and minimize resources used by our suppliers, we use less and we spend less.

Given our decentralized structure and the variability of environmental issues across regions, there is no “one size fits all” approach. We see this as a benefit because we have a virtual laboratory of environmental initiatives across our marketplaces that we can learn from, share and scale when doing so makes sense. Given the breadth and scope of our business operations, we also need to understand what is most important from a global perspective. At the restaurant level, we are focusing on three areas:

Energy efficiency—Find further ways to increase energy efficiency in our restaurants in order to save money and reduce our environmental impacts.

Sustainable packaging and waste management—Continue exploring ways to reduce the environmental impacts of our consumer packaging and waste in our restaurant operations.

Green building design—Enhance our strict building standards to incorporate further opportunities for environmental efficiencies and innovation in the design and construction of our restaurants.

For all of these priorities, we continue to engage with experts, including NGOs like Conservation International, Environmental Defense, and the U.S. Green Building Council, to get their best thinking on how we can improve our environmental performance.
STRIVING FOR GREATER ENERGY EFFICIENCY

Climate change is an important issue, generating growing interest from many sectors of society – from individuals and NGOs, to governments and corporations. The seriousness of this issue means that everyone has a role to play in reducing impacts, including companies like McDonald’s.

McDonald’s restaurants’ use of electrical energy and natural gas accounts for the bulk of our direct greenhouse gas emissions. More efficient use of these resources helps us save money and reduces our environmental impacts. Within the restaurant, our two key areas of focus are the heating and cooling systems and the cooking appliances, which together account for approximately 80% of a typical restaurant’s energy use.

ASSESSING OUR IMPACT

In 2007, we worked with Conservation International (CI) to conduct a high-level assessment of our impacts on climate change and outline potential global priority areas.

CI conducted interviews with more than 20 McDonald’s global leaders in key functional areas and also analyzed restaurant energy and purchasing data. Based on these sources, CI recommended several next steps, including additional scientific assessments to improve the quality of data we gather. We are currently acting on this recommendation.

In Canada, France, the UK and the U.S, we have developed best-practice processes for gathering and tracking restaurants’ energy use data, which we will learn from and share with other key markets.

Our suppliers have begun to understand more about their impacts on climate change too. We support them and share their interest in reducing the carbon footprint of our supply chain. In Europe, for example, we are working with our suppliers to compile an estimate of our supply chain’s total carbon footprint in order to identify those product areas with the greatest opportunities for improvement.

Improving our energy measurement

McDonald’s has an intense focus on energy reduction in our restaurants as a way to reduce our costs and environmental footprint. Measurement of energy continues to be a challenge across our markets due to variations in our business growth, expansion of store base, menu variety (equipment needs) and increases in customer counts, but we continue to improve our processes and methodologies for tracking improvement. Additional details on our enhanced energy measurement methodology are available in the Improving Energy Measurement section of this report.

In 2008, McDonald’s scored 27/100 and ranked second among food service companies by Climate Counts, designating our company in the organization’s “Starting” category as a “better choice for the climate conscious consumer.” Climate Counts is a nonprofit organization that ranks companies on their efforts for mitigating climate change. Rankings were based on greenhouse gas emissions, climate change emissions reduction programs, engagement in public policy initiatives relevant to climate change, and levels of public reporting on emissions, risks and actions.
INNOVATIONS IN ENERGY MANAGEMENT

We are always looking for ways to leverage our global System by testing green technologies at the restaurant and market levels—and then expanding the best practices to other markets when that makes sense. We’ve formed a Global Energy Team, with representation from all of our largest markets, to share best practices related to environmental management.

An energy management system (EMS) is used in many of our restaurants to control energy use. It helps automate the on/off function of the heating, ventilation and cooling systems and exterior lights, reducing the restaurant’s energy use by up to 10%. Our building and equipment teams are currently evaluating the possibility of expanding the number of items controlled by the EMS to include kitchen equipment.

“GREEN LAB” ENERGY INNOVATIONS ACROSS THE MCDONALD’S SYSTEM

McDonald’s Canada and McDonald’s USA are testing high-efficiency LED lot lights. Outdoor lot lights are estimated to account for up to 10% of a restaurant’s energy bill. Preliminary findings indicate that installing high-efficiency lights saves up to 50% of lot light energy. Savings include not only energy costs, but also replacement costs because the LED lights have a longer bulb life than existing lights.

In 2006, McDonald’s France commissioned a specially designed interactive software program, EcoProgress, to help monitor and reduce energy consumption in restaurants. This program enables each restaurant to learn about key factors related to energy and the environment. It also records the restaurant’s monthly energy consumption and compares that to energy consumption by similar restaurants. It provides specific advice and improvement tools, such as an ignition plan for cooking equipment designed to suit each restaurant’s individual characteristics, audit tools and a best practice guide. While the program is still in the test phase, pilot users reduced their electricity consumption by 8-12% in the first few months.

In the U.S., an independent franchisee has installed and is measuring the impact of a Ground Source Heat Pump (GSHP). A GSHP can increase the efficiency of the heating and cooling system in a restaurant by up to 50%, thus reducing the restaurant’s total energy use by up to 20%. This technology is not suitable for all restaurants, and installation will depend on many factors, but we are excited by the potential.

The Low Oil Volume Fryer (LOV) is our next generation of fryers. Its innovative design allows restaurants to cook the same amount of product with approximately 40% less oil. The LOV also improves cooking efficiency, requires less maintenance and provides enhanced environmental benefits. Tests indicate it uses approximately 4% less energy than standard fryers. It also reduces packaging waste for markets using “jug-in-box” oil delivery and results in less oil to be disposed of for recycling or rendering.

In 2007, McDonald’s USA was named a U.S. Environmental Protection Agency Energy Star Partner of the Year for reduction of energy in company-owned restaurants by 3.75% between 2005-06. While some of this reduction was through lighting retrofits and new equipment, a majority was due to enhanced energy tools and education of crew and managers to conserve energy.
EXPLORING ALTERNATIVE ENERGY TECHNOLOGIES IN THE RESTAURANT

We continue to explore the feasibility of generating renewable energy on site at our restaurants. McDonald’s Brazil, for example, has installed a wind turbine in the northern city of Fortaleza. McDonald’s France and McDonald’s Brazil have also been testing the use of solar energy to heat water. McDonald’s Germany is testing solar photovoltaic panels, which use the sun’s energy to produce electricity.

In some markets in Europe and North America, our restaurants have purchased energy from renewable resources, thus supporting the generation of “green” energy.

Alternative Refrigerants

We have been actively working with our suppliers to develop and test restaurant equipment that is better for the environment. One example is equipment that uses alternatives to hydrofluorocarbon (HFC)-based refrigerants. We are focused on these because HFCs have a significant climate change impact. Our use of refrigerants is very small compared to some other industries. Nevertheless, we are collaborating with our suppliers to find viable alternatives that are better for the environment, safe for people to use, economically viable and aligned with our operational standards.

We opened the first HFC-free restaurant in Denmark in January 2003. McDonald’s Europe is currently implementing additional HFC-free alternatives in its restaurants and is planning to open a second HFC-free restaurant in Denmark later this year.

We continue our membership in Refrigerants Naturally! - the award-winning initiative we created in 2004 with The Coca Cola Company and Unilever and with support from UN Environmental Programme (UNEP) and Greenpeace. Joined now by Carlsberg, IKEA and Pepsico, the coalition promotes HFC-free alternative technologies for business uses.
WHEN IT COMES TO SUSTAINABLE PACKAGING AND WASTE, LESS IS MORE

At McDonald’s, environmental impact is one of five criteria used in the process of developing food and beverage packaging. The other four criteria are functionality, cost, availability of materials and impact on operations. From an environmental perspective, we focus on reducing the impacts of materials used and improving waste management practices.

Our approach considers a product’s entire lifecycle. It starts with where we source our materials and the design of the food packaging. Finally, we look at “end of life” options such as recycling and composting.

KEEPING SCORE—GLOBAL PACKAGING SCORECARD

Why not make it sustainable from the outset? That’s the goal with our packaging. We are implementing a global packaging scorecard to better inform the decisions we make about packaging. The scorecard builds on best practices from our European and North American markets, as well as advice from outside experts and NGOs like Environmental Defense Fund.

The scorecard framework focuses on our key environmental priorities for packaging:

- Minimizing weight
- Maximizing use of recycled materials
- Preference for renewable materials
- Minimizing the amount of harmful chemicals used in production
- Reducing CO2 and other greenhouse gas emissions
- Maximizing end-of-life options such as recycling

In the U.S. in 2007 alone, McDonald’s purchased more than $530 million in recycled materials for our packaging.
REDUCING FOOTPRINTS FROM THE OUTSET

Our avoidance efforts focus on minimizing our environmental footprint in the sourcing and design of our food packaging.

SOURCING - MCDONALD’S GLOBAL FORESTRY PROGRAM

McDonald’s strives to source raw materials for our paper-based consumer packaging from well-managed forests. Through 2007, we continued our work with our primary packaging supplier, HAVI Global Solutions, towards a global sustainable forestry policy for our consumer packaging. The policy states a preference for fiber from certified well-managed forests. A more comprehensive forestry policy is one of our sustainable supply chain goals.

