

**REPORT OF THE SUSTAINABILITY AND CORPORATE RESPONSIBILITY
COMMITTEE OF THE BOARD OF DIRECTORS
OF McDONALD'S CORPORATION**

Describing the Duties of the Board of Directors and the Responsibilities of Management as Related to Sustainability and Corporate Social Responsibility Matters, including Matters Related to Human Rights

January 9, 2014

INTRODUCTION

At the 2013 Annual Meeting of Shareholders of McDonald's Corporation shareholders were asked to consider a proposal requesting that McDonald's Board of Directors "report to shareholders . . . on McDonald's process for identifying and analyzing potential and actual human rights risks of McDonald's operations (including restaurants owned and operated by franchisees) and supply chain . . ." (The full text of this proposal is found at <http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Investors/Investor%202013/2013%20McDonalds%20Proxy%20Statement%20-%20LQ.pdf>.)

Although the proposal did not pass, about 28% of shareholders voted in its favor and we have therefore concluded that the issue of risk management as relates to human rights matters within McDonald's operations may be of interest to some shareholders. Consequently, the Board of Directors tasked its Sustainability and Corporate Responsibility Committee (the "Committee") with reviewing the Company's human rights risks and preparing a report to shareholders on this topic.

As the Committee considered how best to communicate with shareholders regarding the issue, it became evident that it would be useful to first explain Directors' duties as related to enterprise risk generally, as well as with respect to matters of sustainability and corporate responsibility. We find that it is timely to communicate about this topic at this time, as the Committee recently undertook an overall review of our role in the oversight of sustainability and corporate responsibility, culminating in the adoption of a new Committee Charter in December, 2013. (The Committee Charter, as revised, can be found at http://www.aboutmcdonalds.com/mcd/investors/corporate_governance/board_committees_and_charters.html.)

This report represents the outcome of the Committee's review of its role as it relates to matters of sustainability and corporate responsibility and its assessment of human rights risks in McDonald's business. We have sought to consolidate a description of these matters in a single place in the interest of communicating clearly to shareholders.

DIRECTOR DUTIES AS RELATED TO MATTERS OF SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

It is the responsibility of Company management to manage enterprise risk, with a view to balancing the Company's exposure to risk against possible rewards and an overall goal of ensuring that the Company's risk profile is appropriate in the context of its long-term business objectives and stakeholder expectations. The Board's role in enterprise risk management (which includes strategic, operational, financial, reputational, legal and other risks) is one of oversight. The Audit Committee is responsible for

evaluating management's processes to assess and manage enterprise risk, while the Board as a whole considers the Company's overall risk exposures in the context of its annual review of McDonald's business strategies. In addition, the Board receives updates on the Company's enterprise risk exposures and its mitigation efforts from management at least quarterly. Although the Board as a whole has responsibility for enterprise risk oversight, several of the Board's committees evaluate particular risks that pertain to matters within their purview. These risks are then discussed more broadly at the Board level when situations warrant and in connection with the Board's annual enterprise risk review.

The Sustainability and Corporate Responsibility Committee provides independent oversight of the Company's risk profile and its mitigation strategies related to sustainability and corporate social responsibility matters. This Committee is comprised of five Directors, all of whom meet the requirements of independence under New York Stock Exchange rules. The Committee monitors the Company's activities and risks as they relate to human rights, community engagement, diversity, employment practices, the environment, government relations, products, public affairs, safety and sourcing.

THE SUSTAINABILITY AND CORPORATE RESPONSIBILITY COMMITTEE'S ASSESSMENT OF MANAGEMENT'S APPROACH TO MANAGING HUMAN RIGHTS RISK

Human rights risks are dealt with by management as a sub-set within the Company's broader enterprise risk management processes. The Committee sees a benefit in management's reviewing and considering risks comprehensively on an annual basis, as it creates an opportunity to understand and evaluate interdependencies in a manner that could not be accomplished by focusing on a single risk area. Consequently, the Committee has not asked management to conduct a separate assessment of human rights risks at this time, as we believe that management's current approach of evaluating human rights risk within the broader enterprise risk management process is appropriate. However, in order to address this topic specifically for shareholders, the Committee requested that management prepare a special report addressing its process for identifying and analyzing human rights risk.

