McDonald’s, the Web and you

The Web is a great vehicle to provide convenient, value-added services to shareholders. Here are a few highlights of what’s available to McDonald’s shareholders on the Web.

* Learn more…stay informed  No doubt about it, the Investors section of www.mcdonalds.com is the source for the latest McDonald’s investor news and updates on recent and upcoming investor activities. Listen to or watch Investor Webcasts of events, such as the annual meeting or quarterly earnings conference calls. Sign up for E-Mail Notification so you’ll be automatically advised when new investor information and services are available on our website.

* Annual Report and Proxy online  Yes, Virginia, you can eliminate those bulky paper annual reports and proxy materials from your mailbox and help save your Company money. Sign up to access our annual report and proxy and to vote your shares online, and we’ll e-mail everything you need to do so. MCDirect Shares participants, investors holding McDonald’s stock certificates and those whose shares are held in safekeeping at EquiServe can sign up at www.econsent.com/mcd by providing their account number and registration or U.S. social security number. Most investors whose shares are held by their broker or bank can sign up at www.icsdelivery.com.

* Access MCDirect Shares  The Web makes it more convenient to access and participate in the Company’s direct stock purchase plan, MCDirect Shares. At www.equiserve.com, eligible investors can obtain a MCDirect Shares prospectus, enroll in the Plan and use many of the Plan’s services while online.

* Answers about your account  How many shares do I have? When was my last stock purchase? How do I transfer shares to my children? MCDirect Shares participants, investors holding McDonald’s stock certificates and those whose shares are held in safekeeping at EquiServe can get answers to questions like these and many more 24 hours a day, seven days a week at www.equiserve.com. To access your account on this secure site, you will need McDonald’s issue number—9826, your account number, U.S. Social Security number, if applicable, and password. To obtain a password, follow the instructions on this site. If your broker or bank holds your shares, you may want to ask if a similar service is available.

* More smiles online  There are all types of fun and interesting information on www.mcdonalds.com. Click on Ronald & Friends for games and more, find a restaurant in the U.S. or U.K. or learn about McDonald’s in other countries. You also can get information about nutrition, franchising, U.S. career opportunities, Company history, promotions in many parts of the world and much more on our website.
Dear shareholders,

When was your first visit to McDonald’s?  > on Saturday morning—just you and your dad sharing some
one-on-one time together?  > on a date with your first love?
> when your grandchild treated because, after all, you
aren’t really so square?  > when your teacher worked the front
counter during a school fundraiser?  > for the grand
opening of the first McDonald’s in your town or country?
> on a summer outing with your entire family?  > for some
stolen moments to catch up with an old friend?  > at a
birthday party for your best friend?  > to celebrate your
team’s victory—or to cheer you up after a defeat?
> to apply for your first job?  > for lunch with the gang
at work?  > for a pick-me-up after taking your college
entrance exams?  > to celebrate your child’s performance
in a school play?  > Whatever the reason for your first
visit, we want the smiles we deliver and the special
memories you experience at McDonald’s to keep you
coming back again and again.

I’ll begin this annual letter by thanking you, our share-
holders, for investing in McDonald’s. Your faith in our
future and your confidence in our brand are deeply appreci-
ated. We are committed to making each and
every one of you look exceedingly wise from an
investment point of view as we pursue our vision
to be the world’s best quick-service restaurant
experience. We want you to own shares of
McDonald’s over the long term, and we know the
only way this will happen is through the long-
term growth of our business in ways that not only
meet your expectations—but exceed them.

I’d like to outline what, I believe, are your
expectations...

First, and obviously, you expect strong finan-
cial results. Next, you look for leadership, the kind
that keeps a business fresh and at the cutting
ing edge. Finally, you increasingly expect the compa-
ny to do the right thing, we enhance the loyalty and
affection customers have toward our brand.

Over the years, McDonald’s track record
has stood up well against each of these broad
expectations. In the area of financial performance,
McDonald’s has consistently delivered record
annual earnings* in our 35 years as a public
company. Again, we are proud of the trust we build with customers
and the ongoing recognition we receive for our efforts and
their communities. In fact, I believe that by
doing the right thing, we enhance the loyalty and
affection customers have toward our brand.

Looking back over 2000, how did McDonald’s
perform against this set of expectations?

Financially, our global food service business
performed well despite challenges. In Europe,
there were the well-reported currency issues
throughout the year and later in the year there
were consumer concerns related to BSE—or
mad cow disease—in the beef supply in certain
European markets. And Asia and Latin America
faced continuing economic downturns.

Nevertheless, constant currency net income
per common share increased 10 percent
on Systemwide sales that surpassed the
$40 billion mark for the first time in our
history.

Company employees—has created a remark-
able history of innovation in menu, brand
building, technology, operations and restaurant
development.

In the area of social responsibility, McDonald’s
commitment to giving back to communities is as
old as the brand itself. Clearly, it is the right thing
to do. Nevertheless, we are pleased with the
ongoing recognition we receive for our efforts and
are proud of the trust we build with customers and
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Nevertheless, constant currency net income
per common share increased 10 percent
on Systemwide sales that surpassed the $40 billion
mark for the first time in our history. We added
1,606 McDonald’s restaurants, and with the
successful completion of our Boston Market
acquisition, we added 792 restaurants under our
Other Brands. At year-end 2000, we operated
28,707 restaurants in 120 countries. In all, we
served nearly 1 billion additional customers, for
a total of 16.5 billion customer visits.

*Excluding 1998 Meal For the cost
and the 1998 special charge.
Dear shareholders,

When was your first visit to McDonald’s?  > on Saturday morning—just you and your dad sharing some one-on-one time together?  > on a date with your first love?  > when your grandchild treated because, after all, you aren’t really so square?  > when your teacher worked the front counter during a school fundraiser?  > for the grand opening of the first McDonald’s in your town or country?  > on a summer outing with your entire family?  > for some stolen moments to catch up with an old friend?  > at a birthday party for your best friend?  > to celebrate your team’s victory—or to cheer you up after a defeat?  > to apply for your first job?  > for lunch with the gang at work?  > for a pick-me-up after taking your college entrance exams?  > to celebrate your child’s performance in a school play?  > Whatever the reason for your first visit, we want the smiles we deliver and the special memories you experience at McDonald’s to keep you coming back again and again.

I’ll begin this annual letter by thanking you, our shareholders, for investing in McDonald’s. Your faith in our future and your confidence in our brand are deeply appreciated. We are committed to making each and every one of you look exceedingly wise from an investment point of view as we pursue our vision to be the world’s best quick-service restaurant experience. We want you to own shares of McDonald’s over the long term, and we know the only way this will happen is through the long-term growth of our business in ways that not only meet your expectations—but exceed them.

I’d like to outline what, I believe, are your expectations...

First, and obviously, you expect strong financial results. Next, you look for leadership, the kind that keeps a business fresh and at the cutting edge. Finally, you increasingly expect the company you invest in to connect with your families, friends and their communities. In fact, I believe that by doing the right thing, we enhance the loyalty and affection customers have toward our brand.

Looking back over 2000, how did McDonald’s perform against this set of expectations?

Financially, our global food service business performed well despite challenges. In Europe, there were the well-reported currency issues throughout the year and later in the year there were consumer concerns related to BSE—or mad cow disease—in the beef supply in certain European markets. And Asia and Latin America faced continuing economic downturns. Nevertheless, constant currency net income per common share increased 10 percent on Systemwide sales that surpassed the $40 billion mark for the first time in our history.

Company employees—has created a remarkable history of innovation in menu, brand building, technology, operations and restaurant development. In the area of social responsibility, McDonald’s commitment to giving back to communities is as old as the brand itself. Clearly, it is the right thing to do. Nevertheless, we are pleased with the ongoing recognition we receive for our efforts and are proud of the trust we build with customers and their communities.

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Nevertheless, constant currency net income per common share increased 10 percent on Systemwide sales that surpassed the $40 billion mark for the first time in our history. We added 1,608 McDonald’s restaurants, and with the successful completion of our Boston Market acquisition, we added 792 restaurants under our Other Brands. At year-end 2000, we operated 18,086 restaurants, and with the acquisition of Boston Market, we served nearly 1 billion additional customers, for a total of 16.5 billion customer visits.
In the United States, where competition is intense, the percent increase in operating income was in the high single digits on a 3 percent sales increase. Notably, the U.S. business has posted positive comparable sales in 11 of the past 12 quarters, an excellent indication of our momentum. And in Europe, Asia/Pacific and Latin America, sales in 2000 increased 9 percent in constant currencies. As mentioned earlier, there have been consumer concerns about the beef supply in certain European markets. However, because of our product specifications and the trust customers have in McDonald’s, this issue has affected our sales much less than those of others. And as shareholders, you also can trust that McDonald’s is committed to adhering to the highest safety standards in the world and always meets or exceeds government standards.

Given the tough business environment, our gains were modest. Nevertheless, we were able to extend our lead in virtually every market in which we do business, as it was even tougher for many of our competitors.

McDonald’s total return to investors over the past 10 years was 17.5 percent. But the reality is our stock did not perform well in 2000. Although our overall financial performance was good, it was not as good as we expected, and this was reflected in our stock price.

Looking ahead, our financial goals are to continue growing earnings per share, to increase return on investment and to grow shareholder value at a rate that our investors expect and deserve.

Turning to another investor expectation—leadership—I am very pleased with the progress our team made last year in adapting to local market conditions and in innovating to move the business forward. Perhaps more importantly, we intend to build on that progress.

We will continue to tap into the tremendous opportunities that exist for McDonald’s. The 120 countries in which we operate represent 95 percent of the world’s purchasing power. Yet, we feed less than 1 percent of the world’s population on any given day.

In 2001, we plan to add 1,500 to 1,600 McDonald’s restaurants and are focused on increasing sales at existing restaurants. In the U.S., we already are seeing the benefits of our investment in the Made For You food preparation system with improvement in customer ratings of the taste and freshness attributes of our food. In addition, Made For You has provided the platform for new product additions, including the introduction of our New Tastes Menu this past January. This menu has the potential to create a permanent branded category similar to our Extra Value Meal approach. We also are developing aggressive plans to double our sales in the U.S. over the next 10 years, and triple owner/operator cash flow—primarily through our existing restaurants.

In Europe, we are increasing menu variety with pork and chicken selections, building our breakfast business and offering customers great value. Also, as much of the European community unites in one currency, we will leverage the McDonald’s System to cut costs and achieve additional synergies.

In Asia/Pacific, we will continue to focus on our traditional menu and add products that reflect the popularity of chicken. We will also explore other ways to best meet local preferences.

And, despite the current economic challenges, we see Latin America as a great market for our business long term given its large population, strong entry emphasis and youngographics. So, we will continue to emphasize value, building our brand and growing market share. By developing a loyal customer base, we will be poised for growth as the economies begin to improve.

We will continue to support our ongoing global growth with innovation and technology: Our Future includes a Web-enabled system of restaurants and cashless electronic transactions.

In addition to growing the McDonald’s restaurant business, management is developing new avenues for future profitable growth, primarily through our Other Brands.

We know that there are a number of distinct meal occasions that McDonald’s does not meet—when you want pizza or ethnic food, for example, we’re not on your list of options. So, we are developing new concepts to leverage our expertise in building best-in-class brands and to capture additional meal occasions around the world. These brands include Boston Market, Chipotle Mexican Grill and Donatos Pizza in the U.S.; and United Kingdom-based Arena Caffe and Pret A Manger.

We also are leveraging our food service experience by participating in the development of global Internet-related services. Last year, we formed eMac Digital in partnership with Accel-KKR, which is developing on-line technologies to benefit both the McDonald’s System and the food service industry.

So, we continue to focus on growing our powerful McDonald’s brand, growing our promising new brands and leveraging our strengths.

Now, let’s look at what I believe is the third investor expectation—being a socially responsible organization. We work with a passion to make the world a better place—whether it is offering disaster relief after the recent earthquakes in El Salvador and India, or celebrating the opening of the 206th Ronald McDonald House in Mexico City, or our continuing environmental and animal welfare leadership. We are a neighbor that people know they can count on in times of need.

We also have the incredibly rewarding opportunity to go beyond the expected with our global partners, especially on behalf of children. In 2000, for instance, we joined with The Walt Disney Company in sponsoring Millennium Dreamers—celebrating the achievements of 2,000 outstanding young people from around the world. We leveraged our sponsorship of the Olympic Games to bring young leaders together in an International Youth Camp program during the Summer Games in Sydney. And we partnered with the Field Museum in Chicago to support the reconstruction of “Ike,” the largest T. rex fossil ever found, and to bring Sue’s story to people through traveling exhibits.

So, we continue to take strides toward our vision to be the best through our financial performance, leadership and social responsibility efforts.

As we look forward to continued progress in 2001, we know there is one key to our success—our family of more than 1.5 million employees, owner/operators and suppliers around the world. They bring the McDonald’s brand to life for our customers every day, and we count on them to make our customers smile—every customer, on every visit.

I am always impressed—and often amazed—at the incredible levels of dedication and passion our people have for the business and their communities. I believe these attributes are uniquely McDonald’s. I also am proud of the vast experience and variety of backgrounds that many of our people bring to The Golden Arches. For example, on a recent trip I met a restaurant manager in China, who studied medicine but decided to pursue a career with McDonald’s. On the same trip, I also met with our two joint-venture partners in Korea, who were both successful entrepreneurs prior to partnering with McDonald’s.

In today’s society, any successful business needs to recruit and retain good people. I believe that, in many countries, we have a competitive strength in this area. In fact, when I visited Brazil recently, I was proud to learn that McDonald’s received recognition as one of the top places to work in the country. And we have dedicated our efforts to being the best employer in each community around the world. We know that is the surest way to guarantee our success as a System, and your success as an investor.

Finally, I want to thank you again for being part of McDonald’s. I appreciate your confidence and look forward to enjoying success with you in the future.

Sincerely,

Jack M. Greenberg
Chairman and Chief Executive Officer
Shareholder

March 8, 2001
In the United States, where competition is intense, the percent increase in operating income was in the high single digits on a 3 percent sales increase. Notably, the U.S. business has posted positive comparable sales in 11 of the past 12 quarters, an excellent indication of our momentum. And in Europe, Asia/Pacific and Latin America, sales in 2000 increased 9 percent in constant currencies. As mentioned earlier, there have been consumer concerns about the beef supply in certain European markets. However, because of our product specifications and the trust customers have in McDonald’s, this issue has affected our sales much less than those of others. And as shareholders, you also can trust that McDonald’s is committed to adhering to the highest safety standards in the world and always meets or exceeds government standards.

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So, I want to thank you again for being part of McDonald’s. I appreciate your confidence and look forward to enjoying successes with you in the future.

Sincerely,

Jack M. Greenberg
Chairman and Chief Executive Officer

March 8, 2001

Letter to shareholders
Performance 2000

Systemwide sales exceeded $40 billion for the first time in our history.

McDonald’s served nearly 1 billion more customers than in 1999.

Earnings per share increased 10 percent in constant currencies.

We repurchased $2 billion of McDonald’s stock during 2000, bringing total repurchases under our three-year program to $3.3 billion.

More than 1,600 McDonald’s restaurants and nearly 800 restaurants operating under Other Brands were added.

We introduced The Golden Arches to American Samoa and French Guiana, bringing the total number of countries in which we operate to 120.

McDonald’s ranked #1 in social responsibility in Fortune magazine’s 2000 listing of America’s Most Admired Companies.

11-year summary

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**Excluding 1998 Made For You costs and 1998 special charge.**

**Graph excludes corporate segment.**

**Excluding IMF Made For You costs and IMF special charge.**

**Footnotes:**

(1) Operating income includes $162 million of Made For You costs and the $160 million special charge related to the home office productivity initiative for a pretax total of $322 million ($219 million after tax or $0.16 per share).

(2) Systemwide restaurants have been adjusted to exclude dessert-only kiosks for all years presented.
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### Performance at a glance

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<thead>
<tr>
<th>Year</th>
<th>Cumulative share repurchases in billions</th>
<th>Net income per common share—diluted in dollars</th>
<th>Systemwide sales in billions</th>
<th>Systemwide restaurants at year end</th>
<th>Systemwide sales by type</th>
<th>Systemwide restaurants by type</th>
<th>Net income</th>
<th>Operating income* in billions</th>
<th>Operating income as percent of sales</th>
<th>Cash provided by operations in billions</th>
<th>Financial position at year end</th>
<th>Free cash flow</th>
<th>Treasury stock purchases in billions</th>
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*Graph excludes corporate segment.