At the market level, we’ve made additional advances related to sustainable forestry sourcing. For example, cartonboard for our sandwich clamshells for McDonald’s Australia is sourced from Forest Stewardship Council (FSC) accredited suppliers. In Germany, France, and the UK, nearly 57% of the paper fiber for our packaging comes from certified forests.

PACKAGING DESIGN – REDUCING MATERIALS AND WEIGHT

While functionality and safety must be our two primary concerns, we are always exploring ways to reduce the weight of our packaging and increase our use of renewable and recycled materials. We have established environmental guidelines for consumer packaging and achieved progress at both System-wide and market levels.

Today, approximately 82% of the consumer packaging used in our nine largest markets is made from renewable materials (paper or wood-fiber), and approximately 30% of the material comes from recycled fiber. In fact, the McDonald’s System is one of the largest purchasers of recycled paper. We use it in our trayliners, napkins, bags, sandwich containers and other restaurant items such as shipping containers. In the U.S. alone, the McDonald’s System purchased almost $530 million in recycled content in 2007.

Throughout 2007, we voluntarily phased out the coating on some of our food packaging that could produce perfluorooctanoic acids (PFOA), a chemical shown to persist in the environment. By the first quarter of 2008, the phase-out was completed for the majority of our packaging items in all four major geographic sectors, or areas of the world.

PRODUCT BY PRODUCT, REDUCING OUR IMPACTS

Across the McDonald’s System, we continue to find ways to reduce the packaging impacts of specific McDonald’s menu items.

McDonald’s Europe achieved a nearly 2,000 ton per year reduction in the consumption of non-renewable materials through the launch of a paper salad bowl and wooden coffee stirrer. Redesign of the McFlurry spoon eliminated 286 metric tons of polypropylene plastic, and 423 metric tons of paper materials were saved through enhancements to the Big Mac carton.

McDonald’s Australia has incorporated 35% post-consumer recycled PET plastic in cold beverage and dessert cups, reducing the amount of virgin plastic resin needed. A 915,000 pound reduction in packaging weight was achieved through implementation of the company’s carton board reduction strategy.

McDonald’s USA reduced the weight of the 32-ounce polypropylene cup, saving 650 tons of resin per year. F-Flute containers for the Big Mac, Filet-O-Fish and Quarter Pounder with Cheese now weigh 25% less and incorporate 46% recycled content and 71% unbleached fiber. The recycled content in these containers saves more than 23,000 tons of wood (161,000 trees), according to the EDF Paper Calculator.

In an effort to reduce waste generated in its restaurants, McDonald’s Japan launched a consumer campaign in October 2007. Through stickers and signage at the counter, the company encouraged customers to reduce their usage of plastic shopping bags and paper napkins. In the first three months alone, paper napkin use dropped more than 6% per guest count and more than 75 tons of waste were avoided.

Today, approximately 82% of the consumer packaging used in our nine largest markets is made from renewable materials, with approximately 30% coming from recycled fiber.
RECYCLING

While our primary focus is on reducing waste at the outset, we continue to seek ways to incorporate reuse and recycling into our restaurant operations.

One of the biggest challenges to recycling for McDonald’s, and the food industry as a whole, is that food packaging is not widely accepted by recyclers. As a result, the majority of our recycling currently involves behind-the-counter materials, and that’s where we see the greatest opportunity for continued improvement.

Today, many of the restaurants in our nine largest markets recycle corrugated cardboard and used cooking oil in the course of normal restaurant operations. This can have a big environmental impact because these two items can represent nearly 35% of the total waste (by volume) generated by an average restaurant. To put this in perspective, the average U.S. company-operated restaurant recycles more than 17 tons of corrugated cardboard and approximately 13,000 pounds of used cooking oil a year.

BIODIESEL: USING OUR RECYCLED COOKING OIL TO FUEL OUR SUPPLIERS’ FLEETS

We are finding ways to incorporate used cooking oil into our operations. The answer is biodiesel. For example, in Europe, more than 80% of used cooking oil is currently being converted into biodiesel and about 30% of the fuel used in the logistics trucks that serve our restaurants comes from biodiesel. About 16% of it comes from biodiesel generated from our recycled used cooking oil. McDonald’s Europe looks to increase this percentage going forward.

By the end of 2008, McDonald’s UK expects to be recycling 100% of its used cooking oil for biodiesel to fuel delivery trucks. This will be the equivalent of replacing nearly 6 million liters of diesel fuel.

We are making progress on the biodiesel front in other markets as well. McDonald’s Brazil participates in “Biodiesel At Home and At School,” a program intended to raise environmental awareness. In the U.S., our restaurants in Hawaii have their used cooking oil picked up and processed into biodiesel fuel, a portion of which goes into the distribution trucks that deliver food and paper to the restaurants.

RECYCLING IN FRONT OF THE COUNTER... AFTER YOU PURCHASE YOUR MEAL

While recycling programs in front of the counter have been limited because of challenges related to recycling food packaging, progress has been made in some markets - most notably, in Europe, where there are advanced consumer-related recycling initiatives.

For example, McDonald’s restaurants in Germany have an overall recycling rate of more than 90%. Packaging and food waste are collected on a tray cart in the lobby of the restaurant and taken into the back room, where they are sorted.

McDonald’s Brazil uses bins to enable customers to separate organic waste and recyclable materials, thus facilitating recycling. The company’s Selective Waste Collection Initiative in São Paulo now includes 30 restaurants and allows the company to manage the entire lifecycle of their waste—from sorting at the bins to redirecting recyclable materials to participating companies. The initiative also helps educate and involve customers and employees in the process.

In Canada, select restaurants recycle paper, plastics, cans and glass.
MANAGING THE IMPACTS OF THE LEFTOVERS

We continue to assess different ways to manage waste, such as “waste to energy” and innovative composting programs. At the market level, a number of pilot tests are already underway.

McDonald’s UK began diverting refuse from 11 of its restaurants in Sheffield, England in August of 2007 as part of its aim to send zero waste to landfills. This pilot tested an alternative method of disposal and resulted in a 54% reduction in carbon emissions, as audited independently by The Carbon Trust. The process has been implemented permanently for the restaurants in the area. As a result, each restaurant will avoid sending 100 tons of waste to a landfill, and the energy generated from the waste will be used to provide heat for approximately 130 local buildings.

McDonald’s Australia recently launched a composting pilot focused on waste organic materials in more than 40 restaurants around Sydney. This program includes a dedicated collection vehicle and an educational component. It could reduce the amount of waste going to a landfill by approximately 70%.

McDonald’s Canada has had a composting pilot operating in selected restaurants around the greater Toronto area since 2006.

WORKING TO KEEP NEIGHBORHOODS LITTER-FREE

McDonald’s and our franchisees want the same thing our communities want – a clean neighborhood for people to live and work in. Our standard restaurant training includes a strong litter-management component. Operating procedures call for restaurant employees to conduct frequent clean-ups of our restaurant grounds and the public spaces surrounding our restaurant parking lots. We also encourage our customers to help us by participating in anti-littering programs, and we include anti-littering messages on many of our packages around the world.

McDonald’s Australia has a nationwide “Clean Streets” program to keep restaurant grounds and nearby streets clean of litter. Crew members participate in Litter Patrols as a regular part of their work day. Messages on packaging, signage in the parking lot, trash liners and trash bins are used to help remind consumers not to litter. McDonald’s Australia has also been a major sponsor of Clean Up Australia Days since they began in 1989.

In the UK, annual “Just Bin It” campaigns take the daily effort of fighting litter a major step further. Our restaurants partner with local authorities, schools and community groups in awareness-raising, education and clean-ups. In 2007, McDonald’s UK sponsored over 250 events involving more than 15,000 people.

In addition to litter patrols and anti-litter slogans on carryout packaging, McDonald’s Germany supports local and national awareness-raising campaigns. Since 2001, they have been a part of the “Clean Countryside Campaign,” an initiative founded to raise environmental awareness and fight litter. The program provides educational brochures and promotional materials and support for national and local clean-up events.

McDonald’s USA continues to support Keep America Beautiful, as it has since the early 1990s. As part of its commitment to the organization’s mission, logos and messages are included on consumer packaging that encourage consumers to avoid littering and put trash in its correct place.

McDonald’s Canada has been a champion-level sponsor of Waste Reduction Week since its inception in 2004. This is a national event recognizing the importance of waste minimization and conservation. The program includes tools and resources for businesses, municipalities, individuals and schools to help them get involved and deliver the message that we all have a role to play in waste reduction.

"I was impressed that McDonald’s is thinking about its waste in a holistic manner and already recycling its oil in a large percentage of its stores. As food and fuel prices continue to rise, there is huge potential for McDonald’s to capture value from closed-loop waste management systems." – Mira Inbar, 2008 McDonald’s Corporate Social Responsibility Fellow

2008 MCDONALD’S CSR FELLOWS EXPLORE U.S. WASTE MANAGEMENT PRACTICES

In the spring of 2008, we sponsored two Corporate Social Responsibility (CSR) Fellows from the Haas School at University of California at Berkeley as part of a continuing partnership with the Center for Responsible Business. The CSR Fellows visited McDonald’s restaurants and our corporate headquarters in Oak Brook, Illinois. They also conducted surveys and interviews with suppliers, franchisees, company staff and external stakeholder groups. In the process, they formulated their insights and recommendations.