Because of the breadth of its Charter, the Committee is uniquely situated to evaluate the overall human rights risks within McDonald's business, as the Committee is charged with overseeing the Company's human rights activities, as well as other areas of the Company's business that intersect with human rights. Thus, we have reviewed management's report and are satisfied that management has taken reasonable steps to comprehensively identify, analyze and address the human rights impacts of its business. Furthermore, we are confident that the Company's policies and processes are designed to allow for continuous improvement as circumstances and expectations change. In the interest of responding to potential interest in this topic, the Committee has decided to publish management's report (see Annex 1) along with this assessment so as to inform shareholders of the Company's efforts.

**MANAGEMENT’S REPORT TO THE SUSTAINABILITY AND CORPORATE RESPONSIBILITY
COMMITTEE OF THE BOARD OF DIRECTORS
ON ITS PROCESS FOR IDENTIFYING AND ANALYZING HUMAN RIGHTS RISKS
IN MCDONALD’S OPERATIONS**

January 9, 2014

INTRODUCTION

McDonald’s commitment to respect human rights is clearly articulated in its Standards of Business Conduct (“Standards”), which apply to all employees of McDonald’s Corporation and its majority-owned subsidiaries (hereinafter collectively referred to as the “Company”). While the Standards establish the framework for the Company’s commitment to human rights, other Company policies provide additional guidance on human rights issues. Many of these policies are referenced in the Standards. Management reviews and updates these policies from time to time. The Standards as a whole were last updated in October 2013 and can be found at

http://www.aboutmcdonalds.com/mcd/investors/corporate_governance/codes_of_conduct/standards_of_business_conduct.html.

In developing the Standards and other Company policies that relate to human rights, we inform ourselves by reference to such documents as the UN Universal Declaration of Human Rights, the UN International Covenant on Civil and Political Rights, and the UN International Covenant on Economic, Social and Cultural Rights. These documents are guides to aid governments in the development and implementation of national law and therefore not binding on corporations, but are useful in considering the scope and design of the Company’s policies. The UN’s Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises have been instructive as well.

THE COMPANY’S COMMITMENT TO HUMAN RIGHTS

McDonald’s commitment to respect human rights is articulated in the following statement, which is contained in the Standards:

“At McDonald’s, we conduct our activities in a manner that respects human rights as set out in The United Nations Universal Declaration of Human Rights. We do not use any form of slave, forced, bonded, indentured or involuntary prison labor. We do not engage in human trafficking or exploitation, or import goods tainted by slavery or human trafficking. We support fundamental human rights for all people. We will not employ underage children or forced laborers. We prohibit physical punishment or abuse. 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. McDonald’s complies with employment laws in every market where we operate.”

Company employees (except restaurant crew) are required to annually certify to their understanding of, and commitment to uphold, the Standards. Crew employees at Company-operated restaurants receive information regarding the Standards and instructions about whom to call with questions or concerns through postings in employee crew rooms.

The Standards apply solely to the Company and its employees, but it is management's expectation that those with whom we do business will share our values, including our respect for human rights. In order to connect these expectations to realization, we periodically communicate our values to those with whom we do business and, particularly as it relates to suppliers, establish contractual commitments to respect human rights as discussed below.

OBLIGATIONS OF FRANCHISEES

As of November 30, 2013, there are over 35,000 McDonald's restaurants worldwide. Of that total, about 80% are owned and operated by independent business people or companies under contracts with the Company. The Company uses several different approaches in licensing the use of its restaurant operating systems. Those McDonald's restaurants not operated by the Company may be conventionally franchised, developmentally licensed, sub-franchised or affiliated, and may be operated by individual small business owners, larger enterprises or publicly-traded companies. (Hereinafter, we refer to those operating McDonald's restaurants under license collectively as "franchisees.")