McDonald’s vision

being the world’s best quick-service restaurant experience

this means

being the restaurant experience
that makes each and every customer smile
on each and every visit

focus

> becoming the best employer
for our people in every market around the world, as only satisfied employees can deliver the friendly, efficient service customers want and deserve

> delivering exceptional customer experiences, through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value

> expanding our powerful brand
by using innovation and technology to enhance customer experiences for years to come

> leveraging the System’s strengths
by developing new business concepts

> solidifying our leadership in social responsibility
by giving back to our communities and making the world a better place for future generations

result

enduring profitable growth
McDonald's vision

being the world’s best quick-service restaurant experience

this means
being the restaurant experience
that makes each and every customer smile
on each and every visit

focus

> becoming the best employer for our people in every market around the world, as only satisfied employees can deliver the friendly, efficient service customers want and deserve

> delivering exceptional customer experiences, through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value

> expanding our powerful brand by using innovation and technology to enhance customer experiences for years to come

> leveraging the System’s strengths by developing new business concepts

> solidifying our leadership in social responsibility by giving back to our communities and making the world a better place for future generations

result

enduring profitable growth
Everything we do at McDonald’s—from sourcing products around the globe to site development to grilling hamburger patties—comes together the moment an individual steps up to the front counter or pulls up to the drive-thru window. Satisfied customers—every restaurant, every meal, every time—are our goal and our reward. Their smiles will be tangible proof that we have fulfilled our vision to be the best quick-service restaurant experience in the world.

Members of the McDonald’s System are pursuing our vision with an unrelenting passion. They are finding new and different ways to create brand-loyal customers. Clearly, the power of our decentralized approach to managing the business is that our local management teams and owner/operators can readily tailor their market’s tactics to optimize opportunities.

The story that follows takes a look at a sampling of the many things we are doing to give customers what they want and at some of those little extras we are delivering to further differentiate McDonald’s from the competition.

Smiles are universal

With operations in 120 countries, it’s not surprising that customers have diverse customs, languages and taste preferences. Yet, everyone understands a smile—an expression of welcome, friendliness and satisfaction.

When our restaurant crews are smiling, we know we have succeeded in giving them the training, resources and opportunities they need to feel good about themselves and their jobs. When our customers reward us with a smile, we have succeeded in delivering hot, tasty food coupled with fast, friendly service.

Accordingly, the McDonald’s System is committed to measuring and enhancing the satisfaction we deliver. In Singapore, for example, we use a “Smile Index,” a barometer that measures employee and customer satisfaction based on restaurant-specific surveys. This tool is used to foster teamwork among crewspeople, recognize their accomplishments and assist the restaurant staff in setting action plans.

We also use research to learn about consumers and their impressions of McDonald’s. One finding was that since the implementation of our Made For You food preparation system in the U.S., perception scores for McDonald’s food taste, freshness and appearance have been increasing there.

Smiles are contagious

A warm, friendly acknowledgement usually evokes a similar response. Similarly, when we are happy, it is not unusual for our positive attitude to be reflected in our interactions with others. When our crews are happy, they can’t help but give friendly, efficient service to customers. That’s why being the best employer is a key strategy at McDonald’s. Quite simply, our goal is to continu-

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Our restaurant staffs around the world are the face of McDonald’s to our customers, and we are striving to put smiles on the faces of the people on both sides of the counter.
About two years ago, McDonald's people in Canada took a hard look at how they were delivering on the experience and price components of our value equation and didn’t like what they saw. So, they took action.

Together, our employees and owner/operators in Canada identified opportunities to improve pricing and began to nationally advertise ongoing value offerings. They expanded regular and breakfast menu offerings by leveraging the Made For You food preparation system. They built their breakfast business by opening some restaurants earlier to serve people getting an early start on their busy days. With a focused and committed effort, they also increased the speed and quality of McDonald’s drive-thru service. As a result, they improved value scores, enhanced customer satisfaction and significantly increased comparable sales.

Clearly, this renewed customer care culture did not happen overnight. Rather, it has been, and continues to be, an ongoing effort. Today, McDonald’s Canada stands as a shining example of what the entire System can achieve when it focuses on delivering the total experience customers want and deserve.
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Smile

13 foods you crave

ally demonstrate that we value our employees, their contributions and their growth. It starts with treating them with respect, recognizing their contributions and providing them with meaningful development opportunities and the resources to do their jobs.

Showcasing excellence through friendly competition is one way we instill a sense of enthusiasm and fun among our crews, while honing their skills. Crew competitions within and among McDonald’s restaurants are held in many markets, including Japan, Saudi Arabia, Uruguay and the U.S. In fact, the best of our best were rewarded with the opportunity to serve up Big Mac sandwiches and fries at the 2000 Olympic Games in Sydney, Australia. Among the 20 countries represented on our “gold medal” crew team were Belarus, Chile, Denmark, Greece, Indonesia, Russia and Venezuela.

Since excellence at the restaurant begins with the manager, we are recognizing the top 1 percent of our U.S. restaurant managers with the recently created Ray Kroc Award, a recognition named in honor of McDonald’s founder. We brought these very special managers together to celebrate their successes, share best practices and identify opportunities for improvement. In addition, they helped us to better identify the leadership skills that drive excellence in our restaurants on a day-to-day basis.

Serving up smiles

Customers today have many choices. They are more discerning and are demanding more from McDonald’s. So, we are determined to capture more eating occasions by serving the great food they want and providing the fast, friendly service they deserve.

We are expanding proven McDonald’s products into new markets and adding new tastes to the menu. Now, for example, Guatemala, Malaysia, the Netherlands, Poland, Taiwan and the U.K. are among the many countries where customers are enjoying refreshing McFlurry desserts. And we are testing breakfast menus in several countries, including Sweden and Switzerland.

Also, recognizing that spicier offerings would appeal to local customer tastes and make cash registers ring, a team of owner/operators and employees from Southern California went to Mexico to benchmark our product offerings there. Using those learnings, they worked with our menu management team to develop authentic Mexican products with local appeal, such as breakfast burritos, chicken and beef torta sandwiches and several Mexican desserts.

We also are giving customers more reasons to visit our restaurants with our New Tastes Menu in the U.S. This initiative is designed to provide an ongoing rotation of food news and to firmly establish McDonald’s as the place for variety and value. Driven by consumer research and enabled by the Made For You food preparation system, McDonald’s New Tastes Menu is a vehicle by which markets across the U.S. can select and showcase limited-time breakfast, lunch/dinner and dessert offerings that have local appeal.

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The leadership of our restaurant managers has a significant impact on customers’ experiences. Consider Ahmad Afshari, the manager of the Tyson’s Corner, Virginia, McDonald’s. His restaurant, which generates $3 million in sales annually, rates an impressive 98 percent in customer satisfaction. That kind of rating doesn’t happen by accident. Ahmad’s leadership and operational skills have enabled him to motivate his employees and beat aggressive sales targets.

A winner of the Ray Kroc Award for outstanding performance, Ahmad receives high marks for his ability to train, reward and develop his staff. Employee satisfaction scores at his restaurant are among the highest in the U.S., and crew turnover is among the lowest. Not surprisingly, his crew’s positive attitude drives exceptional service.

Ahmad also is a drive-thru expert. During busy periods, his crew dons mobile wireless headsets and works the drive-thru lane, taking orders from customers. To further speed up service, he dedicates an individual to filling orders, so order takers and cashiers can focus on their jobs. His uncanny ability to make cars “disappear” in the drive-thru has earned him the nickname of “Drive-Thru Magician.” Magician or not, he surely has a knack for delighting customers!

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Ahmad recently was promoted to operations consultant. The manager sets the tone for his or her restaurant. This manager in Thornleigh, Australia, is demonstrating what it takes to serve up smiles with every order.
We also use limited-time offerings, such as the popular Cheese Lovers week in France, to add excitement and profits outside the U.S. During this successful promotion, customers can select sandwiches featuring a variety of cheese toppings that please their palates.

Clearly, appealing to local food tastes is good for business. Notably, we generated impressive double-digit comparable sales increases in China last year with an ongoing focus on value and two innovative chicken products—Spicy McWings and the Spicy Chicken Filet Burger. Building on this opportunity, we are in the process of establishing a center of excellence for menu management and product development in Singapore. Grounded in a consumer-guided development process, this center will focus on identifying and creating products that appeal to customers in Asia in order to build sales and increase profitability throughout the region.

We are also intensifying our efforts to deliver fast, friendly, hassle-free service. In Indonesia, for example, our restaurant crews are donning Formula 1 racing-inspired uniforms to beat a 60-second timer to serve customers—faster and better—at the front counter, as well as in the drive-thru. In Argentina, Paraguay, Spain, Switzerland and a number of other markets, hosts and hostesses are greeting customers and seeing to their special needs, whether it’s more catsup or a high chair for a youngster.

As customers who use the drive-thru tend to be especially pressed for time, we are continuing to explore opportunities to facilitate car throughput. For example, crewpeople in Brazil are testing remote order-taking devices during busy periods to place orders for customers using the drive-thru. In addition, we are testing side-by-side tandem ordering stations at U.S. restaurants with especially high drive-thru sales. These dual stations allow customers to pull up to the first available position, so cars keep moving even if someone is ordering for an entire soccer team at the other order point. Initial results have been positive, with greater car throughput and incremental sales during peak periods.

The ‘value’ of a smile
Everyone appreciates a good value, and at McDonald’s, we pride ourselves on being a value leader around the world. A long-term strategy has been to combine attractive prices with delicious food and enjoyable experiences. As a result, we have a broad base of customers, many of whom can afford to visit us frequently.

In addition to being a good value all the time, we are building traffic and sales during less busy periods with innovative approaches to pricing. For example, in Japan, where a large percentage of our business is conducted on weekends, we are providing special weekday values, such as 120-yen Filet-O-Fish sandwiches. And in a number of markets across the U.S., we are offering outrageous values, like 29-cent hamburgers and 39-cent cheeseburgers, on certain days of the week.

The little things often make a good experience great, and we are providing many of those little things to make a visit to McDonald’s special.
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For Martin Hoban, a McDonald’s owner/operator with two restaurants in County Kerry, Ireland, good deeds come naturally. Active in his community, Martin often reaches out to local businesspeople—who are also his customers—to help others.

“I know my customers. If the community needs help, I ask them to pitch in,” explains Martin.

Through that kind of initiative, Martin spearheaded an effort to remodel a play area at a local hospital. He recruited local merchants to donate hardware and lumber and asked an architect and an electrician to volunteer their time and skills. They were happy to help out, and in the end, they thanked him for getting them involved!

His willingness to always lend a hand has helped him forge special bonds with the people in his close-knit community. As a result, they frequent his restaurant and provide candid customer feedback. “It’s incredible,” he remarks, “since they know me so well, they are quick to let me know what’s right and what can be improved in my restaurants.”

“The bottom line is, I’m helping my business,” Martin says. “But more importantly, it makes me smile.”
Children just seem to know we care.
After all, where else can kids enjoy Ronald’s PlayPlace and a Happy Meal?

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20  Smile

Creating smiles through innovation

Since 1955, when we essentially redefined the preparation and delivery of a meal, McDonald’s has grown the business through innovation. Now, we are tapping into technology to enhance our customers’ experiences by making McDonald’s more fun, to help them stay connected, to improve service and convenience, and to expand the Brand.

For instance, McMagination and Kidspac’s, recreation areas that feature electronic games for teenagers as well as younger children, are now options available to our U.S. restaurants. We also are offering customers limited-time Internet access at a number of our restaurants in Latin America.

Another use of technology is geared towards eliminating routine tasks, so our restaurant staffs can spend more time on service. For example, by expanding the use of inventory management systems to electronically monitor product usage and place orders, we are eliminating time-consuming reporting and reordering tasks, while ensuring optimal supply levels at all times. We also are expanding the use of automated beverage dispensers, which pour drinks while sales are entered into the cash register.

We also are employing technology to enhance the convenience of a visit to McDonald’s. One way we are doing this is through an interactive website—www.mcdonalds.com—where customers and job seekers can get directions to the closest McDonald’s restaurant from any address in the U.S. and the U.K.

In addition, we are exploring alternative payment methods to speed service and build higher average checks, while making visits to McDonald’s more convenient. At a number of our U.S. restaurants, customers can pay for their food with small electronic devices placed on car windshields or key chains. And, at many McDonald’s restaurants in Australia, Denmark, France, Germany, New Zealand and a number of other countries, customers can pay by swiping their debit/credit cards through an electronic card reader. In some cases, they can even get cash back.

Of course, innovation does not always involve technology. Take, for instance, McCafé—an innovative specialty coffee and gourmet dessert concept that is driving incremental sales during off-peak hours. Incorporated into traditional McDonald’s restaurants, they have a distinct European atmosphere that is unpretentious, vibrant and energetic. A success in Australia, where our people originally developed the concept, we currently are operating more than 300 McCafés in over 15 countries, including Argentina, Italy and Portugal.

Clearly, we are working on many fronts to make each and every customer feel special on every visit to McDonald’s. We recognize this is an ambitious goal. Yet, when we achieve it, we will also achieve enduring profitable growth for the McDonald’s System and our shareholders.

Indeed, our goal is also our reward.

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New technology creates new opportunities, and we are tapping into technology to enhance our customers’ experiences.
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Taste of the Olympics

Customers around the world celebrated the 2000 Summer Olympics at McDonald’s through a variety of themed brand-building promotions. In Germany, customers enjoyed five flavorful burgers, one for each of the five continents represented by the Olympic Rings. And in the U.K., we enticed customers with an Australian-themed promotion featuring Bondi BBQ burgers, McAussie Chicken sandwiches and Cheesy Boomerangs (mozzarella sticks). By offering customers gold-medal winning tastes, these promotions helped build sales in these markets.

We will continue to leverage the Olympic spirit to enhance our brand and excite customers the Olympic spirit to enhance our brand and excite customers. Great taste and variety help keep customers coming back to McDonald’s.

Take a walk on the wild side

When your taste buds yearn for a little adventure, McDonald’s has just the ticket… our New Tastes Menu in the U.S.

Leveraging our Made For You food preparation system, this menu features a rotating selection of mouthwatering entrées and desserts like the Crispy Chicken McClub, Cheddar Melt, Fajita Big N’ Tasty, Sausage Breakfast Burrito and Root Beer Floats.

The New Tastes Menu will showcase new, regional, seasonal and value-based offerings that appeal to local taste preferences. Great taste and variety help keep customers coming back to McDonald’s.

All meal occasions

Satisfying more customers’ hunger pangs more often is key to driving long-term growth. Our primary focus is to capture as many meal occasions as possible under The Golden Arches. Beyond this, we’re working to build our share of the eating-out market by operating several Other Brands—Aroma Café, Baja California Grill, Chipotle Mexican Grill and Donatos Pizza. At year-end 2000, these Other Brands had more than 1,000 restaurants.

We’re also excited about our recent investment in U.K.-based Pret A Manger, a quick-service food concept offering sandwiches, snacks and drinks.

Check it out

- Helping others During Founder’s Week 2000, McDonald’s employees, owner/ operators and suppliers built on our heritage of giving back by providing more than 30,000 hours of volunteer work to nonprofit organizations and communities across the U.S.
- Customers count McDonald’s serves 45 million customers every day in about 29,000 restaurants worldwide.
- #1 franchisor Once again, Entrepreneur magazine ranked McDonald’s as the number one franchising organization in the U.S.
- Birthday take-off Birthday parties at a McDonald’s in Budapest, Hungary, are really taking off. An old airplane converted into a birthday party facility is so popular with children and their families that parties here must be reserved three months in advance.
- Asian corporate leader McDonald’s ranked second in the Far Eastern Economic Review’s annual corporate leadership survey of multinationals doing business in Asia.
- Community commitment McHappy Day activities around the world raised more than $1.2 million for Ronald McDonald House Charities and other nonprofit organizations in 2000.
- One of the world’s best Global Finance Magazine named McDonald’s one of the Best Global Companies in 2000. The award, given for the third consecutive year, recognizes the Company’s profitability, capitalization, product breakthroughs, success with mergers and acquisitions, percent of business and employees outside the U.S., and market share.