The Fellows learned about some of the environmental programs currently in place throughout the United States, and explored opportunities for enhancing McDonald’s USA’s recycling and waste management efforts.

The Fellows had some ideas for how we could do better. Their recommendations included gaining stronger employee engagement, building on best practices already implemented within the U.S. System and making additional improvements in our restaurant-level waste reduction practices. These will be incorporated into the further development of McDonald’s USA’s environmental strategy.
Beyond our food and its packaging, the places where our customers enjoy our food – our restaurants – have impacts on the environment as well. McDonald’s already has green components in our existing restaurant standards, but we strive for continuous improvement. So we are working to enhance our already-strict building standards for our restaurants around the world. As these standards are being developed, several of our local business units, including McDonald’s France, McDonald’s Germany, McDonald’s Brazil and McDonald’s USA currently have plans in place to install and track the performance of new sustainable features to improve restaurant energy efficiency. Many markets are also already operating or planning to build and open restaurants that feature environmentally friendly attributes.


The full range and nature of green elements vary by location, but generally, our focus is on innovation and efficiency in the design and construction of the restaurant, reduction of energy and water use in equipment and operations, incorporation of green décor options in the restaurant, and features that enhance indoor air quality and promote natural lighting.
MCDONALD’S EUROPE

A restaurant is currently under construction at Plaisance du Touch, near Toulouse, France for which accreditation is being sought under the French HQE classification system. The design of the restaurant has been developed to minimize disruption from architectural, sound and odor perspectives and it includes the use of renewable energy technologies such as solar hot water heaters. There is additional focus on natural resource conservation – specifically, reducing water use through waterless urinals and rainwater harvesting. The learnings from Plaisance du Touch will provide the basis for the establishment of a new set of guidelines for new restaurant development throughout Europe.

Guidelines for remodeled restaurants in Europe have been established and will be rolled out shortly. The purpose of these guidelines is to ensure that a set of minimum environmental standards are achieved on each project. They will also lead to development of a framework that will guide initiatives where the emphasis is primarily on reduction of energy and water consumption.

An increasing level of engagement with suppliers of materials and furniture will further enhance environmental performance. Examples include floor tiles with a high recycled content, laminates to use in place of wood veneers and lighting products optimized for maximum efficiency. Suppliers are pursuing other initiatives, including waste management and the use of alternative energy sources.

MCDONALD’S USA

McDonald’s joined the U.S. Green Building Council (USGBC) in early 2007 and is a member of the LEED for Retail Pilot Program. LEED is a nationally recognized green building rating system that outlines specific standards for sustainable site development, water savings, energy efficiency, material selection and indoor environmental quality. Along with other companies in the pilot program, McDonald’s has provided feedback from its green building learnings to the USGBC.

The overall goal of the U.S. green building strategy is to gain insight and experience while creating a green building design template.

The green restaurant in Chicago will advance this goal. Key elements in its design and operations include high-efficiency rooftop mechanical equipment and boilers, high-efficiency interior lighting with skylights and daylight controls, water conserving toilets and plumbing fixtures, a vegetated green roof, stormwater management with permeable parking lot pavement and rain gardens, high-efficiency LED lighting for exterior signage and the parking lot and green power purchased through renewable energy credits.

OTHER GREEN RESTAURANTS ON THE HORIZON

Current plans call for opening green restaurants later this year and into 2009 in Brazil, Canada and France. These will provide even more information and best practices, allowing us to factor in additional environmental elements into new or existing restaurants.
As part of our Corporate Meetings & Events team’s focus on green meetings, over 70% of the waste generated at our 2008 Worldwide Convention was diverted keeping approximately 244 tons of material out of the landfill.

WALKING THE TALK FROM THE CORPORATE CENTER

While much of our environmental focus currently involves restaurants in our local markets, we have also made progress at our own corporate headquarters by engaging employees and making our corporate office campus more environmentally friendly.

EMPLOYEE ENGAGEMENT — “GREEN TEAM”

A group of employees from more than 40 departments at our home office have joined together as the corporate Green Team to educate others and promote positive environmental changes both on the corporate campus and within the regional offices and their diverse business areas. In addition to sponsoring “lunch and learns” and other awareness activities, they helped organize the second annual Green Week in June 2008.

Nearly half of all corporate employees took advantage of a variety of Green Week activities, including an electronics recycling drive, a discussion of sustainable transportation, a green supplier fair and a gardening exposition highlighting our campus grounds.

GREENER CORPORATE OFFICE BUILDINGS

In 2007, our corporate office building received an Energy Star Certification of 91 points, out of a total of 100 possible points. We are currently exploring additional environmental enhancements as we apply for LEED Existing Building Certification.

These will build on several proactive measures already in place, including:

- Use of energy-efficient lightbulbs and automated lighting equipment for common areas, conference rooms and restrooms.
- Temperature regulation to avoid excess use of heating or air conditioning during non-business hours.
- A shift of purchases of company cars toward vehicles that achieve better mileage per gallon. During the most recent order cycle, more than 70% of the vehicles ordered were classified as environmentally friendly based on their fuel economy.
- Installation of sensors on toilets and faucets to help control water use in our restrooms.
- Operation of campus-wide recycling program. All waste from campus facilities is brought to a central location, where items are separated for recycling. In the first half of 2008, we diverted approximately 58% of our waste, which represents over 50 tons of waste that were kept out of a landfill.
- Sensitivity to our surrounding environment. Our headquarters are situated in a woodland area that was carefully preserved during construction. We extend this care in maintaining this area — planting with native plants, restoring natural woodland areas and using natural compost where possible.
Looking Forward

Challenges and Opportunities

As a business, we continue to grow. The challenge lies in balancing our interest in minimizing our environmental impacts as we expand menu offerings and operating hours in many of our markets. Still, we see plenty of solid business opportunities. In today’s world, environmental conservation goes hand-in-hand with fiscal responsibility and cost efficiency. For example, the two largest environmental impacts of our restaurant operations are energy use and waste generation. If we can reduce these impacts, we will benefit from reduced operating costs.

Our decentralization is a real strength as well. Individual restaurants, franchisees, suppliers and company staff continue to experiment with and test some very innovative environmental initiatives, from “no straw” day in Korea to solar panels in Germany. We can see what works and scale successful programs efficiently throughout our System.

Goals (2008-2010)

1. Continue to find ways to maximize energy efficiency in our restaurants.
   - Continue to partner with markets to test, evaluate, and implement new technologies for continuous improvement of our energy-efficient building standards.
   - Improve the measurement and tracking of the energy performance of our existing restaurants.

2. Continue to integrate environmental considerations into our packaging design through rollout of our global packaging scorecard into our nine largest markets.

3. Increase best-practice sharing within our System to enhance the transfer and scaling of the most efficient and innovative initiatives.

4. Further rollout of our global forestry standards for consumer packaging, expanding into other Areas of the World, specifically the U.S. and Asia Pacific, Middle East, and Africa (APMEA).
BEHIND THE FOOD...PEOPLE MATTER

It should go without saying that we support fundamental human rights for all people. We comply with employment laws in every market where we operate, and we will not employ underage children or forced laborers. We respect the right of employees to associate or not to associate with any group, as permitted by and in accordance with applicable laws and regulations.

But these things are just the greens fees to running a successful, sustainable business in today’s world.

Delivering on responsible food and customer expectations demands an engaged, committed and talented workforce. We know this, and so do McDonald’s franchisees. People are absolutely fundamental to our brand and to building our business. That’s why we make people a priority.

OUR APPROACH

We take a modern, strategic approach to addressing the challenges. Business is strong, and we need high-performing employees to help us continue that trend. Our operations span a range of cultural environments. We’re diverse by design. Our people policies and programs are designed to meet employee needs through three strategic priorities - respect, commitment enhancement and talent management.

THE CHALLENGES WE FACE

Maintaining a stable and qualified workforce, especially at the restaurant level, is a challenge in the 21st-century global economy. The mobility of today’s workforce and poor perceptions of employment in some areas of the quick service industry present special challenges for McDonald’s.

As a company, we continue to be adversely impacted, in some markets where we operate, by the negativity associated with the term “McJob”. So, we recognize that we need to distinguish ourselves as a great place to work, both at the staff level, and in our restaurants.
EMBRACE, EMPOWER...EXCEL

Embracing and empowering a diverse workforce has been a part of the McDonald’s culture for decades. In the mid 1970s, McDonald’s then-CEO Fred Turner, established our initial diversity program, and in 1980, we hired our first official manager for the program. Back then, as now, encouraging diversity at McDonald’s and within our supply chain, is the right thing to do and good for our business.

While the definition of “inclusion” remains relatively constant across geographic boundaries, the word “diversity” has very different implications from place to place. Within McDonald’s, gender diversity has been identified as a global priority. Our Global Diversity Officer, Patricia Harris, is currently working with leaders in all our areas of the world to develop a comprehensive framework for this aspect of diversity at McDonald’s and metrics to monitor our progress.