Under a conventional franchise arrangement, the Company licenses the right to use McDonald's trademarks and operating systems in the operation of a McDonald's restaurant at a single location, which the franchisee contemporaneously leases from McDonald's. Conventional franchisees are typically small business owners, who invest in their restaurant's furniture, signage and décor, and are responsible for day-to-day restaurant operations in a manner which is consistent with the obligations set out in the lease and license with the Company. As of November 30, 2013, about 20,000 McDonald's restaurants are franchised to conventional franchisees.

In contrast, a developmental licensee will typically receive a license to operate McDonald's restaurants within a specified territory and will pay the Company a royalty for the right to use its trademarks and operating systems, but will own or lease its own restaurant premises without the Company's involvement. Some developmental licensees have the right to sub-franchise McDonald's restaurants within their territories to individual owner-operators. Developmental licensees may be individuals, companies or publicly-traded enterprises. As of November 30, 2013, almost 4,660 McDonald's restaurants are operated by developmental licensees, the largest of which is publicly-traded Arcos Dorados, operator of about 2,000 McDonald's restaurants in Latin America.

There are instances where the Company makes equity investments in other companies that operate McDonald's restaurants under license as joint ventures or affiliates. In many of these situations, these companies purchase the real estate underlying their restaurants and they may operate or sub-franchise restaurants within their licensed territory. McDonald's largest affiliate is McDonald's Japan Holdings, which as of November 30, 2013, operates approximately 3,170 restaurants in Japan and is a publicly traded company.

Contracts with franchisees vary based on the nature of the relationship with the Company and the location of the restaurant, but are generally twenty years in duration and allow for the Company to exercise oversight to protect the value of its trademarks and ensure uniformity of operations across all of the restaurants operated under McDonald's name. In accordance with their franchise contracts, franchisees are responsible for the day-to-day operations of their restaurants and are exclusively responsible for employment matters in their organizations. Typically, the Company may only seek to terminate a relationship with a franchisee in the event of a material breach of its contract with the franchisee.

Because of the complex nature of its franchise relationships and limitations that exist in contract and in local law, McDonald's has not attempted to unilaterally impose its Standards of Business Conduct on its franchisees. The Company has chosen instead to use other efforts to inform its franchisees of the

Company's commitment to human rights and to encourage them to adopt similar standards. These are described later in this report beginning at page 5.

OBLIGATIONS OF SUPPLIERS

Franchisees are limited by contract to purchasing their supplies from McDonald's approved suppliers. To become "approved," these suppliers must meet rigorous conditions established by the Company and enter into contracts with the Company that detail the terms of their arrangements. Among other things, these contracts obligate suppliers to abide by McDonald's Supplier Code of Conduct, which requires them to respect the rights set out in the UN Universal Declaration of Human Rights and to ensure that their suppliers, in turn, do the same. McDonald's Supplier Code of Conduct can be found at http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Sustainability/Library/Supplier_Code_of_Conduct.pdf.

IDENTIFYING AND ANALYZING RISK

Human rights risks are assessed in the course of the Company's enterprise risk management process. This process is aimed at identifying and classifying risk to McDonald's business, prioritizing those risks which management believes could be the most impactful, determining the best methods to mitigate or avoid such risks, and reporting regularly on significant risks to senior management, the Board of Directors and shareholders. An enterprise risk assessment is conducted annually in conjunction with the Company's planning process; however, risk management is an ongoing responsibility of management and risks are identified, analyzed and addressed throughout the year as circumstances arise. Risk is analyzed cross-functionally, which is to say that both country leadership and functional experts play a role in the process. From time to time, management selects risk areas that represent emerging risks or escalating risks for deeper analysis and discussion at the senior management level. In addition, certain functional leaders conduct risk assessments in their respective areas of responsibility, including supply chain, internal audit and legal compliance.