Going digital

Drawing on our global restaurant expertise and logistical knowledge, McDonald’s and Accel-KKR created eMac Digital to help accelerate the application of Web technology in restaurants. With eMac, we’re developing integrated solutions to help restaurant managers reduce costs and increase efficiency, enabling them to focus more time where it counts most — with customers. eMac is also exploring ways to enhance supply chain efficiency through an investment in eFS, a collaborative venture with Cargill, Sysco and Tyson.

Did you know…

- To take the helm of a McDonald’s restaurant, managers must complete our renowned training program which consists of self-study and classroom work, capped off with a leadership course at one of seven Hamburger University (H.U.) campuses. Instructors at H.U. campuses in Australia, Brazil, Germany, Hong Kong, Japan, the U.K. and the U.S. annually train about 5,000 students in 28 languages.

Best place to work

Fortune magazine recognised McDonald’s as among America’s 50 Best Companies for minorities to work. Fortune also ranked us first in minority purchasing habits. In fact, we sourced about $3 billion worth of goods and services from women- and minority-owned firms in 2000. Also in the U.S., the National Association of Black Accountants, Hispanic Magazine and Latina Style Magazine recognised McDonald’s as a great place for women and minorities to work.

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Taste of the Olympics
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In a global competition to judge the speed, accuracy, friendliness and teamwork of McDonald’s crew from around the world, the All-Japan team took first place. The other finalists included crew teams from Canada, Mexico and the U.S. To earn the right to participate in this first-ever international crew competition held at the Rock N’ Roll McDonald’s in Chicago, Illinois, U.S.A., team members had to work their way through crew competitions at the local, regional and national levels.

Created to recognize and inspire the people behind our global brand, crew competitions between (and within) McDonald’s restaurants instill enthusiasm and pride among crew. But the real winners of these competitions are the customers served by energized and motivated crew who are the best at what they do.

Customers count
McDonald’s serves 45 million customers every day in about 29,000 restaurants worldwide.

#1 franchisor
Once again, Entrepreneur magazine ranked McDonald’s as the number one franchising organization in the U.S.

Birthday take-off
Birthday parties at a McDonald’s in Budapest, Hungary, are really taking off. An old airplane converted into a birthday party facility is so popular with children and their families that parties here must be reserved three months in advance.

Asian corporate leader
McDonald’s ranked second in the Far Eastern Economic Review’s annual corporate leadership survey of multinational doing business in Asia.

Community commitment
McHappy Day activities around the world raised more than $1.2 million for Ronald McDonald House Charities and other non-profit organizations in 2000.

One of the world’s best
Global Finance Magazine named McDonald’s one of the Best Global Companies in 2000. The criteria used for this award included the Company’s profitability, market capitalization, product breakthroughs, success with mergers and acquisitions, percent of business and employees outside the U.S., and market share.

Check it out
✓ Helping others During Founder’s Week 2000, McDonald’s employees, owners/ operators and suppliers built on our heritage of giving back by providing more than 30,000 hours of volunteer work to nonprofit organizations and communities across the U.S.

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Best place to work
Fortune magazine recognized McDonald’s as among America’s 50 Best Companies for minorities to work. Fortune also ranked us first in minority purchasing practices. In fact, we sourced about $3 billion worth of goods and services from women- and minority-owned firms in 2000. Among the U.S., the National Association of Black Accountants, Hispanic Magazine and Lideres Style Magazine recognized McDonald’s as a great place for women and minorities to work.

Did you know…
...To take the helm of a McDonald’s restaurant, managers must complete our renowned training program which consists of self-study and classroom work, capped off with a leadership course at one of seven Harvard University (H.U.) campuses. Instructors at H.U. campuses in Australia, Brazil, Germany, Hong Kong, Japan, the U.K. and the U.S. annually train about 5,000 students in 28 languages.

All meal occasions
Satisfying more customers’ hunger pangs more often is key to driving long-term growth. Our primary focus is to capture as many meal occasions as possible under The Golden Arches. Beyond this, we’re working to build our share of the eating-out market by operating several Other Brands—Aroma Café, Brasilian Market, Chipotle Mexican Grill and Donatos Pizza. At year-end 2000, these Other Brands had more than 1,000 restaurants.

We’re also excited about our recent investment in U.K.-based Pret A Manger, a quick-service food concept offering sandwiches, snacks and drinks.

Going digital
Drawing on our global restaurant expertise and logistical knowledge, McDonald’s and Accenture’s eMac Digital to help accelerate the application of Web technology in restaurants. With eMac, we’re developing integrated solutions to help restaurant managers reduce costs and increase efficiency, enabling them to focus more time where it counts most — with customers. eMac is also exploring ways to enhance supply chain efficiency through an investment in eFS, a collaborative venture with Cargill, Sysco and Tyson.

Winter Games in Salt Lake City, Utah, U.S.A., and 2004 Summer Games in Athens, Greece.

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**Social responsibility**

Building bonds with our customers and the communities we serve is critical to McDonald’s ongoing success. Just as McDonald’s, our owner/operators and suppliers work together to create exceptional restaurant experiences, we also work to strengthen relationships with our communities and enhance McDonald’s brand by being a leader in social responsibility.

In 2000, we were honored that Fortune magazine ranked us number one in social responsibility. We pledge to build on this heritage by listening, learning and striving to help make the world a better place. Here are a few highlights of our activities in 2000.

Ronald McDonald House Charities

McDonald’s supports Ronald McDonald House Charities (RMHC). RMHC works to improve the health and well-being of children by awarding grants to organizations and supporting more than 200 Ronald McDonald Houses in 19 countries. RMHC granted $1.2 million in 2000 to Prevent Child Abuse America’s initiative called Healthy Families America, an intensive home visitation program for new parents. This program serves 35,000 families across the U.S. and Canada.

Valuing education

We support education through partnerships to develop curricular materials, scholarship programs and local efforts sponsored by individual McDonald’s restaurants.

Supplier code

We expect our suppliers to follow the same philosophy: to value and respect their employees and ensure their people practices are aligned with our Code of Conduct. Our compliance monitoring efforts include training and remediation by McDonald’s plus external third-party audits. A report on our work in this area is available on McDonald’s website or by calling 630-623-7428.

Animal welfare commitment

We made positive changes in the area of farm animal welfare. Using guidelines established by a leading animal welfare expert, we audit our U.S. meat suppliers to ensure the humane treatment of farm animals. Similar audits are being phased in globally. More recently in the U.S., we introduced improved guidelines for the treatment of egg laying hens.

We also formed the industry’s first independent board of academic, industry and animal protection experts to advise us on issues regarding the welfare of farm animals.

Environmental leadership

We continue to focus on reducing energy consumption, decreasing packaging and waste, and implementing sustainable, environmentally sound business practices in our restaurants and throughout our system.

Food quality and safety

McDonald’s Quality Assurance Board provides strategic global leadership for all aspects of food quality and safety. Further, our quality assurance and supply chain specialists around the world, work with McDonald’s suppliers to ensure compliance with our standards. We operate quality assurance labs around the world, where ongoing product reviews and enhancements take place. In addition, we work closely with our suppliers to encourage innovation, assure best practices and drive continuous improvement.

Further reinforcing our commitment to quality, we have been recognizing exceptional excellence among our suppliers since 1990 with the Sweeney Quality Award. This award was named in honor of a supplier who exemplified a commitment to our high standards. Clearly, our criteria for recognizing excellence has been validated by the fact that our Sweeney Quality Award winner in 1990 – Sunny Fresh Foods, a supplier of egg products to the McDonald’s System – won the prestigious Malcolm Baldrige National Quality Award the following year. High standards also are essential to the operations of our restaurants. Proper food storage, handling and cooking practices are an integral part of our training materials, and a food safety check list is used daily in our restaurants to validate that food safety standards and procedures are in place. In addition, our restaurants are inspected for safety compliance.

Safe fun for children

Parents can be confident that our Happy Meal toys and PlayPlaces are safe. For years, we have been using state-of-the-art technology to scientifically analyze the safety of toys and other promotional items for the McDonald’s System. We also have been working with the world’s leading manufacturers and installers of fun and safe playground equipment and renowned safety consultants so that playtime at McDonald’s meets our strict specifications.

Sharing our expertise

The safety of customers is paramount – whether they are at our restaurants or elsewhere. So, we are pleased to share our knowledge and expertise. In fact, we have been in the unique position of being asked to share our food safety criteria and processes with governments around the world. Notably, a McDonald’s executive serves on the National Advisory Committee on Microbiological Criteria for Foods, a U.S. organization that advises a number of governmental agencies, including the Food & Drug Administration and the Department of Agriculture, on food safety standards.

Earlier this year, McDonald’s and RAM Consulting, a world leader in safety analysis, testing and consulting, shared state-of-the-art equipment and technology with the U.S. Consumer Product Safety Commission, to help its staff better evaluate toy safety and prevent injuries to children. This technology includes a life-like doll that is designed to test for potential suffocation hazards. We believe this tool, which within the Company is sometimes affectionately referred to as McBaby, will help save children’s lives.

In addition, we provided funding to the National Playground Safety Institute, America’s leader in playground safety training, to underwrite the development of a new safety training program.

Over the years, McDonald’s has been a leader in setting and strictly enforcing high-quality and safety standards—often exceeding those established by industry and governments. Quite simply, quality and safety are the most important items on our menu, so our customers can have confidence in McDonald’s.

We are aligned with world-class suppliers that share our high standards, and our restaurant staff are equipped to deliver on them every day.

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McDonald’s is proving a company can do well by doing good.

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**Nature of business**

The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald’s brand. Approximately 80% of McDonald’s restaurants and more than 80% of the Systemwide sales of McDonald’s restaurants are in eight markets: Australia, Brazil, Canada, France, Germany, Japan, the U.K., and the U.S. Throughout this discussion, McDonald’s restaurant businesses in these eight markets collectively are referred to as “major markets.” To capture additional meal occasions, the Company also operates other restaurant concepts: Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza. Collectively these four businesses are referred to as “Other Brands.” Throughout this discussion, Other Brands’ financial information is included in the Other Segment. In February 2001, the Company acquired a minority interest in U.K.-based Pret A Manger, which is a quick-service food concept that serves mainly sandwiches, snacks and drinks during lunchtime.

**Consolidated operating results**

<table>
<thead>
<tr>
<th>Operating results</th>
<th>1999</th>
<th>1998</th>
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<tbody>
<tr>
<td>Total revenues</td>
<td>$14,243</td>
<td>$12,421</td>
</tr>
<tr>
<td>Operating costs and expenses</td>
<td>$10,913</td>
<td>$9,326</td>
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<tr>
<td>Operating income</td>
<td>$3,330</td>
<td>$3,095</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$320</td>
<td>$346</td>
</tr>
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**Year in review**

CFO review: Why I believe McDonald’s is a good investment today

Michael L. Conley  
Executive Vice President, Chief Financial Officer  
March 8, 2001

We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time.

**Strong cash flow.** Over the last three years, McDonald’s cash from operations totaled $9.5 billion. We use our cash flow primarily to invest in our growing business. We invested $6.7 billion in capital expenditures over the last three years, resulting in free cash flow of $2.8 billion.

**Efficient use of capital.** Our first priority is to invest in Brand McDonald by adding restaurants and investing in sales-building initiatives. We earn a superior return on these investments both by operating restaurants and by receiving rents and service fees under our franchise agreements.

Our second priority is to grow our other restaurant concepts to capture those meal occasions that McDonald’s cannot optimize. To do so, we have invested in Aroma Café, Boston Market, Chipotle Mexican Grill, Donatos Pizza and Pret A Manger.

With our cash flow and credit capacity, we repurchase shares and pay dividends to enhance shareholder value. Over the past 10 years, we purchased $7.1 billion or 301 million shares of our stock and paid $2 billion in common dividends.

**Financial performance.** We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time. In certain markets, where we are investing for the future, it will take a while to achieve such results. Yet, in many established markets, we are achieving excellent results, approaching or exceeding 20 percent. In 2000, our consolidated return on assets was 15.9 percent. McDonald’s business has grown steadily over the past 10 years, and our plan is to continue to do so. Our Systemwide sales and earnings per share increased 7.9 percent and 10.5 percent, respectively, on a compound annual basis over the last 10 years.

As a shareholder, I am excited about McDonald’s future because of the System’s many strengths and the opportunities I see ahead.

The following table presents the 2000 growth rates for reported and constant currency results as well as the 1999 growth rates for reported results, results adjusted for 1998 Made For You costs and the 1998 special charge, and the adjusted results on a constant currency basis. All information in constant currencies excludes the effect of foreign currency translation on reported results, except for hyperinflationary economies, such as Russia, whose functional currency is the U.S. Dollar.

**Consolidated statement of income**

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The primary currencies negatively affecting reported results were 2000 the Euro, which is the currency in 12 of our European markets including France and Germany, and the British Pound and the Australian Dollar, partly off-set by the stronger Japanese Yen. In 1999, the reported results were negatively affected primarily by the Brazilian Real, the Euro and the British Pound, partly offset by the stronger Japanese Yen, Australian Dollar and Southeast Asian currencies. In 2000 and 1999, the stronger Japanese Yen had a greater positive currency translation effect on sales compared with revenues. This is due to our affiliate structure in Japan. Under this structure, we record a royalty in revenues based on a percent of Japan’s sales, whereas all of Japan’s sales are included in Systemwide sales. For this reason, growth rates for Systemwide sales in both years were less negatively affected by foreign currency translation than were revenues.

**Systemwide sales**

For the first time, Systemwide sales exceeded $40 billion, increasing 7% in constant currencies in 2000. Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. We continue to focus on increasing market share through positive comparable sales and strategic restaurant development, with an emphasis on improving customer satisfaction through quality, service, cleanliness and animal welfare initiatives, and local community involvement.

Michael L. Conley  
Executive Vice President, Chief Financial Officer  
March 8, 2001

**Global growth opportunities.** There are enormous opportunities for McDonald’s around the world. In the U.S., we have 13,000 McDonald’s restaurants serving a population of nearly 300 million people, and we continue to grow sales at existing restaurants and add new restaurants. In Europe, the population is more than twice as large as the U.S., and we operate 5,500 McDonald’s restaurants. In Asia/Pacific, where more than 60 percent of the world’s population lives, we have 6,200 McDonald’s. And in Latin America, where we operate only 1,500 restaurants, the strong family culture, young demographics and large population align well with McDonald’s offerings.

**Brand.** The McDonald’s brand is one of the most well-known and recognized brands in the world. It stands for Big Mac, Chicken McNuggets and Happy Meals…PlayPlays and Ronald McDonald…quick service, cleanliness, value and convenience. The brand is also respected because of the McDonald’s commitment to local involvement in virtually every market in which we operate.

We have the best franchisees in the world. Their entrepreneurial spirit, collaboration, enthusiasm and expertise continue to drive our changing market dynamics.

Our core competencies include operations, menu management, marketing and real estate. We have talented local management and staff who understand their customers and can quickly adapt to changing market dynamics.

We have the best franchises in the world. Their entrepreneurial spirit, collaboration, enthusiasm and expertise continue to drive our business today.

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**Year in review**

The primary currencies negatively affecting reported results were 2000 the Euro, which is the currency in 12 of our European markets including France and Germany, and the British Pound and the Australian Dollar, partly off-set by the stronger Japanese Yen. In 1999, the reported results were negatively affected primarily by the Brazilian Real, the Euro and the British Pound, partly offset by the stronger Japanese Yen, Australian Dollar and Southeast Asian currencies. In 2000 and 1999, the stronger Japanese Yen had a greater positive currency translation effect on sales compared with revenues. This is due to our affiliate structure in Japan. Under this structure, we record a royalty in revenues based on a percent of Japan’s sales, whereas all of Japan’s sales are included in Systemwide sales. For this reason, growth rates for Systemwide sales in both years were less negatively affected by foreign currency translation than were revenues.