BACK TO SCHOOL – TEACHING DIVERSITY AND INCLUSION

Another critical component to diversity and inclusion for McDonald’s is teaching people how to work with others different from themselves. The core of our education framework includes formal presentations, workshops, seminars and informal training designed to practice the skills and behaviors needed to collaborate with and lead people in an inclusive, diverse workforce.

Our U.S.-based seminars and workshops include:

- Winning with Inclusion and Diversity
- GenderSpeak – Working Together Successfully
- Asian Career Development
- Hispanic Career Development
- Diversity & Inclusion from a White Male Perspective

We also have a number of employee networks, based at our U.S. headquarters, including:

- McDonald’s African American Council
- Women’s Leadership Network
- Gays, Lesbians and Allies at McDonald’s
- Asian Employee Network
- Hispanic Employee Network

IT’S NICE TO BE RECOGNIZED.

- Financial Times UK: Top 50 Companies Where Women Want to Work
- Fortune Magazine: Top Places for Minorities to Work
- Working Mother Magazine: Top 10 Diversity Champions
- Hispanic Magazine: Top 50 Corporate Women in America
- Black Enterprise Magazine: 40 Best Companies for Diversity

“When I started with McDonald’s way back when, people said ‘Oh, that’s all you’re doing?’ But it’s turned into a wonderful career, and I am very pleased with where I am today with McDonald’s.” – Laura Cudebec, McDonald’s Restaurant Manager
SAVING FOR THE FUTURE – MCDONALD’S PROFIT SHARING AND SAVINGS PLAN – MCDONALD’S USA

McDonald’s has one retirement plan that applies to all employees, including officers, staff and U.S. restaurant workers. Employees are offered the opportunity to invest in their future in the McDonald’s Profit Sharing and Savings Plan, a 401(k) plan. The company matches the first 1% an employee contributes with a 3 to 1 match. The next 4% of employee contributions are matched dollar for dollar. So, an employee contribution of 5% will lead to a company match of 7%. McDonald’s may also make a discretionary match of up to 4% for all employees participating in the 401(k), based on company performance. In 2006 and 2007, the discretionary match was 4%, meaning that an employee who contributed 5% received 11% from the company.

McDonald’s realizes that 401(k) plans may be the only retirement vehicle for many employees, so we have taken specific measures to ensure that eligible restaurant managers and staff are enrolled in the program. Through a combination of automatic enrollment and targeted communications, we have been able to achieve an average participation rate of 93% of the eligible restaurant managers and staff employees across all ethnic groups.

Recent improvements to the plan include the addition of three new investment funds, bringing the total to ten. These funds are designed to give participants a wider array of choices by including such asset classes as commercial real estate, a small company index fund and a global fund.

Participants who have questions about which investment fund(s) to pick and/or how much to save can get advice from GuidedChoice. Participants can get advice for free. If they prefer to have GuidedChoice manage their account, this option is available for a small fee. Currently, about 23% of participants use the managed account service.

HEALTHCARE OPTIONS FOR MCDONALD’S RESTAURANT EMPLOYEES

In the U.S., all staff and restaurant employees are offered a choice of company subsidized medical plans. Having a choice allows the employee to pick the plan with the right combination of premiums and coverage to fit their needs.

AT THE FRONT COUNTER – ENGAGED AND COMMITTED EMPLOYEES

High turnover rates are a challenge for any company in the food-service industry, including McDonald’s. We understand how important it is to attract and retain the very best in our restaurants. Our Restaurant People Strategy is designed to offer a compelling employment value proposition by providing unique benefits, training and opportunities that meet the needs of today’s workers. This will help us drive higher levels of employee commitment in the countries where we operate, which, in turn, will continuously improve employee retention rates. We believe progress on these fronts has improved - and will continue to improve- customer satisfaction and will positively impact our business results.

BENEFITS FOR TODAY’S WORKFORCE

When we think about the term “benefits” at McDonald’s, we think very broadly. It’s not just about wages, and it can vary from market to market. So while benefits for employees around the world are based on our Global Total Compensation Framework, there is some variability in the types of benefits offered from market to market. There have been some especially successful benefits innovations at the local market level since 2006.
Responsible Food for a Sustainable Future

NOT BAD FOR A “MCJOB” – MCDONALD’S EUROPE

Offering workplace flexibility and mobility is another way to meet the needs of today’s workforce. This is especially true in our European markets. As a result, in September 2006, McDonald’s Europe introduced the “McPassport” program to help employees move and gain work in other McDonald’s restaurants across Europe with relative ease. Since the program was launched, more than 1,000 employees have applied for inclusion in the program.

McDonald’s UK has gone a step further by confronting the negatively charged term “McJob” head-on. A proactive communications campaign designed to redefine how the public views employment in a McDonald’s restaurant, along with newly introduced flexible hours, education and training and benefits like company cars for restaurant managers, have succeeded in reducing turnover by 20%.

TEACHING LIFE SKILLS

Helping our employees broaden their skill set is not only the right thing to do, it’s good business. Employees with more skills provide better service. In a number of our markets, restaurant employees are offered various life skills training opportunities to help them succeed at McDonald’s and elsewhere.

In the U.S., we recognize the benefits of having bilingual restaurant managers in a diverse workforce. So we have rolled out “English under the Arches”, a program offering in-restaurant English classes for high-potential shift managers. The results have been impressive. Not only have participants shown significant improvements in their English proficiency level on standardized tests, they demonstrate their confidence and ability to interact every day with customers, as well as with crew and managers in our restaurants.

In markets like Austria and the UK, restaurant employees are offered life skills training in other areas, such as math and career counseling.

HOW WE’RE DOING – WHAT MCDONALD’S EMPLOYEES AND OTHERS ARE SAYING

Our annual employee survey is one way we measure progress. In 2006, we implemented a standardized restaurant employee satisfaction survey in all countries covered by our Global Restaurant Operations Improvement Process (GROIP), which includes approximately 94% of McDonald’s restaurants worldwide. According to 2007 survey results, 82% of restaurant crew members in our nine largest markets would recommend working at McDonald’s.

Recognition from credible third-party experts is another way to gauge our performance. McDonald’s is proud to be the recipient of workplace excellence recognitions in many of our markets. Over the past several years, McDonald’s has been recognized as a Great Place to Work by the Great Place to Work Institute in more than 30 countries where we operate.

CELEBRATING UNIQUE TALENTS

It’s not all about working. Building a caring, warm community for employees is important to us. McDonald’s offers a variety of programs that franchised and company-operated restaurant employees can participate in to grow and develop, both personally and professionally.

Voice of McDonald’s singing competition - 2008 marks the second year that we hosted “Voice of McDonald’s”, the largest global singing competition of its kind. Open to McDonald’s crew members and managers in 118 countries, the contest allows crew members to showcase their singing talents and compete for a $25,000 prize. This past year, more than 3,600 talented employees from 53 countries around the world entered the contest.

McDonald’s Olympic Champion Crew - As part of our Olympic sponsorship, we honored the hard work and exceptional service of our restaurant employees by bringing our best to serve the world’s best at the Games. Nearly 1,400 top-performing crew members were chosen to experience first-hand the fun and excitement of the 2008 Olympic Games in Beijing and to serve the world’s top athletes, coaches, officials, media and spectators at McDonald’s four Olympic restaurants.

Embracing Talent. Winner Natércia Pintor, a McDonald’s employee from Lisbon, Portugal, brought 13,000 people to their feet at the 2007 “Voice of McDonald’s” finals in Orlando, Florida. Her powerhouse rendition of the Dreamgirls anthem, “And I Am Telling You I’m Not Going” won her the competition.
The best people lead to the best business results. We want to ensure that we have leaders who can take McDonald’s into the future.

To be a talent magnet, we have to provide opportunities to learn and grow. We have invested significant resources in programs to address this priority, including our own learning academies—Hamburger Universities—and a Leadership Institute for McDonald’s leaders around the world. These programs are part of a comprehensive global talent management strategy designed to ensure we have high-performing, committed leaders, a diverse pool of candidates for the future and a culture that both requires and supports learning and development.

A CENTER FOR EXCELLENCE: MCDONALD’S LEADERSHIP INSTITUTE

In mid-2006, we officially launched the McDonald’s Leadership Institute, a virtual learning community with guidance and resources to support and develop employee leadership and talent. It gives McDonald’s leaders opportunities to grow and develop through structured learning with other McDonald’s leaders, to participate in challenging development experiences, and to access a wide variety of development tools and best practices resources.

Through these opportunities, the Leadership Institute helps them develop critical leadership skills needed to address major short and long-term business challenges that are affecting the corporation.

Under the auspices of the Institute, accelerated leadership development programs for high-potential directors and officers are offered annually across all areas of the world. As of the end of 2007, 184 employees from 43 countries had participated. More than 40% of those who graduated have received promotions.
PROVIDING EDUCATIONAL OPPORTUNITIES: HAMBURGER UNIVERSITIES & OTHER EDUCATIONAL OPPORTUNITIES

Today we have seven Hamburger Universities (HUs) around the world. They are state of the art training centers for restaurant employees and corporate staff. Since its inception, Hamburger University training has emphasized consistent restaurant operations procedures, service, quality and cleanliness. The curricula is comprehensive, thought-provoking, and the perfect foundation for building a successful career.