Management provides the Board of Directors with its overall assessment of enterprise risk annually and updates the Board on new and emerging risks throughout the year, but no less often than quarterly. The most significant risks to McDonald's business are also disclosed to shareholders in the "Risk Factors" section of the Company's SEC filings on Forms 10-K and 10-Q. This "Risk Factor" disclosure is revised regularly to encompass changing circumstances.

ASSESSING HUMAN RIGHTS RISK

As discussed above, McDonald's business relationships are varied and the principles by which human rights risks are identified and analyzed differ depending upon the nature of the relationship with McDonald's. Following is a general overview of management's approach to assessing potential and actual human rights risk.

Human Rights in the Company's Own Operations. Management believes that its controls around human rights risk in its Company-operated restaurants and other Company facilities are robust. As described above, the Company and its employees are expected to comply with McDonald's Standards of Business Conduct, which specifically call out the obligation to respect human rights. In addition, the Standards and other Company policies explicitly address issues of respect and dignity, inclusion and diversity, protection against retaliation and workplace safety, among other things.

The Company's Global Chief Compliance Officer oversees communications, training and compliance related to the Standards and associated policies, including those related to human rights. Among other things, the Global Compliance Office is responsible for: monitoring changes in law and best practices as

relate to those areas of business conduct covered by the Standards; coordinating investigations related to violations of the Standards (including those related to human rights); ensuring that appropriate actions are taken to deal with policy violations; revising policies or processes to address changing laws or in response to any identified systemic compliance issues; and communicating regularly regarding compliance activities to senior management and the Board of Directors.

The Global Chief Compliance Officer uses a number of approaches to evaluate compliance with existing policies. Staff members from the Global Compliance Office regularly visit McDonald's facilities around the world to provide training and interact directly with employees, typically interviewing a significant percentage of the employees at the location that is being visited. The Global Chief Compliance Officer relies on the Company's Internal Audit function to assess compliance with a variety of Company policies, including some related to human rights. From time to time, the Global Compliance Office engages independent third parties to perform in-depth assessments or audits of particular aspects of the Company's business practices. The Global Compliance Office also conducts due diligence with respect to third parties in the normal course of business and undertakes compliance risk assessments periodically.

Employee hotlines are also important sources of information on compliance with policies. To encourage employees to report on issues they encounter, McDonald's follows a strict "No Retaliation Policy." The Global Compliance Office maintains a number of communications vehicles (e.g., in-person meetings, mail, telephone lines and e-mails) for employees to report misconduct. The most comprehensive of these is McDonald's Business Integrity Line, a phone line which enables anonymous reporting of ethics and compliance issues globally. The Global Chief Compliance Officer reports to the Audit Committee of the Board of Directors periodically throughout the year regarding allegations received, investigations conducted and follow-up taken as a result of these communications.

Based on the information derived from the sources described in the previous three paragraphs, the Global Chief Compliance Officer is able to assess the effectiveness of the Company's compliance programs, including those related to human rights, and to identify actual or potential gaps in the Company's policies and/or processes. The Global Chief Compliance Officer establishes an annual plan to address any significant gaps that have been identified, which may involve communications, training or the introduction of new or improved policies, procedures and/or internal controls. The Global Chief Compliance Officer reviews this plan with the Board of Directors each year.

In addition to the oversight exercised by the Global Chief Compliance Officer, management oversees the Company's employment policies and practices generally. This oversight includes receiving reports on employee turnover, training, and employee health and safety, and regularly gauging employee engagement through anonymous employee surveys.

The Company has also established training programs related to employment and human rights. These programs are mandatory and are delivered to Company employees at intervals through a blended approach of in-person, facilitated courses and online modules. In addition to being offered to corporate staff, many of these training programs are required for employees before they can advance to positions of restaurant management.