**Systemwide sales**

For the first time, Systemwide sales exceeded $40 billion, increasing 7% in constant currencies in 2000. Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. We continue to focus on increasing market share through positive comparable sales and strategic restaurant development, with an emphasis on improving customer satisfaction through quality, service, cleanliness...
CFO review: Why I believe McDonald’s is a good investment today

McDonald’s is well positioned to benefit from the world’s growing population and the enduring needs and desires of people for great-tasting food, value and convenience.

Global growth opportunities. There are enormous opportunities for McDonald’s around the world. In the U.S., we have 13,000 McDonald’s restaurants serving a population of nearly 300 million people, and we continue to grow sales at existing restaurants and add new restaurants. In Europe, the population is more than twice as large as the U.S., and we operate 5,500 McDonald’s restaurants. In Asia/Pacific, where more than 60 percent of the world’s population lives, we have 6,200 McDonald’s. And in Latin America, we operate only 1,500 restaurants, the strong family culture, young demographics and large population align well with McDonald’s offerings.

Brand. The McDonald’s brand is one of the most well-known and recognized brands in the world. It stands for Big Mac, Chicken McNuggets and Happy Meals…Playscapes and Ronald McDonald… quick service, cleanliness, value and convenience. The brand is also respected because of the McDonald’s System commitment to local communities and to adhering to the highest safety standards.

Competitive strengths. McDonald’s is a leader in the global food service industry. We serve 45 million customers every day in 29,000 restaurants in 120 countries around the world. We are part of customers’ everyday lives, and we have the leading market position in virtually every market in which we operate. Our global supply infrastructure is unparalleled and allows us to achieve economies of scale and offer great value to customers.

Our core competencies include operations, menu management, marketing and real estate. We have talented local management and staff who understand their customers and can quickly adapt to changing market dynamics. We have the best franchises in the world. Their entrepreneurial spirit, collaboration, enthusiasm and expertise continue to drive our business today.

Social responsibility. McDonald’s has been recognized as a leader in this area. Our efforts encompass support of educational programs and Ronald McDonald House Charities, environmental and animal welfare initiatives, and local community involvement.

Strong cash flow. Over the last three years, McDonald’s cash flow from operations totaled $8.5 billion. We use our cash flow primarily to invest in our growing business. We invested $5.7 billion in capital expenditures over the last three years, resulting in free cash flow of $2.8 billion.

Efficient use of capital. Our first priority is to invest in Brand McDonald by adding restaurants and investing in sales-building initiatives. We earn a superior return on these investments both by operating restaurants and by receiving rents and service fees under our franchise agreements.

Our second priority is to grow our other restaurant concepts to capture those meal occasions that McDonald’s cannot optimize. To do so, we have invested in Aroma Café, Boston Market, Chipotle Mexican Grill, Donatos Pizza and Pret A Manger.

With our free cash flow and credit capacity, we repurchase shares and pay dividends to enhance shareholder value. Over the past 10 years, we purchased $7.1 billion or 301 million shares of our stock and paid $2 billion in common dividends.

Financial performance. We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time.

Nature of business

The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald’s brand. Approximately 80% of McDonald’s restaurants and more than 80% of the Systemwide sales of McDonald’s restaurants are in eight markets: Australia, Brazil, Canada, France, Germany, Japan, the U.K., and the U.S. Throughout this discussion, McDonald’s restaurant businesses in these eight markets collectively are referred to as “major markets.”

To capture additional meal occasions, the Company also operates other restaurant concepts: Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza. Collectively these four businesses are referred to as “Other Brands.” Throughout this discussion, Other Brands’ financial information is included in the Other Segment.

In February 2001, the Company acquired a minority interest in U.K.-based Pret A Manger, which is a quick-service food concept that serves primarily sandwiches, snacks and drinks during lunchtime.

Consolidated operating results

Operating results

The following table presents the 2000 growth rates for reported and constant currency results as well as the 1999 growth rates for reported results, results adjusted for 1998 Make For You costs and the 1998 special charge, and the adjusted results on a constant currency basis. All information in constant currencies excludes the effect of foreign currency translation on reported results, except for hyperinflationary economies, such as Russia, whose functional currency is the U.S. Dollar.

Constant currency operating results

The primary currencies negatively affecting reported results in 2000 were the Euro, which is the currency in 12 of our European markets including France and Germany, the British Pound and the Australian Dollar, partly offset by the stronger Japanese Yen. In 1999, the reported results were negatively affected primarily by the Brazilian Real, the Euro and the British Pound, partly offset by the stronger Japanese Yen, Australian Dollar and Southeast Asian currencies.

In 2000 and 1999, the stronger Japanese Yen had a greater positive currency translation effect on sales compared with revenues. This is due to our affiliate structure in Japan. Under this structure, we record a royalty in revenues based on a percent of Japan’s sales, whereas all of Japan’s sales are included in Systemwide sales. For this reason, growth rates for Systemwide sales in both years were less negatively affected by foreign currency translation than were revenues.

Systemwide sales

For the first time, Systemwide sales exceeded $40 billion, increasing 7% in constant currencies in 2000. Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. We continue to focus on increasing market share through positive comparable sales and strategic restaurant development, with an emphasis on improving customer satisfaction through quality, service, cleanliness...
Systemwide sales and earnings in billions

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Europe</th>
<th>Latin America</th>
<th>Asia/Pacific &amp; Africa</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$19,573</td>
<td>$3,827</td>
<td>$3,533</td>
<td>$610</td>
<td>$2,130</td>
</tr>
<tr>
<td>1999</td>
<td>$18,123</td>
<td>$3,907</td>
<td>$3,189</td>
<td>$609</td>
<td>$2,065</td>
</tr>
</tbody>
</table>

Average sales in constant currency terms are affected by comparable sales as well as the size, location and number of new restaurants. In 2000 and 1999, positive comparable sales primarily drove the increases in annual average sales per traditional restaurant. In segments outside the U.S., the decreases in average annual sales per traditional restaurant on a constant currency basis were primarily due to the significant number of new restaurants added.

Variable costs, excluding USDA and Argentina for financial reporting purposes. In total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchises and affiliates. These fees include rental, service fees and royalties that are based on a percent of sales with specified minimum payments along with initial fees. Fees vary by type of site and investment by the Company, and also according to local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms.

Revenues grow as new restaurants are added and as sales build in existing restaurants. Menu price changes also affect revenues and are impractical to quantify because of different pricing structures, new products, promotions and product mix-variations among restaurants and markets.

Operating income


Operating income

Operating income increased $10 million in 2000 and $236 million in 1999, excluding 1998 Made For You costs and the 1998 special charge. Total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchises and affiliates. These fees include rental, service fees and royalties that are based on a percent of sales with specified minimum payments along with initial fees. Fees vary by type of site and investment by the Company, and also according to local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms.

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and value. Constant currency sales increases in 2000 and 1999 were due to restaurant expansion and positive comparable sales.

### Systemwide sales

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Europe</th>
<th>Asia/Pacific</th>
<th>Latin America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$19,973</td>
<td>3%</td>
<td>$7,147</td>
<td>7%</td>
<td>$4,379</td>
</tr>
<tr>
<td>1999</td>
<td>$19,923</td>
<td>7%</td>
<td>$7,723</td>
<td>12%</td>
<td>$5,019</td>
</tr>
<tr>
<td>1998</td>
<td>$18,051</td>
<td>10%</td>
<td>$6,436</td>
<td>15%</td>
<td>$5,579</td>
</tr>
<tr>
<td>1997</td>
<td>$17,930</td>
<td>7%</td>
<td>$6,195</td>
<td>15%</td>
<td>$5,173</td>
</tr>
</tbody>
</table>

**Other** includes: China, South Korea and the Southeast Asian markets.

### Average annual sales

**McDonald’s restaurant sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Europe</th>
<th>Asia/Pacific</th>
<th>Latin America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$1,446</td>
<td>1%</td>
<td>$633</td>
<td>5%</td>
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</tr>
<tr>
<td>1999</td>
<td>$1,433</td>
<td>—</td>
<td>$654</td>
<td>7%</td>
<td>$176</td>
</tr>
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</table>

### Revenues

<table>
<thead>
<tr>
<th>Region</th>
<th>U.S.</th>
<th>Europe</th>
<th>Asia/Pacific</th>
<th>Latin America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$15,034</td>
<td>3%</td>
<td>$5,021</td>
<td>7%</td>
<td>$1,023</td>
</tr>
<tr>
<td>1999</td>
<td>$14,840</td>
<td>7%</td>
<td>$5,253</td>
<td>15%</td>
<td>$1,029</td>
</tr>
<tr>
<td>1998</td>
<td>$14,054</td>
<td>12%</td>
<td>$7,785</td>
<td>23%</td>
<td>$1,970</td>
</tr>
<tr>
<td>1997</td>
<td>$12,350</td>
<td>17%</td>
<td>$8,395</td>
<td>31%</td>
<td>$1,907</td>
</tr>
</tbody>
</table>

### Operating income

Operating income increased $10 million in 2000 and $236 million in 1999, excluding 1998 Made For You costs and the 1998 special charge. In constant currencies, these increases were $141 million or 5% in 2000 and $833 million or 10% in 1999. The constant currency increases in 2000 and 1999 were primarily due to higher combined operating margin dollars and other operating income, partly offset by higher administrative expenses. Including 1998 Made For You costs and the 1998 special charge, reported operating income increased 20% in 1999.

### Segment operating income

Segment operating income has been restated to break out corporate general & administrative expenses to be consistent with the way management currently evaluates segment performance. The majority of these costs were previously included in the U.S. segment. U.S. operating income increased $120 million or 7% in 2000 and $129 million or 8% in 1999, excluding 1998 Made For You costs and the 1998 special charge, and accounted for about 50% of consolidated operating income in both years. In both years, operating income was higher than reported due to higher unit growth rate of Company-operated restaurants relative to systemwide restaurants, primarily in Europe, and the consolidation of Argentina and Indonesia for financial reporting purposes. In 1999, total revenues increased at a greater rate than sales due to the higher unit growth rate of Company-operated restaurants relative to systemwide restaurants, primarily in Europe, and the consolidation of Argentina and Indonesia.
Europe's operating income increased 6% in 2000 and 12% in 1999 in constant currencies, accounting for more than 35% of consolidated operating income in both years. The increase in 2000 was primarily driven by strong operating results in France, Italy and Spain. In 1999, Europe's operating income grew benefited from the consolidation of Sweden, as well as strong results in France, Germany, Spain and the U.K. Europe’s results were dampened in 2000 by the decline in consumer confidence regarding the safety of the beef supply in certain European markets, which began in the fourth quarter, and in 1999 by the difficult economic conditions in Russia, France, Germany and the U.K. accounted for about 75% of Europe's operating income in 2000, 1999 and 1998.

Asia/Pacific's operating income increased 6% in 2000 and 10% in 1999 in constant currencies. The increases in both years were driven primarily by Japan, which benefited from the partial sale of its ownership in ToY's 'R Us Japan in 2000 and a lower effective tax rate in 1999, as well as strong results in China and South Korea. In addition, Asia/Pacific contributed to the increase in 2000 but temporized the segment's results in 1999, due to the impact of the September 1999 earthquakes. Results in 2000 were negatively affected by the introduction of the goods and services tax in Australia in July 2000. Australia and Japan accounted for more than 60% of Asia/Pacific's operating income in 2000, 1999 and 1998.

Beginning January 1, 2000, this year's results will benefit from an increase in the royalty percent received from our Japanese affiliate. Latin America's operating income decreased 23% in 2000 and 9% in 1999 in constant currencies. Results in both years were negatively impacted by the difficult economic conditions experienced by most markets in the segment. Partially offsetting the decreases were strong performances in Mexico and Venezuela in both years, as well as the consolidation of Argentina in 2000. Brazil accounted for more than 55% of Latin America's operating income in each of the past three years.

Corporate general & administrative expenses benefited in 2000, 1999 and 1998 from savings resulting from the home office productivity initiative.

Operating margins Operating margin information and discussions relate to McDonald's restaurants only and exclude Other Brands.

Company-operated margins were 16.0% of sales in 2000, 17.7% in 1999 and 18.4% in 1998. Company-operated margins were as follows: food & paper costs increased in 2000 and were flat in 1999; payroll costs were flat in 2000 and increased in 1999; and occupancy & other operating expenses increased in both years.

The declines in the consolidated margin percent in 2000 and 1999 reflected higher occupancy costs due to an increased number of leased sites in all geographic segments. Our strategy of leasing a higher proportion of new sites over the past five years has reduced initial capital requirements and related interest expense. However, as anticipated, franchised margins as a percent of applicable revenues have been negatively impacted because financing costs implicit in the lease are included in rent expense, which affects these margins. For owned sites, financing costs are reflected in interest expense, which does not affect these margins. The higher occupancy costs were partly offset by positive comparable sales in 2000 and 1999.

Also, our purchase of a major interest in certain affiliates in 2000 and 1999 shifted revenues from franchised and affiliated restaurants to Company-operated restaurants, reducing the franchised restaurant margin percent in both Asia/Pacific and Latin America in 2000 and Europe in 1999.

Selling, general & administrative expenses Selling, general & administrative expenses have been restated for purposes of comparability. As a result of the initial public offering of the stock of our Manchester affiliate, with which we have an equity interest, in the second quarter of 1999, we recorded a $59 million net gain. The gain was comprised of a $62 million net equity investment and $3 million in previous expenses that were reattributed to the Manchester segment as a result of the offering. In addition, the selling, general and administrative expenses for Manchester were recorded as part of the food service segment.

Franchised margins Franchised margin dollars are equal to revenues from franchised and affiliated restaurants less the expenses associated with those sites. Franchised margin dollars represented more than 60% of the combined operating margins in 2000, 1999 and 1998. Franchised margin dollars decreased $6 million in 2000, compared with a $160 million increase in 1999. In constant currencies, franchised margin dollars increased $119 million or 4% in 2000 and $220 million or 9% in 1999, primarily driven by expansion and positive comparable sales.

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Europe’s operating income increased 6% in 2000 and 12% in 1999 in constant currencies, accounting for more than 35% of consolidated operating income in both years. The increase in 2000 was primarily driven by strong operating results in France, Italy and Spain. In 1999, Europe’s operating income growth benefited from the consolidation of Sweden, as well as strong results in France, Germany, Spain and the U.K. Europe’s results were dampened in 2000 by the decline in consumer confidence regarding the safety of the beef supply in certain European markets, which began in the fourth quarter, and in 1999 by the difficult economic conditions in Russia, France, Germany and the U.K. accounted for about 75% of Europe’s operating income in 2000, 1999 and 1998.

Asia/Pacific’s operating income increased 6% in 2000 and 10% in 1999 in constant currencies. The increases in both years were driven primarily by Japan, which benefited from the partial sale of its ownership in Toys ‘R’ Us Japan in 2000 and a lower effective tax rate in 1999, as well as strong results in China and South Korea. In addition, Thailand contributed to the increase in 2000 but tempered the segment’s results in 1999, due to the effect of the September 1997 economic downturn. Results in 2000 were negatively affected by the introduction of the goods and services tax in Australia in July 2000. Australia and Japan accounted for more than 60% of Asia/Pacific’s operating income in 2000, 1999 and 1998.

Beginning January 1, 2001, the Company will benefit from an increase in the royalty percent received from our Japanese affiliate.

Latin America’s operating income decreased 23% in 2000 and 9% in 1999 in constant currencies. Results in both years were negatively impacted by the difficult economic conditions experienced by most markets in the segment. Partly offsetting the decreases were strong comparable sales in Mexico and Venezuela in both years, as well as the consolidation of Argentina in 2000. Brazil accounted for more than 55% of Latin America’s operating income in each of the past three years.

Corporate general & administrative expenses benefited in 2000, 1999 and 1998 from savings resulting from the home office productivity initiative.

Operating margins

Operating margin information and discussions relate to McDonald’s restaurants only and exclude Other Brands.

Company-operated margins were 16.6% of sales in 2000, 17.7% in 1999 and 18.4% in 1998. Franchised margins expressed as a percent of sales were as follows: food & paper costs increased in 2000 and were flat in 1999; payroll costs were flat in 2000 and increased in 1999; and occupancy & other operating expenses increased in both years.