The fact that our Oak Brook Campus HU is the only restaurant company training academy awarded college credit recommendations by the American Council on Education (ACE) is indicative of the value HUs bring to our System and our employees. ACE recommendations mean that credits earned at HU can be applied toward a college degree. 100% of the restaurant manager and mid-management curricula are eligible for a total of up to 46 credits - approximately two years of full-time college study.

Some of our local business units have partnered with external educational institutions to develop specialized programs for McDonald's employees. For example:

**McDonald's Germany** offers Specialist of System Catering and Crew College programs, which were both developed in partnership with leading German education organizations. Through Crew College, qualifying employees are offered training and formal qualifications in basic education and specific areas related to restaurant management. Through the Specialist of System Catering degree, restaurant employees are offered a three-year curriculum that combines food service and business management fundamentals at one of several leading German universities.

**McDonald's France** - Restaurant managers with 3 years’ experience can follow the V.A.E program. The V.A.E (Business Experience Validation) is a diploma equivalent to a bachelor's degree in management earned in French business schools. It is recognized by the Ministry of National Education. The program lasts six months and includes a dedicated support coach. To date, six sessions have been completed, and 37 people have received diplomas (92% success rate). McDonald's France hopes to expand the program across the country so more restaurant managers can benefit from it.

LOOKING FORWARD

CHALLENGES AND OPPORTUNITIES

Our biggest challenge is to truly live up to our commitment to our people, day-in, day-out in our busy restaurants. The food-service sector is fast-paced, and McDonald's has some of the busiest restaurants in the industry. In this type of environment, maintaining our focus on people is a business imperative. Without good people, good business results are hard to come by. It will be our people who will drive our business forward, by making that “moment of truth” at the front counter or drive-thru an experience that the customer wants to repeat time and time again.

GOALS (2008-2010)
1. Increase the number of Hamburger University-certified restaurant managers
2. Continue to enhance the employment value proposition to drive employee engagement
3. Continue to integrate McDonald’s values into key people programs, from hiring to training to career development
SERVING OUR COMMUNITIES ... BOTH BIG AND SMALL

For McDonald’s, giving back comes in many shapes and sizes. It can be a local franchisee sponsoring his/her local youth baseball team. It may bring to mind our well known and long-time support of Ronald McDonald House Charities. It can include Olympic sponsorship and feeding the athletes. Whatever shape it takes, the intent remains the same – to make a positive difference in the lives of our customers and the communities where we operate.

Giving back has been fundamental to our business ever since Ray Kroc founded McDonald’s more than 50 years ago. Our communities give us so much in return—not just by supporting our business—but by increasing our brand visibility and strengthening our relationships with our stakeholders. We use three key strengths—our scope, our people and our profits—to make a meaningful and lasting impact on the global communities where we live and work.
HEALING AND HOPE FOR KIDS

McDonald’s believes in the power of community to transform the world. This is particularly true when it comes to fostering the health and well-being of young people. So it’s natural that our charity of choice should be Ronald McDonald House Charities (RMHC).

McDonald’s Corporation provides free use of facilities, equipment, materials and other general and administrative costs for the global office of RMHC. This helps defray costs that RMHC would otherwise incur and allows donations from the public to be distributed directly to grants and program services that benefit children.

McDonald’s franchisees, restaurant and regional staff members and suppliers provide additional funding and volunteer support for RMHC. McDonald’s customers also support RMHC through a variety of fundraising events and programs, including donations in RMHC collection canisters and McDonald’s World Children’s Day – a global fundraiser that takes place each November.

GETTING HAPPY IN BRAZIL

Coordinated by Ronald McDonald House Charities Brazil, McHappy Day is Brazil’s largest fundraising campaign to combat pediatric cancer. Since 1989, it has raised R$80 million. In 2007, it achieved a fundraising record, hitting the R$10 million mark.

All proceeds from the sales of Big Macs, plus promotional items such as caps and key rings, go to the aid of pediatric cancer patients. They support the acquisition of hospital equipment and supplies, the construction and expansion of research centers, medical care facilities and support houses, and the implementation of bone marrow transplantation units.

GREENER CHAPTERS: SUSTAINABLE RONALD MCDONALD HOUSES

Using their expertise in architecture design and development, company experts guided RMHC in the development of RMHC Design and Construction Guidelines, which include guidelines for site selection, design development, material selection and construction methods that incorporate green strategies.

These include:

- Optimizing energy performance via high-efficiency heating, ventilation and air conditioning systems
- Using energy-efficient lighting and sensors
- Optimizing use of natural light from windows, roof monitors and skylights
- Using renewable energy sources such as solar and wind power
- Using EPA Energy Star-labeled appliances and equipment
- Creating an indoor air quality management plan
- Using local, renewable resources such as wood products from well-managed forests or locally manufactured brick

In the U.S, RMHC of Austin and Central Texas opened the first Platinum Leadership in Energy and Environment Design (LEED) certified Ronald McDonald House in the world. The Chapter worked with Green Mountain Energy Company, a leading provider of cleaner energy and carbon offset solutions. To promote good environmental practices, educational kiosks were placed inside the House to explain how the solar panels contribute to the building’s energy efficiency.

In 2008, Atlanta’s 50-room Ronald McDonald House became the second House built and certified to LEED specifications. The House includes a dedicated transplant wing with 10 private, two-bedroom suites for families of children who have received bone marrow, heart, liver or kidney transplants.
GLOBAL REACH, GLOBAL IMPACT

McDonald’s has a long history of sponsoring global events that create strong, relevant connections with our customers everywhere. In 2007 and 2008, we continued as official sponsors of two global sports events – the Olympic Games and the FIFA World Cup – that enrich the lives of children and adults alike through inclusion and awareness.

THE OLYMPIC GAMES

We have been a proud supporter of the Olympic Movement for 40 years. As a System, we believe in the spirit of the Games and their unique ability to engage the world in a way that is constructive and inspirational. We recognize the power of the Games to reinforce excellence, unity and achievement among people the world over. Our goal is always to bring that spirit to our customers. That is what our Olympic sponsorship is all about.

Concerning political issues, we believe they need to be resolved by governments and international bodies like the United Nations, where they can most effectively drive discussions, diplomacy and help speed solutions.

MCDONALD’S HISTORY WITH THE OLYMPICS – A SNAPSHOT

McDonald’s takes great pride in being a long-time Olympic supporter. Here’s a brief history of our commitment to the Olympic Games.

1968: Just 13 years after opening our first restaurant, McDonald’s began our support of the Olympic Movement by airlifting hamburgers to U.S. athletes competing in Grenoble, France, where they reported being homesick for American hamburgers.

1976: McDonald’s became an Official Sponsor of the Olympic Games at the 1976 Olympic Games in Montreal.

1998: For the first time, McDonald’s officially provided food service for athletes at the Olympic Winter Games in Nagano, Japan. This was also our first opportunity to bring the fun and excitement of the Olympic Games to our customers around the world through our official global sponsorship and local promotions.

2000 and beyond: McDonald’s continues our Worldwide Sponsorship of the Olympic Games and our commitment to serving food to millions of athletes, coaches, their families and fans. The Beijing 2008 Olympic Games marked McDonald’s sixth Olympic Games as a Worldwide Partner and seventh as the Official Restaurant of the Olympic Games. McDonald’s current sponsorship will continue through the 2012 Games in London.

CONNECTING MCDONALD’S TO THE 2008 OLYMPIC GAMES

As part of McDonald’s ongoing commitment to children and our people, we launched several initiatives that make a strong connection to the Olympic movement.

Champion Kids: Mini Olympic journalists in Beijing

We created the McDonald’s Champion Kids program to engage young people worldwide in activities that reinforced sports, fitness and fun. This grassroots outreach program provided more than 200 kids from around the world with the opportunity to travel to Beijing and report their stories and experiences back to their local communities and hometown news outlets. Children from more than 40 countries had a chance to see the games, meet Olympic athletes, visit historic sites and interact with kids from different cultures around the globe. Fourteen-time Olympic gold medalist Michael Phelps served as McDonald’s Global Ambassador for the program.

McDonald’s Olympic Champion Crew

As part of our Olympic sponsorship, we honored the hard work and exceptional service of our restaurant employees by bringing our best to serve the world’s best at the Games. Nearly 1,400 of McDonald’s top-performing crew members were chosen to experience first-hand the fun and excitement of the 2008 Olympic Games in Beijing and serve the world’s top athletes, coaches, officials, media and spectators at four McDonald’s Olympic restaurants.
FEEDING THE WORLD’S ATHLETES

In 2008, McDonald’s served as the Official Restaurant of the Olympic Games for the seventh time. Four official Olympic-venue restaurants served food during the games. One, in the Olympic Village, was for athletes, who enjoyed the full spectrum of menu options—from favorites such as the Big Mac sandwich to Premium Chicken offerings, including salads, Fruit n’ Yogurt Parfaits, and Corn Cups (a local favorite). Another restaurant served media representatives at the Main Press Center. Two more served spectators in the main activity area called the Olympic Green.