To ensure compliance with Company policies, staff employees with supervisory responsibility over multiple Company-operated restaurants make regular visits to those restaurants to gauge the effectiveness of McDonald's operations, including compliance with the Company's Operations and Training Manual. Among other things, the Operations and Training Manual contains detailed procedures related to workplace safety, the protection of employee rights and other employment practice areas. Company-operated restaurants are scored on their performance, responsible management is apprised of the outcome of the scoring, and improvement plans are designed and

monitored to ensure that gaps in performance are closed. Company-operated restaurants are also subject to the “Global Restaurant Operations Improvement Process” which is described below.

Human Rights in McDonald’s Franchised Operations. As is typical in any franchise arrangement, McDonald’s franchisees enter into long-term contracts with the Company whereby they commit to make a sizable investment in a business which they agree to operate in a manner consistent with McDonald’s trademarks and proprietary operating systems. These contracts require franchisees to conduct certain aspects of their business in the manner prescribed by McDonald’s to ensure consistency of operations across the thousands of restaurants operated under its name; however, franchisees are independent business people and companies that establish their own business practices without specific direction from the Company, except for procedures required to assure consistency of brand experience.

Despite this, the Company has a strong motivation to help franchisees appreciate the importance of issues related to human rights, given the potential for reputational risk to the Company that could arise from the actions or inactions of those operating restaurants under McDonald’s name. Accordingly, the Company makes efforts to raise the awareness of its franchisees about employment practices, workplace conditions and human rights issues; to provide training and tools to assist franchisees in building their own capacity to deal with these issues; and to encourage them to adopt best practices. Awareness often begins with the training that prospective franchisees and new restaurant managers must complete at one of the seven McDonald’s Hamburger Universities worldwide and/or through a variety of regional and local training initiatives and on-line resources the Company makes available. Beyond training, management communicates regularly with McDonald’s franchisees regarding matters of importance to their business and engages with franchisees frequently in a multitude of ways.

One way in which the Company engages with franchisees to encourage positive employment practices is through regular communications about the “Plan to Win,” which is the strategic plan for McDonald’s business. Annual business plans for the Company and franchisees are drawn within the Plan to Win’s framework of the “Five P’s” of People, Product, Place, Price and Promotion. Management communicates regularly with its franchisees with respect to each of the five pillars of the plan. “People” is the first of the five pillars and consequently receives consistent attention in business planning and communications.

In furtherance of the Plan to Win, management conducts regular business meetings with global, national, regional and local franchisee groups, as well as franchisee affinity groups and other franchisee groups that have been formed to deal with particular aspects of the McDonald’s restaurant business, including people practices. These meetings occur throughout the year to ensure alignment with business and marketing plans, share best practices and receive feedback from franchisees that can be taken into account in refining Company initiatives. There are also a variety of newsletters and other written communications and webcasts that are readily available to franchisees to raise their awareness about business practices, emerging issues and resources that are available to them in connection with all five pillars of the Plan to Win.

As to individual franchised operations, the Company further communicates its standards and recommends best practices through an extensive organization of “operations consultants” employed by the Company who provide advice to franchisees in the running of their restaurants consistent with McDonald’s standards. Operations consultants meet with their assigned franchisees regularly throughout the year.

One tool used by operations consultants to engage franchisees in adopting best practices is the “Global Restaurant Operations Improvement Process” or “GROIP.” GROIP is the framework established by the Company to provide for uniform assessments of all restaurant operations worldwide and to provide for

identification of performance gaps and approaches for improving business performance. GROIP establishes a periodic cycle of operations reviews and consultations. It is not a stand-alone tool for assessing human rights gaps; however, included in GROIP is an evaluation of factors related to people practices, training, employee satisfaction, safety and workplace conditions. While the Company does not regulate franchisee employment practices for the reasons set out earlier in this report, discussions between Company personnel and franchisees regarding these matters are facilitated through the GROIP process, since franchisees are encouraged to compare their own employment policies and workplace procedures to those suggested by the Company. This allows for dialogue between the Company and its franchisees on people practices designed to enhance the working environment, as well as for coaching, planning and follow-up.