Company-operated margins—McDonald’s restaurants

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Europe</th>
<th>Asia/Pacific</th>
<th>Latin America</th>
<th>Canada, Middle East &amp; Africa</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$821</td>
<td>516</td>
<td>$560</td>
<td>269</td>
<td>221</td>
<td>$2,147</td>
</tr>
<tr>
<td>1999</td>
<td>521</td>
<td>703</td>
<td>163</td>
<td>207</td>
<td>118</td>
<td>1,465</td>
</tr>
</tbody>
</table>

Total $1,670 $1,674 $1,694

PERCENT OF SALES

- In the U.S., food & paper costs were lower as a percent of sales in 2000 and 1999, primarily due to less waste (partly as a result of the implementation of our Made For You food preparation system), and payroll costs were higher in both years as a result of higher average hourly rates. Occupancy & other operating expenses were higher in 2000 than 1999 and lower in 1999 than 1998.

- Europe’s operating margin percent declined in 2000 as all costs increased as a percent of sales. The difficult economic conditions in Russia accounted for more than half of the decline in Europe’s margin percent in 1999.

- In Asia/Pacific, weak comparable sales in both years negatively affected Operating margins as a percent of sales. The difficult economic conditions in Russian for the first half of 1999 and 2000, as well as the effect of the September 1997 economic downturn in Taiwan, as well as a difficult comparison due to strong 1998 promotions in Hong Kong contributed to Asia/Pacific’s 1999 decline in Latin America, the margin essentially flat in 1999 but was impacted by difficult economic conditions in most markets and negative comparables in both years.

Franchised margins

Franchised margin dollars are equal to revenues from franchised and affiliated restaurants less the Company’s franchise occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented more than 60% of the combined operating margins in 2000, 1999 and 1998. Franchised margin dollars decreased $6 million in 2000, compared with a $160 million increase in 1999. In constant currencies, franchised margin dollars increased $119 million or 4% in 2000 and $220 million or 5% in 1999, primarily driven by expansion and positive comparable sales.

Franchised margins—McDonald’s restaurants

<table>
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<tr>
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<tbody>
<tr>
<td>2000</td>
<td>$1,755 $1,730</td>
<td>$650</td>
<td>629</td>
<td>378</td>
<td>269 $3,008</td>
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<tr>
<td>Total</td>
<td>$3,955</td>
<td>$2,963</td>
<td>$1,477</td>
<td>$1,090</td>
<td>$940</td>
<td>$7,508</td>
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</tbody>
</table>

The declines in the consolidated margin percent in 2000 and 1999 reflected higher occupancy costs due to an increased number of leased sites in all geographic segments. Our strategy of leasing a higher proportion of new sites over the past few years has reduced initial capital requirements and related interest expense. However, as anticipated, franchised margins as a percent of applicable revenues have been negatively impacted because financing costs implicit in the leases are included in rent expense, which affects these margins. For owned sites, financing costs are reflected in interest expense, which does not affect these margins. The higher occupancy costs were partly offset by positive comparable sales in 2000 and 1999.

Also, we have a purchase of a majority interest in certain affiliates in markets in 2000 and 1999 shifted revenues from franchised and affiliated restaurants to Company-operated restaurants, reducing the franchised margin percent in both Asia/Pacific and Latin America in 2000 and Europe in 1999.

Selling, general & administrative expenses

Selling, general & administrative expenses have been restructured to break out corporate expenses from the operating segments. Corporate expenses are composed of home office support costs in areas such as facilities, finance, human resources, information technology, legal, supply chain management and training.

Other operating income, net

Other operating income includes gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, net gains or losses from property dispositions and other transactions related to franchising and the food service business.

Selling, general & administrative expenses

Gains on sales of restaurant businesses $ 87 $ 71
Equity in earnings of unconsolidated affiliates 121 138
Net losses from property dispositions (11) (17)
Total $195 $143

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants, as well as gains from exercises of purchase options by franchisees with business facility lease arrangements (arrangements where the Company leases the businesses, including equipment, to franchisees who have options to purchase the businesses). The Company’s purchases and sales of businesses with its franchisees and affiliates are aimed at achieving an optimal ownership mix in each market. These transactions are an integral part of our business and resulting gains are recorded in operating income. Equity in earnings of unconsolidated affiliates—businesses in which the Company actively participates, but does not control—is reported after interest expense and income taxes, except for U.S. restaurant partnerships, which are reported before income taxes. Net losses from property dispositions result from disposals of properties due to restaurant closings, relocations and other transactions.

Equity in earnings from unconsolidated affiliates in 1999 included a $21 million gain from the sale of real estate in a U.S. partnership.

In Asia/Pacific, weak comparable sales in both years negatively affected Operating margins as a percent of sales. The difficult economic conditions in Russia accounted for more than half of the decline in Europe’s margin percent in 1999.

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Cash flows

The Company generates significant cash from operations and has substantial credit capacity to fund discretionary and non-discretionary spendings. Cash from operations totaled $2.8 billion in 2000 and exceeded capital expenditures for the tenth consecutive year. This amount was less than in 1999, primarily due to higher income tax payments as a result of lower tax benefits related to stock option exercises and higher tax gains on the termination of foreign currency exchange agreements. Higher gains on sales of restaurant businesses and property also reduced cash provided by operations, but generated about $40 million of additional cash from investing activities. In 1998, cash provided by operations was reduced by approximately $135 million of Made For You incentives paid. Cash provided by operations, along with borrowings and other sources of cash, is used for capital expenditures, share repurchases, dividends and debt repayments.

Provision for income taxes

The effective income tax rate was 31.4% for 2000, compared with 32.5% for 1999 and 32.8% for 1998. For the decrease in the income tax rate in 2000 was the result of a tax benefit resulting from an international transaction. The Company expects its 2001 effective income tax rate to be between 32.0% and 33.0%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $233 million in 2000 and $557 million in 1999. Subsequent to the net tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

Net income and net income per common share

In 2000, net income increased $29 million or 2% and diluted net income per common share increased $0.7 or 5%. On a constant currency basis, these increases were $122 million or 6% and $1.4 or 10%, respectively. The spread between the percent increase in net income and net income per common share was due to lower weighted-average shares outstanding as a result of share repurchases and a less dilutive effect from stock options. In 1999, net income and diluted net income per common share increased 10% (13% for both in constant currencies), excluding 1998 Made For You costs and the 1998 special charge. Including these items, reported net income and diluted net income per common share both increased 26% in 1999.

Capital expenditures and restaurant development

Capital expenditures increased $77 million or 4% in 2000 and decreased $11 million or 1% in 1999. The increase in 2000 was due to higher spending for Other Brands and the consolidation of operations in Argentina and Indonesia, partly offset by weaker foreign currencies.

Capital expenditures for McDonald’s restaurants in 2000 and 1999 reflect our strategy of leasing a higher proportion of new sites and the U.S. building program, which gives franchises the option to own new restaurant buildings. Capital expenditures included increased capital outlays for existing U.S. Company-operated restaurants related to implementation of the Made For You tool, preparation system and spending to update and refresh existing U.S. restaurants. About 50% of qualifying new and rebuilt U.S. traditional restaurant buildings developed in 2000 are owned by franchises. In addition, the Company leased the land for substantially all new U.S. traditional restaurants opened in 2000. The U.S. building program, which began in 1998, combined with our decision to lease more land saved the Company approximately $285 million in capital expenses in 2000 and $230 million in 1999.

More than 60% of capital expenditures was invested in major markets excluding Europe, India, Japan, 1999 and 1998. Approximately 70% of capital expenditures was invested in markets outside the U.S. in all three years.

Capital expenditures in millions

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income from restaurant operations</td>
<td>$41,955</td>
<td>$38,945</td>
<td>$35,881</td>
</tr>
<tr>
<td>Other income (expense)</td>
<td>4</td>
<td>12</td>
<td>117</td>
</tr>
<tr>
<td>Total</td>
<td>$42,059</td>
<td>$39,057</td>
<td>$36,068</td>
</tr>
</tbody>
</table>

Expenditures for existing restaurants, including technology to improve service and food quality and enhancements to older facilities, were made to achieve higher levels of customer satisfaction. Expenditures for other properties primarily were for computer equipment and software.

The Company’s expenditures for the new restaurants in the U.S. were minimal as a result of the building and leasing programs previously discussed. For new franchised and affiliated restaurants, which represent about 80% of U.S. restaurants, the Company generally incurs no capital expenditures. However, the Company maintains long-term occupancy rights for the land and receives related rental income. For new Company-operated restaurants, the Company generally leases the land and owns the restaurant building and equipment.

Average development costs outside the U.S. vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment owned by the Company, are managed through the use of optimized sites, restaurants, construction and design efficiencies, standardization and global sourcing. In addition, foreign currency fluctuations affect average development costs, especially in those markets where construction materials cannot be obtained locally.

Average development costs for new traditional restaurants in major markets outside the U.S. excluding Japan were approximately $1 million in 2000; 1.8 million in 1999; and $1.9 million in 1998. Average annual sales for new traditional restaurants for the same markets were approximately $1.5 million in 2000, $1.7 million in 1999 and $1.8 million in 1998. Both development costs and sales were impacted by weaker foreign currencies. Average development costs for new satellite restaurants located in Canada and Japan, which comprise more than 90% of the satellites outside the U.S., were approximately $200,000 in 2000, 1999 and 1998. The use of these small, limited-menu restaurants, for which the land and building generally are leased, has allowed expansion into areas that would otherwise not have been feasible.

Inclusion of affiliates, total land ownership was 40% and 42% of total restaurant sites at year-end 2000 and 1999, respectively.

Capital expenditures by affiliates, which were not included in the Consolidated statements of operations, increased $230 million in 1999.

McDonald’s continues to focus on managing capital outlays more effectively through selective expansion. In 2000, the Company added 1,606 McDonald’s restaurants Systemwide, compared with 1,598 in 1999 and 1,567 in 1998. In addition, the Company added 782 McDonald’s restaurants outside the U.S. in 2000 operated by Other Brands, 707 of which were the result of the Boston Market acquisition. In 2001, the Company expects to add 1,600 to 1,750 restaurants, including 1,500 to 1,600 McDonald’s restaurants, with continued emphasis on traditional restaurants located primarily outside the U.S.

In 2000, 55% of McDonald’s restaurant additions were in the major markets, and we anticipate a similar percent for 2001, primarily in the future, China, Italy, Mexico, South Korea and Spain, which together represented more than 15% of McDonald’s additions in 2000, are expected to represent a growing proportion of McDonald’s restaurant additions.

Almost 55% of Company-operated restaurants and nearly 85% of franchised restaurants were located in the major markets at the end of 2000. Franchises and affiliates operated 76% of McDonald’s restaurants at year-end 2000. Other Brands included 1,598 restaurants at year-end 2000.

Satellite restaurants at December 31, 2000, 1999 and 1998 were as follows: U.S.–999, 1,048, 1,090; Europe–46, 44, 46; Asia/Pacific (excluding Japan)–1,187, 1,200, 1,134; Latin America–40, 41, 41; and Other (primarily Canada)–201, 263, 237.

Share repurchases and dividends

The Company uses free cash flow and credit capacity to repurchase shares. For additional information, see discussion of Shareholders’ Equity. As of December 31, 2000, the Company held approximately 356 million shares in treasury with a historical cost of $8.1 billion, but a market value of $12.1 billion. In April 2000, the Company announced a $1 billion increase to its three-year share repurchase program, bringing the total program to $4.5 billion through 2001. The Company purchased approximately $2 billion or 56.7 million shares in 2000, which brought cumulative...
Net losses from property disposals reflected the write-off of $24 million of software in 1999 and a high number of restaurant closures in 1998. Made For You costs and the special charge related to the 1998 home office productivity initiative are discussed on pages 42 and 43.

Interest expense
Interest expense increased in 2000 due to higher average debt levels, partly offset by weaker foreign currencies. In 1999, interest expense decreased due to lower average interest rates and weaker foreign currencies, partly offset by higher average debt levels. Average debt levels were higher in both years because of the Company using available credit capacity to fund share repurchases.

Nonoperating expense, net
Nonoperating expense includes miscellaneous income and expense items such as interest income, minority interests, and gains and losses related to other investments, financings and translations. Results in 2000 reflected higher minority interest, currency translation losses and a gain related to the sale of a partial ownership interest in a majority-owned subsidiary outside the U.S. Provision for income taxes
The effective income tax rate was 31.4% for 2000, compared with 32.5% for 1999 and 32.8% for 1998. The decrease in the income tax rate in 2000 was the result of a tax benefit resulting from an international transaction. The Company expects its 2001 effective income tax rate to be between 32.0% and 33.0%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $223 million in 2000 and $557 million in 1999. Substantially all of the tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

Net income and net income per common share
In 2000, net income increased $29 million or 2% and diluted net income per common share increased $0.7 or 5%. On a constant currency basis, these increases were $122 million or 6% and $1.4 or 10%, respectively. The spread between the percent increase in net income and net income per common share was due to lower weighted-average shares outstanding as a result of shares repurchased and a less dilutive effect from stock options. In 1999, net income and diluted net income per common share increased 10% (13% for both in constant currencies), excluding 1998 Made For You costs and the 1998 special charge. Including these items, reported net income and diluted net income per common share both increased 26% in 1999.

Cash flows
The Company generates significant cash from operations and has substantial credit capacity to fund fro nt-end and discretionary spending. Cash from operations totaled $2.8 billion in 2000 and exceeded capital expenditures for the tenth consecutive year. This amount was less than in 1999, primarily due to higher income tax payments as a result of lower tax benefits related to stock option exercises and higher tax gains on the termination of foreign currency exchange agreements. Higher gains on sales of restaurant businesses and property also reduced cash provided by operations, but generated about $40 million of additional cash from investing activities. In 1998, cash provided by operations was reduced by approximately $135 million of Mado For You incentive payments. Cash provided by operations, along with borrowings and other sources of cash, is used for capital expenditures, share repurchases, dividends and debt repayments.

In addition to its free cash flow, the Company can meet short-term funding needs through commercial paper borrowings and line of credit agreements. Accordingly, the Company strategically and purposefully maintains a relatively low current ratio, which was 70 to one at year-end 2000.

Capital expenditures and restaurant development
Capital expenditures increased $77 million or 4% in 2000 and decreased $11 million or 1% in 1999. The increase in 2000 was due to higher spending for other Brands and the consolidation of Argentina and Indonesia, partly offset by weaker foreign currencies. Capital expenditures for McDonald’s restaurants in 2000 and 1999 reflect our strategy of leasing a higher proportion of new sites and the U.S. building program, which gives franchised the option to own new restaurant buildings. Capital expenditures in 1999 included increased capital outlays for existing U.S. Company-operated restaurants related to implementation of the Made For You food preparation system and spending to update and refresh existing U.S. restaurants. About 90% of 1998 new restaurants and 1998 rebuilding U.S. traditional restaurant buildings developed in 2000 are owned by franchisedes. In addition, the Company leased the land for substantially all new U.S. traditional restaurants opened in 2000. The U.S. building program, which began in 1998, combined with our decision to lease more land saved the Company approximately $285 million in capital expenditures in 2000 and $320 million in 1999.

More than 60% of capital expenditures was invested in major markets excluding Europe and Argentina in 2000, 1999 and 1998. Approximately 70% of capital expenditures was invested in markets outside the U.S. in all three years.

Capital expenditures in thousands

<table>
<thead>
<tr>
<th>Year</th>
<th>New restaurants</th>
<th>Existing restaurants</th>
<th>Other properties</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$1,236</td>
<td>$1,197</td>
<td>$154</td>
<td>$2,587</td>
</tr>
<tr>
<td>1999</td>
<td>$1,185</td>
<td>$1,095</td>
<td>$153</td>
<td>$2,433</td>
</tr>
<tr>
<td>1998</td>
<td>$1,045</td>
<td>$985</td>
<td>$145</td>
<td>$2,175</td>
</tr>
<tr>
<td>Total</td>
<td>$3,466</td>
<td>$3,277</td>
<td>$452</td>
<td>$7,295</td>
</tr>
</tbody>
</table>

In 2000, 55% of McDonald’s restaurant additions were in the major markets, and we anticipate a similar percent for 2001 in the future. In the U.S., China, Italy, Mexico, South Korea and Spain, which together represented more than 15% of McDonald’s additions in 2000, are expected to represent a growing proportion of McDonald’s new restaurant additions.