FIFA WORLD CUP: UNITING CUSTOMERS THROUGH THE THRILL OF FOOTBALL

As part of our tradition of supporting football (soccer in the U.S.) on both the global and grassroots levels, we have served as an Official Partner of the FIFA World Cup since 1994. As a FIFA World Cup Sponsor through 2014, we’re continuing to bring the world’s passion for football to life for millions of fans through special creative promotions, contests, ads and in-store activations in more than 100 countries around the world.

The centerpiece of our FIFA World Cup sponsorship is the Player Escort Program. Through this initiative, more than 1,400 children ages 6-10 have the once-in-a-lifetime opportunity to realize their dreams by escorting the world’s best football players hand-in-hand onto the field before all official FIFA World Cup matches.

Our relationship with FIFA demonstrates our ongoing commitment to promoting balanced, active lifestyles. As a global network of local family restaurants, McDonald’s encourages thousands of families and children to participate in community football activities through such means as sponsorships of clubs, youth football schools and junior tournaments.
ONGOING EFFORTS: LOCAL INVOLVEMENT

EDUCATION
McDonald’s Australia funds a touring puppet show—the McDonald’s Camp Quality Puppet Program—to educate school children about cancer, its treatment and its effects. Originally created to facilitate the return to school for children who had been treated for cancer, the show now seeks to increase understanding and acceptance of children who, for various reasons, look different from others. It has visited approximately 10,000 schools, restaurants and hospitals and reached more than 3 million children.

Many McDonald’s U.S.A. restaurants host McTeacher Nights to support their local schools. During these events, principals and teachers work behind the counter, and a percentage of sales is donated to their schools. Restaurants in the heartland region have been sponsoring McTeachers Nights since 2001 and donated a total of more than $1.5 million.

SPORTS
McDonald’s UK is collaborating with the country’s four National Football Associations to increase the number of qualified coaches for schools and communities. This is one way the company seeks to counter the decline in sports participation among young people. More than 11,500 new coaches have been qualified, including coaches for children with disabilities. The company has also donated more than $8.9 million (USD) in coaching kits and equipment and more than 190,000 footballs.

McDonald’s New Zealand sponsors two national organizations to promote youth participation in sports—Small Whites, which encourages and rewards achievement and participation in junior soccer, and Touch New Zealand, which supports grassroots participation in touch (a game related to rugby, but without the body contact). The company also supports local soccer clubs.

McDonald’s Canada is a strong supporter of hockey, Canada’s number one sport. In addition to its sponsorships of national hockey organizations and National Hockey League teams, it is involved in several junior and minor hockey leagues across the country.
IN EACH AND EVERY COMMUNITY...MAKING A DIFFERENCE

The real strength of McDonald's community involvement lies with our franchisees—the restaurant leaders who provide grassroots support to their local neighborhoods. Day in and day out, McDonald’s franchisees give back to their communities in dynamic ways. Whether it's helping local educational efforts, offering scholarships, serving on local boards or supporting community causes, these independent business men and women are committed to contributing positively to the communities in which they operate. Here are just a few highlights of McDonald's franchisees who are making a difference in their local communities:

Don and Helen Stalker (Australia)

This husband and wife team have been franchisees for 22 years. Their impact reaches far beyond their two restaurants - thousands of miles, in fact. Don and Helen have been a driving force behind a very successful program called “Bush to Beach,” which has given more than 500 children from the disadvantaged inland areas of Australia an opportunity to visit the coast. Their work with this program has made a tremendous difference in the lives of these children.

Reggie and Tracey Jones (USA)

Reggie and Tracy use their restaurants, in urban Indianapolis, as a catalyst for change by offering help to their employees who want to improve their lives. The Joneses keep the lines of communication open between themselves and their staff and take an active interest in their people. One example is Maurice, who experienced a challenging childhood, fighting off gangs and living with a mother who searched trash cans for food and clothing. Maurice grew to trust Reggie and recognized he could turn to him for help. Through the Joneses' support and encouragement, Maurice graduated with a degree in engineering and is pursuing a management career with a construction company.

COMMUNITY – DISASTER RELIEF

WHEN DISASTER STRIKES

When tragedy arrives, McDonald’s the McDonald’s System responds. McDonald’s employees, franchisees and suppliers mobilize to provide assistance in many forms. Over the last several years, our System has provided food and other assistance to victims of such disasters as the 9/11 tragedy in New York City, Pennsylvania and Washington D.C. in 2001, the tsunami in Southeast Asia in 2004 and the devastating hurricane season in the U.S. in 2005.

COMING TO THE AIDE OF EARTHQUAKE VICTIMS IN CHINA

Our System recently mobilized to respond to another disaster - the May 12, 2008 earthquake in China. All told, McDonald's China served almost 40,000 meals to earthquake victims, relief workers, military personnel, hospital staff and police and fire department officers.

In the days immediately following the earthquake, the company made 2,000 food deliveries to Deyang Hospital and to earthquake survivors in Mianyang Stadium. It announced a 1 million rmb donation to the relief efforts. And it delivered an additional 17,000 meals to hospitals that were running out of food and to front-line relief workers and army, police and fire officers, plus 15,000 meals to front-line workers throughout the region.

In addition, McDonald's China set up several food and beverage stations adjacent to blood donation centers in the Sichuan region and displayed promotional posters in all its 930 restaurants to encourage customers to participate in the blood drive. Anyone who gave blood was offered a free sandwich and an orange juice at McDonald's.
EMPLOYEE ENGAGEMENT

Though McDonald’s does not currently have a formalized corporate volunteer program, the act of giving one’s time and expertise for the benefit of others is quite common among our employees.

At our corporate headquarters in Chicago, a number of departments spearhead their own community involvement activities. For example, the McDonald’s Legal Department initiated a pro bono program in 2000. Through this program, McDonald’s works with numerous public service organizations to provide legal assistance to low-income individuals and to help elementary and secondary students from diverse backgrounds develop the skills, knowledge and attitudes necessary to serve their communities as active, responsible citizens.

THE MCDONALD’S FAMILY GIVES BACK

McDonald’s employees, and others within the McDonald’s System, are given the opportunity to provide support for members of the system in the aftermath of natural disasters. McDonald’s Family Charity, established in 2000, has succeeded in distributing nearly $4 million to over 4,000 individuals who have lost their homes or possessions during natural disasters.

McDonald’s also has a Matching Gifts Program that gives McDonald’s corporate employees the opportunity to double the impact of their charitable giving. McDonald’s will match dollars up to $5,000 for McDonald’s corporate employees and up to $10,000 for McDonald’s Officers and Board of Directors of qualified contributions in a calendar year.

As of January 2008, McDonald’s has made it even easier for corporate employees to contribute to support the charities of their choice. Through a partnership with America’s Charities, a nonprofit federation of charities representing approximately 250 organizations, McDonald’s created an automatic payroll deduction program.

Now, McDonald’s corporate employees can make voluntary contributions through America’s Charities to qualified charitable organizations, including Ronald McDonald House Charities, McDonald’s charity of choice.

As an added bonus, payroll deductions set up through America’s Charities receive automatic matching gifts from McDonald’s.
LOOKING FORWARD

CHALLENGES AND OPPORTUNITIES

We continue to look for opportunities to support the community involvement activities of our independent franchisees. As a company, McDonald’s is committed to using our scope and size to make a difference in the world, but it’s our independent franchisees who bring that commitment to life in communities around the world, each and every day. We want to do more to empower these men and women and find additional ways to lead from the center in the future.

GOALS (2008-2010)

1. Facilitate and encourage volunteer activities through an online management tool.
2. Increase financial and volunteer support to Ronald McDonald House Charities (RMHC) through communications outreach.
3. Continue to increase awareness of RMHC and its core programs.
LIVING OUR VALUES

From the beginning, values have been central to delivering responsible food at McDonald’s. Our values, as well as our commitment to living them each and every day, are the foundation of our success.

As we look to the future, we know there is even more we can do to make living our values a natural part of every day for our employees, our owner/operators and our suppliers.

ONGOING MCDONALD’S VALUES INTEGRATION

- **Educate** – Making the McDonald’s System more aware of the true meaning of our values and how they contribute to our success; engaging in open discussion on the potential tensions between specific values; and sharing innovations and best practices that stem from putting our values into practice in tangible ways

- **Integrate** – Integrating values into key business processes such as employee orientation and training and the development of leadership competencies

- **Measure** – Incorporating values into our annual employee commitment survey and employee performance appraisals

We believe that taking these types of actions will help continue our positive financial performance and help us achieve our environmental and social goals. Values are the key ingredient to delivering responsible food and striving toward a sustainable future.
GOALS 2008-2010

SUSTAINABLE SUPPLY CHAIN
1. Educate and communicate with our supply chain about sustainability.
2. Develop a comprehensive global forestry policy that will apply to all products we purchase.
3. Measure environmental impacts in our supply chain.

NUTRITION & WELL-BEING
1. Accelerate and expand food and beverage choices for kids.
2. Continue to enhance children’s well-being through programs and initiatives that provide “fun with a purpose.”
3. Continue to provide useful nutrition information in ways most relevant to today’s consumers.