Management believes that it has taken reasonable steps to promote respect for human rights within its franchisee community; however, because franchisees operate their businesses independently of the Company, the Company's access to their personal and business information is limited under contract. Also, because franchisees are exclusively responsible for employment matters within their organizations, the Company must respect the privacy rights of franchisee employees. These factors prevent the Company from having direct visibility into franchisee employment and other business practices; hence the Company is not able to directly assess the effectiveness of its franchisees' human rights practices.

With a network of franchisees as numerous and geographically diverse as the Company's, it is unavoidable that from time to time situations will come to the Company's attention that evidence that the Company's aspirations are not being achieved in franchised operations. When this occurs, the Company will typically begin by offering advice and support to the franchisee, to the extent feasible. If it becomes clear upon inquiry and/or investigation that the Company's standards have been violated and that the severity of the violation is such as to warrant ending the franchise relationship, the Company has in the past (and will in the future) take steps to do so, either by exercising its contractual rights to terminate the franchise agreement or by encouraging the franchisee to sell its business.

Human Rights in McDonald's Supply Chain. As mentioned earlier in this report, McDonald's suppliers are bound by McDonald's Supplier Code of Conduct (the "Supplier Code"), which was last updated in November 2012. The updated Supplier Code was the culmination of a comprehensive two-year process that included benchmarking with a number of corporations leading in this area and consultation with Calvert Investments, Interfaith Center for Corporate Responsibility and i2a, which each represent external stakeholders in supplier workplace accountability. The process also included a human rights gap analysis conducted by Shift, an independent, non-profit center for business and human rights practice, as well as ongoing dialogue with McDonald's suppliers. As part of its update to the Supplier Code, the Company also revised the associated "Supplier Guidance Document," which sets out specific requirements for compliance with the Company's policies, including the expectation that direct suppliers will drive the same standards required of them by the Company into their own supply chains.

The Supplier Code is the cornerstone of the Supplier Workplace Accountability Program, which provides on-line training, requires annual supplier self-assessments and arranges third-party audits of suppliers and their facilities. In addition to human rights performance, the self-assessment tool allows suppliers to record and evaluate other sustainability management practices, providing information that the Company and the supplier can use to measure performance and set goals for continuous improvement under McDonald's Supplier Performance Index, a tool that helps us evaluate suppliers on a variety of measures, including environmental, social, and other metrics related to sustainability. A supplier's formal evaluation in relation to this index takes place every 1 to 3 years and is complemented by quarterly reviews that provide regular feedback. With an eye to continuous improvement of its

Supplier Workplace Accountability Program, the Company participates in working groups, such as Aim-Progress and the BSR Human Rights Working Group, to identify and discuss emerging trends and best practices in supplier accountability, among other things.

Third party audits of suppliers, completed through independent experts, are conducted as an ongoing matter and are risk-based; however, every supplier must participate in a baseline, third-party audit in order to become an approved supplier. Auditors measure performance against a number of expectations set by McDonald's. If a significant irregularity is found, an immediate corrective and preventative plan must be developed and implemented, and the facility will be subject to a follow-up audit, the timing of which is based on the severity of the findings. The plan must provide specific time frames within which corrective action will be taken, root causes analyzed, and policies and/or procedures updated. In addition, the plan must be designed to avoid recurrence of the situation, establishing specific accountability by designating the party responsible for completion of each aspect of the plan.

The Company holds suppliers accountable for failures in compliance with the Company's human rights standards and attempts to work with them to improve their practices; however, in serious situations and within its contractual and legal rights, it will terminate a relationship with a supplier that does not evidence the ability or willingness to correct the situation.

CONCLUSION

Management has demonstrated its commitment to identify, analyze and assess its human rights impacts and to respect human rights through the myriad of activities described above. We acknowledge that no program is perfect, particularly in a system as large and diverse as McDonald's, and that living up to our commitment will require diligent inquiry, continued engagement with stakeholders and improvements in policies and practices over time. We have dedicated resources to this effort and plan to continue to report regularly to the Sustainability and Corporate Responsibility Committee and the Board of Directors on our challenges and progress.