Almost 55% of Company-operated restaurants and nearly 85% of franchised restaurants were located in the major markets at the end of 2000. Franchises and affiliates operated 76% of McDonald’s restaurants at year-end 2000. Other Brands included 582 restaurants operated by affiliates and 195 by company-operated.

Share repurchases and dividends
The Company uses free cash flow and credit capacity to repurchase shares, as we believe this enhances shareholder value. At year-end 2000, the Company held approximately 356 million shares in treasury with a historical cost of $8.1 billion, but a market value of $12.1 billion. In April 2000, the Company announced a $1 billion increase to its three-year share repurchase program, bringing the total program to $4.5 billion through 2001. The Company purchased approximately $2 billion or 56.7 million shares in 2000, which brought cumulative
purchases under the program to $3.3 billion or 91.1 million shares. The Company expects to purchase the remaining $1.2 billion under the program in 2001.

In order to reduce the overall cost of treasury stock purchases, the Company sells common equity put options in connection with its share repurchase program and receives premiums for these options. During 2000, the Company sold 16.8 million common equity put options and received premium revenues of $1.6 million, which was reflected in shareholders’ equity as a reduction of the cost of treasury stock purchased. At December 31, 2000, 21 million common equity put options were outstanding. During February 2001, 4.2 million common-equity put options were exercised for $1.17 billion. The remaining options expire at various dates through November 2001, with exercise prices between $30.11 and $32.32.

Given the Company’s returns on equity and assets, management believes it is prudent to reinvest a significant portion of earnings back into the business and use free cash flow for share repurchases. Accordingly, the common stock dividend yield is modest. However, the Company has paid dividends on common stock for 25 consecutive years and has increased the dividend amount every year. Additional dividend increases will be considered after reviewing returns to shareholders, profitability expectations and financing needs. Beginning in 2003, cash dividends are declared and paid on an annual, instead of quarterly, basis, beginning in the past, future dividends will be declared at the discretion of the Board of Directors.

Financial position and capital resources

Total assets and returns

Total assets grew by $700 million or 3% in 2000 and $1.2 billion or 6% in 1999. At year-end 2000 and 1999, more than 65% of consolidated assets were located in the major markets excluding Japan. Net property and equipment rose $723 million in 2000 and represented 79% of total assets at year-end.

Operating income is used to report return on average assets, while net income is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

Returns on assets and equity

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on assets</td>
<td>18.9%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Return on common equity</td>
<td>20.8%</td>
<td>18.6%</td>
</tr>
</tbody>
</table>

(1) Return on assets is affected by charges for the special charge, including: fixed assets and the special charge, return on average assets was 14.7% and return on average common equity was 17.7%.

In 2000, return on average assets declined primarily due to lower returns in emerging markets, which require substantial investment in infrastructure to support rapid restaurant growth, as well as investing in Other Brands. In general, returns benefited from the Company’s continued focus on more efficient capital deployment. This included more prudent site selection process, leasing a higher proportion of new sites, the U.S. building program that began in 1998, and the use of free cash flow and share repurchases. With share price performance as high as 1999 the increases in return on average common equity in 2000 and 1999 were increases in the average amount of common equity put options outstanding, which reduced average common equity.

Financings and market risk

The Company is exposed to the impact of interest-rate changes and foreign currency fluctuations. McDonald’s strives to minimize these risks by employing established risk management policies and procedures and by financing with debt in the currencies in which assets are denominated. See summary of significant accounting policies on page 40 for additional information regarding the use of financial instruments and the impact of new accounting requirements on debt.

The Company uses global capital markets along with various techniques to meet its financing requirements and reduce interest expense. For example, foreign currency exchange agreements in conjunction with borrowings help obtain desired currencies at attractive rates and maturities. Accordingly, foreign currency-denominated debt as a percent of total debt fluctuates based on market conditions. Interest rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. The Company also manages the level of fixed-rate debt to take advantage of changes in interest rates.

The Company uses foreign currency debt and derivatives to hedge foreign currency royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on net income and shareholders’ equity. Total foreign currency-denominated debt, including the effects of foreign currency exchange agreements, was $5.1 billion and $5.3 billion at year-end 2000 and 1999, respectively.

Debt highlights

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-rate debt as a percent of total debt</td>
<td>58.0%</td>
<td>70.6%</td>
</tr>
<tr>
<td>Weighted average interest rate</td>
<td>6.3%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Foreign currency-denominated debt as a percent of total debt</td>
<td>6.0%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Total debt as a percent of total capitalization (total debt and total shareholders’ equity)</td>
<td>43.6%</td>
<td>43.6%</td>
</tr>
</tbody>
</table>

Moody’s and Standard & Poor’s have rated McDonald’s debt Aa2 and AA, respectively, since 1982. Ritch (formerly, Duff & Phelps) began rating our debt in 1990 and currently rates it AA. A strong rating on our debt reflects our continued success in the Company’s overall global development plans. The Company has not experienced, and does not expect to experience, difficulty in obtaining financing or refinancing existing debt. At year-end 2000, the Company and its subsidiaries had $1.9 billion available under committed line of credit agreements and $561 million under shelf registrations for future debt issuances. In early 2001, the Company reduced the amount available under committed line of credit agreements to $1.5 billion.

The Company manages its debt portfolio to mitigate the impact of changes in interest rates and foreign currency conditions. This includes:

- Closely monitoring interest-rate changes, both relative to U.S. Treasuries and international government bonds.
- Maintaining a diversified mix of fixed-rate and floating-rate debt.
- Using interest-rate swaps and interest-rate options to offset changes in interest rates.
- Adjusting the maturity mix of debt to reduce exposure to interest-rate changes.
- Using forward currency contracts to hedge the equivalent of a broad basket of currencies.

At year-end 2000 and 1999, assets in hyperinflationary markets were principally financed in U.S. Dollars. The Company’s largest net asset exposure (defined as foreign currency assets less foreign currency liabilities) at December 31, 2000, was $175 million.

Foreign currency exposures

<table>
<thead>
<tr>
<th>Currency</th>
<th>Year-end 2000</th>
<th>Year-end 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>$1,185</td>
<td>$1,095</td>
</tr>
<tr>
<td>Canadian Dollars</td>
<td>758</td>
<td>797</td>
</tr>
<tr>
<td>British Pounds Sterling</td>
<td>638</td>
<td>699</td>
</tr>
<tr>
<td>Australian Dollars</td>
<td>322</td>
<td>304</td>
</tr>
<tr>
<td>Mexican Pesos</td>
<td>197</td>
<td>141</td>
</tr>
<tr>
<td>Brazilian Reais</td>
<td>115</td>
<td>124</td>
</tr>
</tbody>
</table>

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company’s results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction in each of the Company’s debt in all financial instruments. However, the analysis did not include the potential impact on sales levels or local currency prices or the effect of fluctuating currencies on the Company’s anticipated foreign currency royalties and other payments received in the U.S. Based on the results of these analyses of the Company’s financial instruments, neither a one percentage point adverse change in interest rates from year-end 2000 levels nor a 10% adverse change in foreign currency rates from year-end 2000 levels would materially affect the Company’s results of operations, cash flows or the fair value of its financial instruments.

Other matters

Effects of changing prices—Inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings—which are many of the fixed costs and partly controlled by debt made less expensive by inflation. In hyperinflationary markets, market interest rates typically are adjusted to keep pace with inflation, mitigating the effect on reported results.

Euro conversion

Twelve member countries of the European Union have established fixed conversion rates between their old exchange currencies (‘legacy currencies’) and one common currency, the Euro. The Euro is traded on currency exchanges and may be used in certain transactions, such as the purchase or sale of goods. In January 2002, new Euro-denominated notes and coins will be issued, and legacy currencies will be withdrawn from circulation. The conversion to the Euro has eliminated currency risk for transactions between the member countries, which for McDonald’s primarily consists of payments to suppliers. In addition, as we use foreign currency-denominated debt and derivatives to meet financing requirements and to minimize currency risk, certain of these financial instruments are denominated in Euro.

McDonald’s has restaurants located in all member countries and has been preparing for the introduction of the Euro for the past several years. The Company currently is addressing the issues involved with the new currency, which include converting information technology systems, recalibrating currency risk, recalibrating derivatives and other financial instruments, and reusing processes for preparing accounting and tax accounting records. Based on the work to date, the Company does not believe the Euro conversion will have a significant impact on its financial position, results of operations or cash flows.

Forward-looking statements

Certain forward-looking statements are included in this report. They use such words as “may,” “will,” “expect,” “believe,” “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of March 8, 2001. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements: the effectiveness of operating initiatives and advertising and promotional efforts, the effects of the Euro conversion, as well as changes in: global and local business and economic conditions; currency exchange (particularly the Euro) and interest rates; food, labor and other operating costs; political and governmental instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation; and accounting policies and practices. The foregoing list of important factors is not exclusive.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.
purchases under the program for $3.3 billion or 9.1 million shares.

The Company expects to purchase the remaining $1.2 billion under the program in 2001.

In order to reduce the overall cost of treasury stock purchases, the Company sells common equity put options in connection with its share repurchase program and receives premiums for these options. During 2000, the Company sold 16.8 million common equity put options and received premiums of $358 million, which were reflected in shareholders' equity as a reduction of the cost of treasury stock purchased. At December 31, 2000, 21 million common equity put options were outstanding.

During February 2001, 4.2 million common equity put options were exercised for $1.175 billion. The remaining options expire at various dates through November 2001, with exercise prices between $30.11 and $32.52.

Given the Company's returns on equity and assets, management believes it is prudent to reinvest a significant portion of earnings back into the business and use free cash flow for share repurchases. Accordingly, the common stock dividend yield is modest. However, the Company has paid dividends on common stock for 25 consecutive years and has increased the dividend amount every year. Additional dividend increases will be considered after reviewing returns to shareholders, profitability expectations and financing needs. Beginning in 2003, cash dividends are declared and paid on an annual, instead of quarterly, basis. In the past, future dividends will be declared at the discretion of the Board of Directors.

Financial position and capital resources

Total assets and returns

Total assets grew by $700 million or 3% in 2000 and $1.2 billion or 6% in 1999. At year-end 2000 and 1999, more than 65% of consolidated assets were located in the major markets excluding Japan. Net property and equipment rose $723 million in 2000 and represented 79% of total assets at year-end.

Operating income is used to return on average assets, while net income is used to calculate return on average common equity. Return on common equity, as well as return on total capitalization, is a measure of the return to shareholders and is used to determine return on average common equity.

In 2000, return on average assets declined primarily due to lower returns in the major markets excluding Japan.

Financings and market risk

The Company is exposed to the impact of interest rate changes and foreign currency fluctuations. McDonald's strives to minimize these risks by employing established risk management policies and procedures and by financing with debt in the currencies in which assets are denominated. See summary of significant accounting policies for additional information regarding the use of financial instruments and the impact of new accounting rules on derivatives.

The Company uses foreign currency-denominated debt as a percent of total debt fluctuates based on market conditions. Interest rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. The Company also manages the level of fixed-rate debt to take advantage of changes in interest rates.

The Company uses foreign currency debt and derivatives to hedge foreign currency royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on net income and shareholders' equity. Total foreign currency-denominated debt, including the effects of foreign currency exchange agreements, was $8.1 billion and $8.3 billion at year-end 2000 and 1999, respectively.

Debt highlights

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-rate debt as a percent of total debt</td>
<td>58%</td>
<td>59%</td>
</tr>
<tr>
<td>Average interest rate on fixed-rate debt</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Foreign currency-denominated debt as a percent of total debt</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Total debt as a percent of total capitalization (total debt and shareholders' equity)</td>
<td>48%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Risk (formerly, Duff & Phelps) began rating our debt in 1990 and currently rates it AA. A strong rating indicates that the Company, with its global development plans, has the ability to generate the cash flows to service its debt.

The Company's ratings reflect the expected benefits of the operations, cash flows and the fair value of its financial instruments. The interest rate risk assumption was a one percentage point adverse change in interest rates on all financial instruments but did not consider the consequences of the reduced level of economic activity that could exist in such an environment. The foreign currency risk assumption was that each foreign currency rate would change by 10% in the period following the balance sheet date. For all financial instruments, however, the analysis did not include the potential impact on sales levels or local currency prices.

The Company prepares sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate risk assumption was a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency risk assumption was that each foreign currency rate would change by 10% in the period following the balance sheet date.

The Company's exposure is summarized among a broad basket of currencies. At year-end 2000 and 1999, assets in foreign currencies were principally financed in U.S. Dollars. The Company's largest net asset exposure (defined as foreign currency assets less foreign currency liabilities) as at December 31, 2000 and 1999 was $175 million and $56 million, respectively.

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate risk assumption was a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency risk assumption was that each foreign currency rate would change by 10% in the period following the balance sheet date.

For forward-looking statements

Certain forward-looking statements are included in this report. They use such words as “may,” “will,” “expect,” “believe,” “plan” and other similar terminology. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements:

- the effectiveness of operating initiatives and advertising and promotional efforts, the effects of the Euro conversion, as well as changes in: global and local business and economic conditions; currency exchange (particularly the Euro) and interest rates; food, labor and other operating costs; political instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation; and accounting policies and practices.

The foregoing list of important factors is not exclusive. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Euro conversion

Twelve member countries of the European Union have established fixed conversion rates between their currencies ("legacy currencies") and one common currency, the Euro. The Euro is traded on currency exchanges and may be used in certain transactions, such as for large purchases. In January 2001, the new Euro-denominated notes and coins will be issued, and legacy currencies will be withdrawn from circulation.

The conversion to the Euro has eliminated currency translation risk between the member countries, which for McDonald's primarily consists of payments to suppliers. In addition, as we use foreign currency-denominated debt and derivatives to meet financing requirements and to minimize foreign currency risks, certain of these financial instruments are denominated in Euro.

McDonald's has restaurants located in all member countries and has been preparing for the introduction of the Euro for the past several years. The Company currently is addressing the issues involved with the new currency, which include converting information technology systems, recalculating currency risk, recalibrating derivatives and other financial instruments, and reusing processes for preparing accounting and tax records. Based on the work to date, the Company does not believe the Euro conversion will have a significant impact on its financial position, results of operations or cash flows.