ENVIRONMENTAL RESPONSIBILITY
1. Continue to find ways to maximize energy efficiency in our restaurants.
2. Continue to integrate environmental considerations into our packaging design through rollout of our global packaging scorecard into our nine largest markets.
3. Increase best practice sharing within our System to enhance the transfer and scaling of the most efficient and innovative initiatives.
4. Further rollout our global forestry standards for consumer packaging, expanding into other Areas of the World, specifically the U.S. and Asia Pacific, Middle East, and Africa (APMEA).

EMPLOYMENT EXPERIENCE
1. Increase number of Hamburger University-certified restaurant managers.
2. Continue to enhance our employment value proposition to drive employee engagement.
3. Continue to integrate McDonald’s values into key people programs, from hiring, to training, to career development.

COMMUNITY
1. Facilitate and encourage volunteer activities through an online management tool.
2. Increase financial and volunteer support to Ronald McDonald House Charities (RMHC) through communication outreach.
3. Continue to increase awareness of RMHC and its core programs.
CODE OF CONDUCT FOR THE BOARD OF DIRECTORS OF MCDONALD’S CORPORATION

The members of the Board of Directors of McDonald’s Corporation acknowledge and accept the scope and extent of our duties as directors. We have a responsibility to carry out our duties in an honest and businesslike manner and within the scope of our authority, as set forth in the General Corporation Laws of the State of Delaware and in the Certificate of Incorporation and By-Laws of McDonald’s Corporation. We are entrusted with and responsible for the oversight of the assets and business affairs of McDonald’s Corporation in an honest, fair, diligent and ethical manner. As Directors we must act within the bounds of the authority conferred upon us and with the duty to make and enact informed decisions and policies in the best interests of McDonald’s and its shareholders. The Board of Directors has adopted the following Code of Conduct and our Directors are expected to adhere to the standards of loyalty, good faith, and the avoidance of conflict of interest that follow:

Board Members will:

- Act in the best interests of, and fulfill their fiduciary obligations to, McDonald’s shareholders;
- Act honestly, fairly, ethically and with integrity;
- Conduct themselves in a professional, courteous and respectful manner;
- Comply with all applicable laws, rules and regulations;
- Act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated;
- Act in a manner to enhance and maintain the reputation of McDonald’s;
- Disclose potential conflicts of interest that they may have regarding any matters that may come before the Board, and abstain from discussion and voting on any matter in which the Director has or may have a conflict of interest;
- Make available to and share with fellow Directors information as may be appropriate to ensure proper conduct and sound operation of McDonald’s and its Board of Directors;
- Respect the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors, except when authorized or legally required to disclose such information; and
- Not use confidential information acquired in the course of their service as Directors for their personal advantage.

A Director who has concerns regarding compliance with this Code should raise those concerns with the Chairman of the Board and the Chair of the Governance Committee, who will determine what action shall be taken to deal with the concern. In the extremely unlikely event that a waiver of this Code for a Director would be in the best interest of the Company, it must be approved by the Governance Committee.

Directors will annually sign a confirmation that they have read and will comply with this Code.

Adopted by the Board of Directors as of May 22, 2003
MCDONALD’S CORPORATION POLITICAL CONTRIBUTIONS POLICY

Philosophy

Generally, the Company does not make contributions to political parties, candidates for public office or political organizations. However, because public policy issues have the potential to impact the Company’s business, its employees, franchisees and the communities in which McDonald’s restaurants operate, the Company’s management believes that in certain cases it may be appropriate and in the Company’s best interests to use its resources to make political contributions. Therefore, McDonald’s Corporation Board of Directors has adopted this Political Contributions Policy (the “Policy”) to ensure that such contributions are made in a manner consistent with the Company’s core values and to protect and/or enhance shareholder value.

While Company employees may participate as individual citizens in the political process, decisions to do so are entirely personal and voluntary. Employees engaging in political campaign activities are expected to do so as private citizens, and must at all times make clear that their views and actions are their own, and not those of the Company. Employees must not use their position with the Company to coerce or pressure other employees to make contributions to or support or oppose any political candidates or elections.

Definitions

For purposes of this Policy:

The “Company” includes McDonald’s Corporation and its majority-owned subsidiaries, except for those subsidiaries whose stock is publicly traded.

A “political contribution” is any gift, loan, advance or deposit of money or anything of value, made: (a) for the purpose of influencing any election for federal, country, state or local office or a ballot initiative; or (b) to pay debt incurred in connection with any such election or ballot initiative.

Contribution Approval Guidelines

Any political contribution made by the Company must be approved in advance by the head of the Government Relations Department of McDonald’s Corporation, and must support a political candidate or ballot initiative that the head of the Government Relations Department determines is beneficial to the long-term interests of the Company and its system of restaurants. In determining whether or not to approve a request to make a political contribution, the head of the Government Relations Department may examine many factors, including, but not limited to, the merits of the candidate, election or ballot initiative, the value of the contribution to the election or ballot initiative, the quality and effectiveness of the organization to which the contribution will be made and the appropriateness of the Company’s level of involvement in the election or ballot initiative. When possible, the Company should avoid making political contributions through a conduit or intermediary organization.

All political contributions must also: (1) comply with all current applicable laws and regulations in the jurisdictions in which the contributions are made (including the Foreign Corrupt Practices Act); (2) adhere to this Policy and McDonald’s Standards of Business Conduct; and; (3) not be made to any organization in the United States required to report their contributions and expenditures to the IRS under 26 USC Sec. 527. However, even where applicable law would permit the Company to make a political contribution, the decision may be to deny the contribution request.

In making any determination, the head of the Government Relations Department may consult with legal counsel, compliance personnel, and members of the Company’s management.

Oversight

Management will report semi-annually to the Audit Committee of the Board of Directors of McDonald’s Corporation regarding political contributions made by the Company pursuant to this Policy. Political contributions in excess of the spending limit established by the Board or any other exceptions to this Policy, must be approved in advance by the Audit Committee.

Disclosure

The Company shall at all times comply with all current applicable laws and regulations relating to the reporting requirements of corporate political contributions. In addition, on a semi-annual basis, McDonald’s Corporation will publish the corporate political contributions made in the United States pursuant to this Policy on its website at www.mcdonalds.com.

Amendments to the Policy

Amendments to the Policy must be approved by the Board of Directors.
ANIMAL WELFARE GUIDING PRINCIPLES

McDonald's commitment to animal welfare is global and guided by the following principles. These principles apply to all the countries in which McDonald's does business.

Safety
First and foremost, McDonald's will provide its customers with safe food products.

Food safety is McDonald's number one priority.

Quality
McDonald's believes treating animals with care and respect is an integral part of an overall quality assurance program that makes good business sense.

Animal Treatment
McDonald's supports that animals should be free from cruelty, abuse and neglect while embracing the proper treatment of animals and addressing animal welfare issues.

Partnership
McDonald's works continuously with our suppliers to audit animal welfare practices, ensuring compliance and continuous improvement.

Leadership
McDonald's will lead our industry working with our suppliers and industry experts to advance animal welfare practices and technology.

Performance Measurement
McDonald's sets annual performance objectives to measure our improvement and will ensure our purchasing strategy is aligned with our commitment to animal welfare issues acting as a responsible purchaser.

Communication
McDonald's will communicate our process, programs, plans and progress surrounding animal welfare.

Issued: 2001

MCDONALD'S CORPORATION CORPORATE RESPONSIBILITY COMMITTEE CHARTER

I Statement of Purpose

The Corporate Responsibility Committee is a standing committee of the Board of Directors. The purpose of the Committee is to act in an advisory capacity to the Board of Directors and management with respect to policies and strategies that affect the Company’s role as a socially responsible organization. As it is management’s responsibility to direct the Company’s role as a socially responsible organization, management retains authority for all communications with the public and investors relating to social policy issues.

II Organization

Charter. At least annually, this charter shall be reviewed and reassessed by the Committee and any proposed changes shall be submitted to the Board of Directors for approval.

Members. The members of the Committee shall be appointed by the Board of Directors and shall consist solely of non-employee Directors, the majority of whom meet the independence requirements of the New York Stock Exchange and applicable policies of the Board of Directors. The Committee shall be comprised of at least three members. Committee members may be removed by the Board of Directors. The Board of Directors shall also designate a Committee Chairperson.

Meetings. The Committee shall establish a schedule of meetings each year. Additional meetings may be scheduled as required.

Agenda, Minutes and Reports. The Chairperson of the Committee shall be responsible for establishing the agendas for meetings of the Committee. An agenda, together with materials relating to the subject matter of each meeting, shall be sent to members of the Committee prior to each meeting. Minutes for all meetings of the Committee shall be prepared and circulated in draft form to all Committee members to ensure an accurate final record, and shall be approved at a subsequent meeting of the Committee. The minutes shall be distributed periodically to the full Board of Directors. The Committee shall make regular reports to the Board of Directors.

