

Background on McDonald's Business Segments

Beginning July 1, 2015, McDonald's started operating under a new organizational structure with the following four segments that combine markets with similar characteristics, challenges, and opportunities for growth. The segment structure has been included here to give context to the relative volumes and proportions of animals in our global supply chain that some of the policies described later refer to.

- U.S. - the Company's largest segment, accounting for 34 percent* of McDonald's total revenues.
- McDonald's International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets, which collectively account for 29 percent* of McDonald's total revenues.
- McDonald's High Growth Markets - China, Italy, Korea, the Netherlands, Poland, Russia, Spain and Switzerland, which collectively account for 25 percent* of McDonald's total revenues.
- Foundational markets – the largest and most diverse geographical segment spanning over 80 markets across parts of Asia, Europe, Middle East & Africa and Latin America collectively account for the remaining 12 percent* of McDonald's total revenues .

*For the year ended December 31, 2016.

Live Transport and Maximum Journey Times

McDonald's strongly encourages raw material suppliers to minimize transport times, reducing animal stress. The meat in our McDonald's global supply chain is required to be from livestock that was not shipped for more than 24 hours by sea, and sent directly to slaughter, without prior exception having been made to this policy by the McDonald's Quality Systems team.

In line with animal welfare expert guidance, the company's goal is to monitor and minimize pre-slaughter transport times within our supply chain. In Europe, we have a third-party audit system in place to ensure that slaughterhouses are regularly confirming that transport times are a maximum of eight hours. The Europe market subject to these audits constituted approximately 26 percent of global chicken volumes, 31 percent of global beef volumes and approximately 16 percent of global pork volumes in 2016.

Implementing our Farm Animal Health & Welfare Policies

McDonald's implements its animal welfare requirements, such as slaughter requirements for beef, chicken and pigs, through a number of global policies, programs and specifications. Our suppliers are required to adhere to such policies, programs and specifications in order to maintain their "approved" status as a McDonald's supplier. For example, in the event any slaughterhouse fails an audit due to a critical (Category One) Non-Compliance, there is an immediate discontinuation of raw material supply into the McDonald's global supply chain, until a corrective action plan is submitted, approved and validated by the a recognized authority on animal health and welfare, approved by McDonald's. McDonald's Quality Systems team reviews supplier performance and ensures these policies are properly and consistently adopted.

Confinement

Eggs:

All of our U.S. and International Lead markets, which account for 63 percent of total McDonald's revenues, have commitments to achieve 100 percent cage-free or free-range eggs. Specifically:

- In September 2015, McDonald's U.S. and Canada announced a commitment to source 100 percent cage-free eggs within 10 years.
- McDonald's UK uses free-range eggs sourced from British and Irish farms, most of which are independent and family owned, on their breakfast menu. All the eggs used in our UK restaurants conform to the Lion Quality Code of Practice or equivalent and meet strict RSPCA assured standards.
- McDonald's Germany:
 - Exclusively uses free-range eggs for its breakfast menu and has done so since 1999.
 - In 2016 McDonald's Germany sourced 1,644 tons (approximately 30 million eggs) free-range eggs, all from Germany.
 - The German market is currently switching the eggs used in all sauces to free-range eggs. This will be completed by the end of 2017.
- McDonald's France uses only French sourced and free-range eggs for Egg McMuffins. In 2016, McDonald's France used over 5.3 million eggs for Egg McMuffins.
- McDonald's Australia has a commitment to use only 100 percent cage-free eggs for whole eggs and precooked egg products by the end of 2017. Currently, McDonald's Australia sources 75 percent cage-free eggs, and is on track to achieve 100 percent by the end of 2017. McDonald's Australia used approximately 97.2 million eggs across our restaurants nationally, based on last 12 month sales through August 2017.
- McDonald's New Zealand completed their transition to 100 percent free-range whole eggs in 2016. They use approximately 13.2 million eggs per year.

Additionally, McDonald's transitioned to cage-free eggs for the breakfast menu in all markets across our European region (excluding Belarus, Russia, and the Ukraine which account for approximately 6 percent of whole eggs in Europe).

Chicken:

For the chicken we offer on our global menus, we do not accept any chickens raised in caged housing systems. 100 percent of chickens used for meat in our global supply chain are required to be reared only in cage-free systems.

Pigs:

In 2012, McDonald's U.S. announced its commitment to work with pork suppliers to phase out the use of gestation stalls for housing pregnant sows. By the end of 2017, McDonald's U.S. will source pork only from producers who share this commitment. By the end of 2022, McDonald's U.S. will source pork only from suppliers that do not use gestation stalls for housing pregnant sows. McDonald's U.S. is working with producers and suppliers to transition to group housing systems and develop verification systems to assess compliance, to ensure they meet this commitment by the end of 2022.

Across our European region, which includes three out of the five International Lead markets for McDonald's, and five out of the eight global High Growth Markets (excludes Russia), 100 percent of our pork is sourced from farms that do not utilize gestation crates. Additionally, for McDonald's UK and the Netherlands, we use 100 percent RSPCA assured pork, which means that all pig farmers that supply these McDonald's markets are required to provide bright, airy environments for pigs, bedded pens and plenty of space for them to move around.