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### Consolidated Balance Sheet

**IN MILLIONS, EXCEPT PER SHARE DATA**

<table>
<thead>
<tr>
<th>December 31, 2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>$421.7</td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>796.5</td>
</tr>
<tr>
<td>Inventories, at cost, not in excess of market</td>
<td>99.3</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>344.9</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$1,662.4</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
</tr>
<tr>
<td>Investments in and advances to affiliates</td>
<td>824.2</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>1,443.4</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>705.9</td>
</tr>
<tr>
<td>Total other assets</td>
<td>$2,973.5</td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
</tr>
<tr>
<td>Property and equipment, at cost</td>
<td>$23,569.0</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>$(6,521.4)</td>
</tr>
<tr>
<td>Net property and equipment</td>
<td>$17,047.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>$21,683.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders' Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>$275.5</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>684.9</td>
</tr>
<tr>
<td>Income taxes</td>
<td>92.2</td>
</tr>
<tr>
<td>Other taxes</td>
<td>195.5</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>149.9</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>606.4</td>
</tr>
<tr>
<td>Current maturities of long-term debt</td>
<td>354.5</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$2,360.9</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>7,843.9</td>
</tr>
<tr>
<td>Other long-term liabilities and minority interests</td>
<td>489.5</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>1,084.9</td>
</tr>
<tr>
<td>Common equity put options</td>
<td>699.9</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td></td>
</tr>
<tr>
<td>Preferred stock, no par value; authorized — 165.0 million shares; issued — none</td>
<td></td>
</tr>
<tr>
<td>Common stock, $0.01 par value; authorized — 3.5 billion shares; issued — 1,660.6 million shares</td>
<td>16.6</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>1,441.8</td>
</tr>
<tr>
<td>Unearned ESPS compensation</td>
<td>115.0</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>17,259.4</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(1,287.3)</td>
</tr>
<tr>
<td>Common stock in treasury, at cost; 355.7 and 309.8 million shares</td>
<td>(3,111.1)</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>$2,304.4</td>
</tr>
<tr>
<td>Total liabilities and shareholders' equity</td>
<td>$21,683.5</td>
</tr>
</tbody>
</table>

The accompanying financial comments are an integral part of the consolidated financial statements.
## Consolidated statement of income

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>2000</th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales by Company-operated restaurants</td>
<td>$10,467.0</td>
<td>$ 9,512.5</td>
<td>$ 8,894.9</td>
</tr>
<tr>
<td>Sales from franchised and affiliated restaurants</td>
<td>3,776.0</td>
<td>3,746.8</td>
<td>3,526.5</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>14,243.0</td>
<td>13,259.3</td>
<td>12,421.4</td>
</tr>
</tbody>
</table>

| **Operating costs and expenses** |             |             |             |
| Food and packaging             | 3,557.1     | 3,204.6     | 2,997.4     |
| Payroll and employee benefits  | 2,690.2     | 2,418.3     | 2,220.3     |
| Occupancy and other operating expenses | 2,925.8 | 2,206.7 | 2,043.9 |
| **Total Company-operated restaurant expenses** | 8,750.1   | 7,829.6     | 7,261.6     |
| Franchised restaurants—occupancy expenses | 772.3 | 737.7     | 678.0      |
| Selling, general & administrative expenses | 1,687.3 | 1,477.6 | 1,458.5 |
| Other operating income, net | (196.4) | (124.1) | (80.2) |
| Made-For-You costs            | 18.9        | 161.6       | 160.0       |
| **Total operating costs and expenses** | 10,913.3   | 9,939.7     | 9,659.5     |

| **Operating Income** | 3,329.7 | 3,319.6 | 2,761.9 |
| **Interest expense, net of capitalized interest of $16.3, $14.3 and $17.9** | 429.9 | 396.3 | 413.8 |
| **Net income before provision for income taxes** | 2,882.3 | 2,824.1 | 2,348.4 |
| **Provision for income taxes** | 905.0 | 906.2 | 757.3 |
| **Net income** | $ 1,977.3 | $ 1,917.9 | $ 1,591.5 |
| **Net income per common share** | $ 1.49 | $ 1.44 | $ 1.14 |
| **Net income per common share—diluted** | 1.46 | 1.39 | 1.10 |
| **Dividends per common share** | $ .22 | $ .20 | $ .18 |
| **Weighted-average shares** | 1,323.2 | 1,365.3 | 1,365.3 |
| **Weighted-average shares—diluted** | 1,356.5 | 1,404.2 | 1,405.7 |

The accompanying financial comments are an integral part of the consolidated financial statements.

## Consolidated balance sheet

<table>
<thead>
<tr>
<th>December 31</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>$ 421.7</td>
<td>$ 419.5</td>
</tr>
<tr>
<td>Accounts and notes receivable</td>
<td>796.5</td>
<td>708.1</td>
</tr>
<tr>
<td>Inventories, at cost, not in excess of market</td>
<td>99.3</td>
<td>82.7</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>344.9</td>
<td>362.0</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,662.4</td>
<td>1,572.3</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in and advances to affiliates</td>
<td>824.2</td>
<td>1,020.2</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>1,443.4</td>
<td>1,261.8</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>705.9</td>
<td>822.4</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>2,973.5</td>
<td>3,086.4</td>
</tr>
<tr>
<td><strong>Property and equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, at cost</td>
<td>23,569.0</td>
<td>22,450.8</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(6,521.4)</td>
<td>(6,126.3)</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td>17,047.6</td>
<td>16,324.5</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$21,683.5</td>
<td>$20,983.2</td>
</tr>
</tbody>
</table>

| **Liabilities and shareholders' equity** |             |             |
| **Current liabilities** |             |             |
| Notes payable | $ 275.5 | $ 1,073.4 |
| Accounts payable | 684.9 | 585.7 |
| Income taxes | 92.2 | 417.2 |
| Other taxes | 159.5 | 160.1 |
| Accrued interest | 149.9 | 131.4 |
| Other accrued liabilities | 606.4 | 660.0 |
| Current maturities of long-term debt | 354.5 | 546.8 |
| **Total current liabilities** | 17,047.6 | 16,324.5 |
| **Net property and equipment** | 4,635.9 | 4,658.7 |
| **Total liabilities** | 21,683.5 | 20,983.2 |

The accompanying financial comments are an integral part of the consolidated financial statements.
<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Common Stock Issued</th>
<th>Additional Paid-in Capital</th>
<th>Unearned ESOP Compensation</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income</th>
<th>Common Stock in Treasury Shares</th>
<th>Common Stock in Treasury Amount</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 1997</td>
<td>1,660.6</td>
<td>$18.6</td>
<td>$650.9</td>
<td>$(171.3)</td>
<td>$72,569.0</td>
<td>$(470.5)</td>
<td>$(289.2)</td>
<td>$(3,783.1)</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,550.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Including tax benefits of $84.2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>1,468.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock cash dividends</td>
<td>$8.16 per share</td>
<td>(239.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESOP loan payment</td>
<td>22.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $154.0)</td>
<td>298.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.1)</td>
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<td></td>
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<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>ESOP loan payment</td>
<td>22.5</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.1)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $154.0)</td>
<td>298.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 1998</td>
<td>1,660.6</td>
<td>$18.6</td>
<td>$692.2</td>
<td>$(148.7)</td>
<td>$18,279.6</td>
<td>$(522.5)</td>
<td>$(304.4)</td>
<td>$(4,749.5)</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,947.9</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Translation adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Including tax benefits of $364.3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>1,583.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock cash dividends</td>
<td>$8.20 per share</td>
<td>(264.7)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>ESOP loan payment</td>
<td>15.8</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $185.3)</td>
<td>299.1</td>
<td>(0.4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $185.3)</td>
<td>299.1</td>
<td>(0.4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2000</td>
<td>1,660.6</td>
<td>$18.6</td>
<td>$1,441.8</td>
<td>$(115.3)</td>
<td>$20,258.1</td>
<td>$(522.5)</td>
<td>$(304.4)</td>
<td>$(4,749.5)</td>
</tr>
</tbody>
</table>

The accompanying financial comments are an integral part of the consolidated financial statements.
### Consolidated statement of shareholders' equity

<table>
<thead>
<tr>
<th>In Millions, Except Per Share Data</th>
<th>Common Stock Issued</th>
<th>Additional Paid-in Capital</th>
<th>Unearned ESOP Compensation</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income</th>
<th>Common Stock in Treasury</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 1997</td>
<td>1,660.6</td>
<td>$16.6</td>
<td>$600.9</td>
<td>$(171.3)</td>
<td>$12,569.0</td>
<td>$(470.5)</td>
<td>$8,851.6</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,550.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(52.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(52.0)</td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>1,498.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock cash dividends</td>
<td>(8.16 per share)</td>
<td></td>
<td></td>
<td></td>
<td>(239.5)</td>
<td></td>
<td>(239.5)</td>
</tr>
<tr>
<td>ESOP loan payment</td>
<td>22.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(38.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,161.9)</td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20.6</td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $154.0)</td>
<td>298.3</td>
<td>0.1</td>
<td></td>
<td></td>
<td>22.8</td>
<td>174.7</td>
<td>473.1</td>
</tr>
<tr>
<td>Balance at December 31, 1998</td>
<td>1,660.6</td>
<td>16.6</td>
<td>989.2</td>
<td>(133.3)</td>
<td>13,879.6</td>
<td>(522.5)</td>
<td>9,639.1</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,977.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(400.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(400.5)</td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>1,576.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Common stock cash dividends</td>
<td>(8.20 per share)</td>
<td></td>
<td></td>
<td></td>
<td>(264.7)</td>
<td></td>
<td>(264.7)</td>
</tr>
<tr>
<td>ESOP loan payment</td>
<td>15.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(24.2)</td>
<td></td>
<td></td>
<td></td>
<td>(902.7)</td>
<td></td>
<td>(902.7)</td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>(665.9)</td>
<td></td>
<td></td>
<td></td>
<td>(665.9)</td>
<td></td>
<td>(665.9)</td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $165.5)</td>
<td>259.1</td>
<td>(5.4)</td>
<td></td>
<td></td>
<td>15.8</td>
<td>139.6</td>
<td>438.3</td>
</tr>
<tr>
<td>Balance at December 31, 1999</td>
<td>1,660.6</td>
<td>16.6</td>
<td>1,288.3</td>
<td>(133.3)</td>
<td>15,562.5</td>
<td>(539.8)</td>
<td>9,039.3</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,977.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(400.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(400.5)</td>
</tr>
<tr>
<td>Comprehensive Income</td>
<td>1,576.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock cash dividends</td>
<td>(8.20 per share)</td>
<td></td>
<td></td>
<td></td>
<td>(264.7)</td>
<td></td>
<td>(264.7)</td>
</tr>
<tr>
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<td>15.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td>(902.7)</td>
<td></td>
<td>(902.7)</td>
</tr>
<tr>
<td>Common equity put option issuances and expirations, net</td>
<td>(665.9)</td>
<td></td>
<td></td>
<td></td>
<td>(665.9)</td>
<td></td>
<td>(665.9)</td>
</tr>
<tr>
<td>Stock option exercises and other (including tax benefits of $165.5)</td>
<td>259.1</td>
<td>(5.4)</td>
<td></td>
<td></td>
<td>15.8</td>
<td>139.6</td>
<td>438.3</td>
</tr>
<tr>
<td>Balance at December 31, 2000</td>
<td>1,660.6</td>
<td>16.6</td>
<td>1,441.8</td>
<td>(133.3)</td>
<td>17,259.4</td>
<td>(539.8)</td>
<td>9,204.4</td>
</tr>
</tbody>
</table>

The accompanying financial comments are an integral part of the consolidated financial statements.
Summary of significant accounting policies

Nature of business
The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald’s brand. In addition, the Company operates other restaurant concepts: Aroma Cafè, Boston Market, Chipotle Mexican Grill and Donatos Pizza.

All restaurants are operated by the Company or, under the terms of franchise arrangements, by franchises who are independent entrepreneurs, or by affiliates under operating agreements that agree to the terms of the Company and local business people.

Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less are accounted for by the equity method.

Estimates in financial statements
The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation
The functional currency of substantially all operations outside the U.S. is the respective local currency, except for a small number of countries with hyperinflationary economies, where the functional currency is the U.S. dollar.

Advertising costs
Production costs for radio and television advertising, which are primarily in the U.S., are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and in long-term, general & administrative expenses were (in millions): 2000—$506.3; 1999—$522.9; 1998—$486.3.

Stock-based compensation
The Company accounts for stock options as prescribed by Accounting Principles Board Opinion No. 25 and includes pro forma information in the stock options footnote, as provided by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

Property and equipment
Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—the lesser of useful lives of assets or lease terms including option periods; and equipment—three to 12 years.

Intangible assets
Intangible assets consist primarily of goodwill, which represents the excess of cost over the net tangible assets of acquired restaurant businesses. Intangible assets are amortized using the straight-line method over an average life of about 30 years.

Financial instruments
The Company uses derivatives to manage risk, not for trading purposes. Non-U.S. dollar transactions generally are effective as hedges of either long-term investments in, or intercompany loans to, the Company and its subsidiaries and are recorded in nonoperating income. Foreign exchange adjustments from gains and losses on hedges of long-term investments are recorded in shareholders’ equity as other comprehensive income. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating expense, net.

Interest rate exchange agreements are designed and effective to modify the Company’s interest-rate exposures. Net interest is accrued as either interest receivable or payable, with the offset recorded in interest expense. Gains or losses from the early termination of interest rate exchange agreements are amortized to interest expense over the shorter of the remaining life of the interest-rate agreement or the underlying debt being hedged. The Company purchases foreign currency options (with little or no initial net investment) and commits to foreign currency royalty and other payments received in U.S. dollars. The premiums paid for these options are amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized in the period in which the related royalty or other payment is received.

Forward foreign exchange contracts are also used to mitigate exposure on foreign currency royalty and other payments received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating expenses, net. In addition, forward foreign exchange contracts are used to hedge long-term investments in foreign subsidiaries and affiliates. These contracts are marked to market with the resulting gains or losses recorded in shareholders’ equity as other comprehensive income.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then reclassified as a hedge of another item or terminated.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 113, Accounting for Derivative Instruments and Hedging Activities, subsequently amended by SFAS No. 137 and 138, which is required to be adopted in beginning years after June 15, 2000. The new rules will require the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company will adopt the new rules effective January 1, 2001, and they will not have a material effect on the Company’s results of operations or financial position.

Common equity put options
During 2000, 1999 and 1998, the Company sold 16.8 million, 27.0 million and 7.3 million common equity put options, respectively, in connection with its share repurchase program. Proceeds received are recorded in shareholders’ equity as a reduction of the cost of treasury stock purchased and were $56.0 million in 2000, $39.7 million in 1999 and $20.5 million in 1998. At December 31, 2000, 21.0 million common equity put options were outstanding. The options expire at various dates through November 2001 at exercise prices between $30.11 and $41.98. At December 31, 2000, the $699.9 million total exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of the premiums received.

Per common share information
Diluted net income per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include the dilutive effect of common stock options outstanding plus the dilutive effect of stock options, calculated using the treasury stock method. The dilutive effect of stock options was (in millions of shares): 2000—33.3; 1999—48.9; 1998–40.4.

Statement of cash flows
The Company considers short-term, highly liquid foreign currencies to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Segment and geographic information
The Company operates in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company’s reportable segments are based on geographic area. All intercompany revenues and expenses are recorded in computing revenues and operating income. Operating income includes the Company’s share of operating results of affiliates after interest expense and income taxes, except for affiliates operating outside the U.S., which are reported before income taxes. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 2000—$595.3; 1999—$522.9; 1998—$486.3.

(1) Includes $103.6 million of Made For Your costs and the $140.0 million special charge related to the home office productivity initiative.

Total long-lived assets, primarily property and equipment and intangibles, were (in millions): Consolidated—2000—$1,979.3; 1999—$1,918.2; 1998—$1,814.4. U.S. based—2000—$8,373.2; 1999—$7,384.9; 1998—$7,533.2.

Franchise arrangements
Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rental and service fees to the Company, based upon a portion of sales with minimum rent payments. These arrangements are granted the right to operate a restaurant using the McDonald’s system and, in certain cases, the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Franchisees...
Summary of significant accounting policies

Nature of business
The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald's brand. In addition, the Company operates other restaurant concepts: Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza.

All restaurants are operated by the Company or, under the terms of franchise arrangements, by franchisees who are independent entrepreneurs, or by affiliates under corporate ventures agreements between the Company and local business people.

Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less are accounted for by the equity method.

Estimates in financial statements
The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation
The functional currency of substantially all operations outside the U.S. is the respective local currency, except for a small number of countries with hyperinflationary economies, where the functional currency is the dollar.

Advertising costs
Production costs for radio and television advertising, which are primarily in the U.S., are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and in long-term, general & administrative expenses were (in millions): 2000 – $639.3; 1999 – $565.2; 1998 – $515.3.

Stock-based compensation
The Company accounts for stock options as prescribed by Accounting Principles Board Opinion No. 25 and includes pro forma information in the stock options in the notes as prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation.

Property and equipment
Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings – up to 40 years; leasehold improvements – the lesser of useful lives of assets or lease terms including option periods; and equipment – three to 12 years.

Intangible assets
Intangible assets consist primarily of goodwill, which represents the excess of cost over the net tangible assets of acquired restaurant businesses. Intangible assets are amortized using the straight-line method over an average life of about 30 years.

Financial instruments
The Company uses derivatives to manage risk, not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term liabilities in, or intercompany loans to, subsidiary companies and affiliates. Foreign currency adjustments from gains and losses on hedges of long-term investments are recorded in shareholders’ equity as other comprehensive income. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating expense, net. Interest rate exchange agreements are designated and effective to modify the Company’s interest rate exposures. Net interest is accrued as either interest receivable or payable, with the offset recorded in interest expense. Gains or losses from the early termination of interest rate exchange agreements are amortized to adjust interest expense over the shorter of the remaining life of the interest-rate agreement or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial investment) and participates in interest rate swaps, and is a party to foreign currency royalty and other payments received in U.S. dollars. The premium paid for these options is amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized in the period in which the related royalty or other payment is received.