III Responsibilities

Areas of Oversight. The following shall be the principal areas in which the Committee shall provide advice and counsel to the Company's management:

- Health and safety matters
- Environmental matters
- Employee opportunities and training
- Balanced lifestyles initiatives
- Diversity initiatives
- Consumer and community relations in the communities where the Company does business
- Shareholder proposals relating to social policy issue

Corporate Reports. The Committee shall review the Company's periodic corporate responsibility reports, and business conduct standards for Company employees and suppliers to the Company’s business.

Committee Performance Evaluation. The Committee shall evaluate its own performance periodically and develop criteria for such evaluation.

Delegation. When appropriate, as permitted under applicable law and the listing standards of the New York Stock Exchange, the Board or the Committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the Committee, the Board or members of management.

Other Duties. The Committee shall also carry out such other duties as may be delegated to it by the Board of Directors from time to time.

Approved by the Corporate Responsibility Committee on January 22, 2005
Approved by the Board of Directors on March 24, 2005
McDonald's believes that all employees deserve to be treated with dignity and respect. In each and every aspect of the employment relationship, employers need to act towards their employees as they would themselves want to be treated. The 100% satisfaction of our internal customers – our employees – is essential to the 100% satisfaction of our external customers. Moreover, McDonald's is committed to a policy of complying with the law wherever it does business, and to maintaining high standards of business conduct. As a result, McDonald's has established a well-respected record and reputation for business honesty and integrity. These principles apply globally, form the basis for McDonald's own ethical business practices, and are cornerstones to McDonald's success.

McDonald's strongly believes that those suppliers who are approved to do business with the McDonald's System should follow the same philosophy, and, in the best interest of the System, McDonald's will refuse to approve or do business with those who do not uphold, in action as well as words, the same principles. McDonald's recognizes that its suppliers are independent businesses. Indeed, it honors that very independence because it provides strength to the relationship. Nonetheless, actions by those with whom McDonald's does business are sometimes attributed to McDonald's itself, affecting its reputation and the goodwill it has with its customers and others. It is only natural then that McDonald's expects its partners in business to act with the same level of honesty and integrity.

For these reasons, McDonald's has established the following policy. Compliance with this policy is required of all suppliers, and is the responsibility of each individual supplier. Suppliers shall ensure that their Subcontractors comply with this policy for employees working on product supplied to McDonald's. Failure to comply with this policy will be sufficient cause for McDonald's to exercise its right to revoke a supplier's approved status. McDonald's reserves the right, as a condition of continuation of business to act with the same level of honesty and integrity.

Compliance With Applicable Laws And Standards

All business activities of McDonald's suppliers must conform to all applicable national and local legal requirements, customs, and published industry standards pertaining to employment and manufacturing. If statutory requirements and published industry standards conflict, suppliers must, at a minimum, be in compliance with the one which, by law, takes precedence.

Employment Practices

Prison or Forced Labor: The use of prison or forced labor by a supplier is absolutely forbidden. Likewise, the use of labor under any form of indentured servitude is prohibited, as is the use of physical punishment, confinement, threats of violence or other forms of physical, sexual, psychological or verbal harassment or abuse as a method of discipline or control. Suppliers will not themselves utilize factories or production facilities that force work to be performed by unpaid or indentured laborers or those who must otherwise work against their will, nor shall they contract for the production of products for McDonald's with Subcontractors that utilize such practices or facilities.

Child Labor: The use of child labor by suppliers is strictly prohibited. Suppliers are prohibited from using workers under the legal age of employment for the type of work in the country where the supplier performs work for McDonald's. If the country in which the supplier is doing business does not define "child" for purposes of minimum age of employment, the minimum age of employment shall be 15 years of age, and the employment of any individual in the production of products for McDonald's below that age shall be strictly prohibited. If local law allows the minimum age of employment to be 14 years of age or younger, the minimum age of employment shall be 14 years of age, and the employment of any individual in the production of products for McDonald's below that age shall be strictly prohibited. In either situation, minors between the ages of 14 and 16 may only be employed to work and only be permitted to work during periods of time when they are not required by law to attend school (except as may be permitted under apprenticeship or other similar programs in which the minor is lawfully participating).

Working Hours: Suppliers must ensure that all employees working on products supplied to McDonald's do so in compliance with all applicable national and local laws and with published industry standards pertaining to the number of hours and days worked. Such employees are to be provided with reasonable daily and weekly work schedules and adequate allowance is to be made for time off. Except in extraordinary business circumstances, employees will not be required to work more than either (a) the limits on regular and overtime hours allowed by local law; or (b) 60 hours per week, inclusive of overtime. Adequate time off shall be at least one day off per week, except in extraordinary business circumstances. In the event of conflict between a statute and a published industry standard pertaining to this issue, compliance must be with the one taking precedence under national law.

Compensation: Supplier employees working on product supplied to McDonald's must be fairly compensated and provided with wages and benefits that comply with applicable national and local laws. This includes appropriate compensation for overtime work and other premium pay situations required by applicable national and local laws. If local laws do not provide for overtime pay, suppliers will pay at least regular wages for overtime work.

Non-Discrimination: Suppliers shall implement a policy that conforms to local and national law prohibiting discrimination in hiring and employment practices on the ground of race, color, religion, sex, age, physical ability, national origin, or any other applicable prohibited basis.

Workplace Environment: Suppliers shall provide their employees with safe and healthy working and, where provided, living conditions. At a minimum, potable drinking water, adequate, clean restrooms, adequate ventilation, fire exits and essential safety equipment, an emergency aid kit, access to emergency medical care, and appropriately-lit work stations must be provided. In addition, facilities be constructed and maintained in accordance with the standards set by applicable codes and ordinances.

Notification to Employees: Suppliers shall notify employees of the terms of these standards and post the terms, on the supplier's letterhead and in the local language, in a prominent place accessible to all employees.

Inspections

By Suppliers: Each supplier shall designate one or more of its management staff to be responsible for monitoring their factories and production facilities, and the production facilities of their Subcontractors used in the production of products for McDonald's, for compliance with the standards set forth herein. Each supplier must conduct such monitoring no less frequently than on an annual basis.

By McDonald's: McDonald's reserves the right to conduct or have its designee conduct unannounced inspections of suppliers' and their business practices, records, facilities, and, where provided by supplier, housing accommodations, as well as private interviews with employees. Suppliers will keep all information necessary to document compliance with these standards readily accessible. Any supplier who refuses to allow such inspections or interviews, or who does not comply with these standards, is subject to immediate termination of its status as an approved supplier.
ENERGY MEASUREMENT

The 2006 Corporate Social Responsibility report provided McDonald’s with a first opportunity to report on energy use in company-owned restaurants. This was based on initial data reported from energy managers in seven of our nine largest markets. We have since enhanced our methodology for surveying this data, enhancing the accuracy of the data reported for 2006 and 2007 and including all nine largest markets. Due to the change in reporting methodology, the data reported in 2004-05 cannot be compared with the more recent data and have been excluded from the key performance indicators chart on pp. 8-9 to avoid confusion. Additional details on this methodology are below.

Energy Collection Methodology

The process for gaining energy use in the markets involves a survey of energy managers in the nine largest markets to gain the total energy use and number of restaurants reported on during the year. Data collection at the restaurant level varies by market – with some conducting monthly collection through restaurant manager readings and others using external firms to capture and record the data based on energy bills. In reporting on the nine largest markets, data for Japan and Brazil included company-owned and developmental licensee restaurants due to the organized structure of the data. Reported kilowatt hour (kWh) data are then extrapolated to all restaurants in these markets since they cannot be separated out. With the energy and number of restaurants surveyed from the energy managers, we can then use the known average transaction counts per restaurant in the market from McDonald’s Corporate Controller Group to gain the transaction counts on the reported number of restaurants. This was then divided into the reported total kWh from the energy managers survey to gain the kWh per transaction count for the market.

CO2 Measurement Methodology

To gain the total CO2 equivalent for the energy used in the restaurants we extrapolated the total kWh for the country. These data were based on the reported average energy use per restaurant for the market by the energy manager and were then extrapolated by the total number of restaurants in the market listed at year end by McDonald’s Corporate Controller Group.

This total kWh value was then multiplied by the country emissions factor from the International Energy Agency Data Services, “CO2 Emissions from Fuel Combustion” (2006 Edition) to gain total tons of CO2 equivalents for the market. This total was then divided into the transaction counts for the market to gain the CO2 per transaction count.

Revisions to 2004-2005 Reported Energy and CO2 Data

While assessing the energy data collection for 2006 it was revealed that some data discrepancies had occurred in energy data collected from two of the markets reported on in the previous Corporate Social Responsibility report for 2004 and 2005. We were able to make the appropriate corrections and with these changes the revised figures would be 1.10 kWh per transaction count (kWh/ TC) for both 2004 and 2005 for the seven markets reported upon. This differs from the earlier, 0.85 kWh/ TC reported for both years. There was no change in the U.S. energy data reported in 2005. It was also realized that the CO2 equivalent emissions from the electrical energy use in company-owned restaurants were incorrectly input into the report. With the revised data and corrections to the formula, revised total figures from the seven markets would be 571,000 tons and 622,000 tons of CO2 for 2004 and 2005, respectively, versus the 591,000 tons and 643,800 tons as reported.