Forward foreign exchange contracts are also used to mitigate exposure on foreign currency royalty and other payments received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating expenses, net. In addition, forward exchange contracts used to hedge long-term investments in foreign subsidiaries and their affiliates. These contracts are marked to market with the resulting gains or losses recorded in shareholders’ equity as other comprehensive income.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of another item or terminated.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 113, Accounting for Derivative Instruments and Hedging Activities, subsequently amended by SFAS No. 137 and 138, which is required to be adopted in the first quarter of 2001. The new rules will require the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company will adopt the new rules effective January 1, 2001, and they will not have a material effect on the Company’s results of operations or financial position.

Segment and geographic information
The Company operates in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company’s reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company’s share of operating results of affiliates after interest expense and income taxes, except for United Kingdom, U.S. States, which are reported before income taxes. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 2000 – $603.6; 1999 – $568.3; 1998 – $522.9.

Statement of cash flows
The Company considers short-term, highly liquid foreign currencies to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Common equity put options
During 2000 and 1999 and 1998, the Company sold 16.8 million, 27.0 million and 7.3 million common equity put options, respectively, in connection with its share repurchase program. Premiums received are recorded in shareholders’ equity as a reduction of the cost of treasury stock purchased and were $56.0 million in 2000, $99.7 million in 1999 and $20.5 million in 1998. At December 31, 2000, 21.0 million common equity put options were outstanding. The options expire at various dates through November 2001 at exercise prices between $30.11 and $41.98. At December 31, 2000, the $699.9 million total exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of the premiums received.

Per share common information
Diluted net income per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include in the diluted weighted-average shares outstanding plus the dilutive effect of options, stock grants, and includes using the treasury stock method. The dilutive effect of stock options was (in millions of shares): 2000 – 33.3; 1999 – 28.8; 1998 – 40.4.

Segment and geographic information
The Company operates in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company’s reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company’s share of operating results of affiliates after interest expense and income taxes, except for United Kingdom, U.S. States, which are reported before income taxes. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 2000 – $603.6; 1999 – $568.3; 1998 – $522.9.

Other segment includes McDonald’s international operations in Canada, the Middle East and Africa as well as results from Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza.

Segment operating income has been restated for all years presented to break out corporate general & administrative expenses from the operating segments to be consistent with the same segment performance currently is evaluated by Company management. Corporate general & administrative expenses are now included as the corporate segment of operating income. These expenses are comprised of corporate overhead support costs in such areas as facilities, finance, human resources, information technology, legal, supply chain management and training.

Corporate and U.S. segment assets, capital expenditures and depreciation and amortization also have been restated to conform to the new presentation. Corporate assets include corporate cash, investments, asset portions of financing instruments, office facilities, deferred tax assets and corporate intangibles.

Financial review 41
in the U.S. generally have the option to own new restaurant buildings, while leasing the land from McDonald’s. In addition, franchisees outside the U.S. generally pay a refundable, noninterest-bearing security deposit. Foreign affiliates pay a royalty to the Company based upon a percent of sales.

The results of operations of restaurant businesses purchased and sold in transactions with franchisees, affiliates and others were not material to the consolidated financial statements for periods prior to purchase and sale.

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net deferred tax liabilities</td>
<td>($2,692.6)</td>
<td>($2,960.1)</td>
</tr>
</tbody>
</table>

Net deferred tax liabilities consisted of:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment basis differences</td>
<td>$1,220.2 million</td>
<td>$1,220.2 million</td>
</tr>
<tr>
<td>Other</td>
<td>353.3</td>
<td>353.3</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>$1,553.5</td>
<td>$1,553.5</td>
</tr>
</tbody>
</table>

Deferred tax assets before valuation allowances (1) ($445.3) million and $410.0 million for 2000 and 1999, respectively. Valuation allowances $24.0 million and 131.9 million for 2000 and 1999, respectively. Net deferred tax liabilities $1,333.0 million and $1,035.8 million for 2000 and 1999, respectively.

(1) Includes tax effects of loss carryforwards (in millions): 2000 ($203.4) million, 1999 ($213.5) million. (2) Net of current tax assets included in prepaid expenses and other current assets in the consolidated balance sheet (in millions): 2000 ($571.1) million and 1999 ($781.4) million.

The statutory U.S. federal income tax rate reconciled to the effective income tax rates as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective U.S. federal income tax rate</td>
<td>35.4%</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $2.5 billion at December 31, 2000, and consisted primarily of undistributed earnings considered permanently invested in the businesses. Determination of the deferred income tax liability on these unremitted earnings is not practicable since such earnings, if any, are dependent on circumstances existing if and when remittance occurs.

Income taxes

For You food preparation system in virtually all restaurants in the U.S. and Canada. As part of the plan to introduce this system, the Company provided financial incentives during 1999 and 1998 of up to $3.5 million per restaurant to franchisees as these deposits are an integral part of the overall franchise agreements.

No fair value was provided for noninterest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise agreements. The fair values of debt, notes payable, foreign currency exchange agreements and foreign currency options were estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of its total assets was substantially higher than the carrying value at December 31, 2000.

The counterparty to these agreements consists of a diverse group of financial institutions. The Company continuously monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any counterparty that cannot meet its financial obligations. The Company’s policy regarding agreements with certain counterparties is to require collateral in the event credit ratings fall below A- or in the event that aggregate exposures exceed certain limits as defined by contract. At December 31, 2000, no collateral was required of counterparties and the Company was not required to collateralize any of its obligations.

At December 31, 2000, the Company had purchased foreign currency options outstanding primarily Euro, Japanese Yen and British Pounds Sterling with a notional amount equivalent to $430.0 million. The unamortized premium related to these foreign currency options was $10.6 million, and there were no related deferred gains recorded as of year end. Forward foreign exchange contracts outstanding at December 31, 2000 (primarily British Pounds Sterling, Hong Kong Dollars and Euro) had a U.S. Dollar equivalent of $781.0 million.

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Fair values

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>$118.4</td>
<td>$83.4</td>
</tr>
<tr>
<td>Fair value</td>
<td>$118.4</td>
<td>$83.4</td>
</tr>
</tbody>
</table>

The counterparty to these agreements consists of a diverse group of financial institutions. The Company continuously monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any counterparty that cannot meet its financial obligations. The Company’s policy regarding agreements with certain counterparties is to require collateral in the event credit ratings fall below A- or in the event that aggregate exposures exceed certain limits as defined by contract. At December 31, 2000, no collateral was required of counterparties and the Company was not required to collateralize any of its obligations.

For You food preparation system in virtually all restaurants in the U.S. and Canada. As part of the plan to introduce this system, the Company provided financial incentives during 1999 and 1998 of up to $3.5 million per restaurant to franchisees as these deposits are an integral part of the overall franchise agreements.

No fair value was provided for noninterest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise agreements. The fair values of debt, notes payable, foreign currency exchange agreements and foreign currency options were estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of its total assets was substantially higher than the carrying value at December 31, 2000.
The results of operations of restaurant businesses purchased and sold in transactions with franchisees, affiliates and others were not material to the consolidated financial statements for periods prior to purchase and sale.

The statutory U.S. federal income tax rate reconciled to the effective income tax rates as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>31.4%</td>
<td>32.5%</td>
<td>(4.8)</td>
<td>(4.9)</td>
<td>32.5%</td>
</tr>
<tr>
<td>2001</td>
<td>31.4%</td>
<td>32.5%</td>
<td>(7.2)</td>
<td>(7.1)</td>
<td>31.3%</td>
</tr>
</tbody>
</table>

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $2.5 billion at December 31, 2000, and consisted primarily of undistributed earnings considered permanently invested in the businesses.

The productivity plan was designed to improve staff alignment, focus on key processes, deliver better service and improve productivity and to extend ongoing sales, general & administrative expenses in both the U.S. and corporate segments. As a result, the company reduced home office staffing by approximately 500 positions, consolidated certain home office facilities and reduced other expenditures in a variety of areas. The special charge was composed of $86.8 million of employee severance and outplacement costs based upon the reduction in force and other facility-related costs, $13.8 million of costs for the write-off of technology investments made obsolete as a result of the productivity initiative and $1.5 million of costs related to the 1998. The initiatives identified in the home office productivity plan were completed as of December 31, 1999, and no significant adjustments were made to the original plan.

Debt financing

Line of credit agreements

At December 31, 2000, the company had several line of credit agreements with various banks totaling $1.9 billion, all of which remain unused at December 31, 2000. Subsequent to year end, the company reduced these line of credit agreements to $1.5 billion, consisting of the following: a $750.0 million line with a renewable term of 364 days and fees of .02% per annum on the total commitment, with a feature that allows the company to convert any or all of the borrowings to a one-year term loan at any time prior to expiration; a $300.0 million line expiring in February 2002 with fees of .06% per annum on the total commitment; $250.0 million in lines expiring during 2001 and fees of .54% per annum on the total commitment; and a $25.0 million line with a renewable term of 364 days and fees of .37% per annum on the total commitment. Borrowings under the agreements bear interest at one of several specified floating rates selected by the company at the time of borrowing. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling $71.4 million at December 31, 2000, these were principally short-term and denominated in various currencies at local market rates of interest. The weighted-average interest rate of short-term borrowings, composed of U.S. Dollar and Euro commercial paper and foreign currency bank-line borrowings, was 6.9% at December 31, 2000 and 6.1% at December 31, 1999.

Exchange agreements

The company's financial exposure includes a lack of foreign revenue due to its U.S. operation in the face of a significant number of foreign currencies. Many of the currencies in which the company does business have experienced significant changes in value. To mitigate this exposure, the company has entered into currency option agreements that expire through 2012 and relate primarily to Euro, U.S. Dollars and Japanese Yen. The net value of each currency option was $10.6 million, and there were no related deferred gains recorded as of year end. Forward foreign exchange contracts outstanding at December 31, 2000 primarily British Pounds Sterling, Hong Kong Dollars and Euro had a U.S. Dollar equivalent of $781.8 million.

Fair values

The carrying amounts for cash and equivalents, notes receivable from franchisees as these deposits are an integral part of the overall transaction.

The fair values of debt, notes payable obligations, foreign currency options were estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. The company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the company believes that the fair value of its total assets was substantially higher than the carrying value at December 31, 2000.

The counterparties to these agreements consist of a diverse group of financial institutions. The company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The company does not have significant exposure to any single counterparty as it entered into master agreements that contain netting arrangements. The company’s policy regarding agreements with certain counterparties is to collateralize in the event credit ratings fall below A- or in the event that aggregate exposures exceed certain limits as defined by contract. At December 31, 2000, no collateral was required of counterparties and the company was not required to collateralize any of its obligations.

At December 31, 2000, the company had purchased foreign currency options outstanding (primarily Euro, Japanese Yen and British Pounds Sterling) with a notional amount equivalent to $450.0 million. The unamortized premium related to these foreign currency options was $10.6 million, and there were no related deferred gains recorded as of year end. Forward foreign exchange contracts outstanding at December 31, 2000 primarily British Pounds Sterling, Hong Kong Dollars and Euro had a U.S. Dollar equivalent of $781.8 million.

<table>
<thead>
<tr>
<th>Field</th>
<th>Debit</th>
<th>Credit</th>
<th>Net</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>$15,447</td>
<td>$8,344</td>
<td>$7,103</td>
<td>$7,103</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$300</td>
<td>$275</td>
<td>$25</td>
<td>$25</td>
</tr>
<tr>
<td>Foreign currency exchange agreements</td>
<td>$43.7</td>
<td>$45.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$17,640</td>
<td>$17,439</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset</td>
<td>$160</td>
<td>$160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency exchange agreements</td>
<td>$30.6</td>
<td>$32.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate exchange agreements</td>
<td>$16.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>$12,943</td>
<td>$12,267</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased foreign currency options</td>
<td>$10.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### ESOP and other guarantees

The Company has guaranteed and included in total debt at December 31, 2000, $22.6 million of Notes issued by the Leveraged Employee Stock Ownership Plan (ESOP) with payments through 2066. Borrowings related to the ESOP at December 31, 2000, which include $97.1 million of loans from the Company to the ESOP and the $22.6 million of notes guaranteed by the Company, are reflected as long-term debt with a corresponding reduction of shareholders’ equity (unearned ESOP compensation). The Company is repaying the loans and interest through 2018 using Company contributions and dividends from its McDonald’s common stock holdings. As the principal amount of the borrowings is repaid, the debt and the unearned ESOP compensation are being reduced.

The Company also has guaranteed certain affiliate loans totaling $150.1 million at December 31, 2000.

### Debt obligations

The Company has incurred debt obligations through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the effects of foreign currency and interest rate exchange agreements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Other</th>
<th>Total Asia/Pacific Currencies</th>
<th>Total Other European Currencies</th>
<th>Total Other Currencies</th>
<th>Total Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6,305.1</td>
<td>1,797.0</td>
<td>$ 631.5</td>
<td>$ 787.6</td>
<td>43.9</td>
</tr>
<tr>
<td>2001</td>
<td>6,305.1</td>
<td>1,797.0</td>
<td>$ 631.5</td>
<td>$ 787.6</td>
<td>43.9</td>
</tr>
<tr>
<td>2002</td>
<td>6,305.1</td>
<td>1,797.0</td>
<td>$ 631.5</td>
<td>$ 787.6</td>
<td>43.9</td>
</tr>
<tr>
<td>2003</td>
<td>6,305.1</td>
<td>1,797.0</td>
<td>$ 631.5</td>
<td>$ 787.6</td>
<td>43.9</td>
</tr>
</tbody>
</table>

### Leasing arrangements

At December 31, 2000, the Company was lessee at 6,035 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and at 6,064 restaurant locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Other</th>
<th>Total Asia/Pacific Currencies</th>
<th>Total Other European Currencies</th>
<th>Total Other Currencies</th>
<th>Total Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>7,486.3</td>
<td>1,085.1</td>
<td>$ 748.3</td>
<td>$ 633.4</td>
<td>$ 816.5</td>
</tr>
<tr>
<td>2002</td>
<td>7,333.8</td>
<td>1,085.1</td>
<td>$ 733.3</td>
<td>$ 633.4</td>
<td>$ 816.5</td>
</tr>
<tr>
<td>2003</td>
<td>7,076.6</td>
<td>1,085.1</td>
<td>$ 707.6</td>
<td>$ 633.4</td>
<td>$ 816.5</td>
</tr>
<tr>
<td>2004</td>
<td>6,819.4</td>
<td>1,085.1</td>
<td>$ 681.9</td>
<td>$ 633.4</td>
<td>$ 816.5</td>
</tr>
<tr>
<td>2005 and thereafter</td>
<td>621.5</td>
<td>1,085.1</td>
<td>$ 621.5</td>
<td>$ 633.4</td>
<td>$ 816.5</td>
</tr>
</tbody>
</table>

Plant expense was (in millions): 2000—$886.4; 1999—$706.3; 1998—$723.5. These amounts included percent rents in excess of minimum rents (in millions): 2000—$133.0; 1999—$117.1; 1998—$116.7.

### Property and equipment

The table below summarizes the property and equipment at December 31, 2000, 1999, and 1998.

### Employee benefit plans

The Company’s Profit Sharing Program for U.S.-based employees includes profit sharing, 401(k) and leveraged employee stock ownership (ESOP) features. The 401(k) feature allows participants to make pre-tax contributions that are partly matched from shares released under the ESOP. Executives and staff and restaurant managers participate in additional ESOP allocations and profit sharing contributions, based on their compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year.

Participant 401(k) contributions, profit sharing contributions and any related earnings can be invested in McDonald’s common stock or among six other investment alternatives. The Company’s matching contributions and ESOP allocations are generally invested in McDonald’s common stock.

Total U.S. costs for the Profit Sharing Program, including related nonqualified benefits, were (in millions): 2000—$489.0; 1999—$449.4; 1998—$463.3.

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2000—$381.1; 1999—$372.7; 1998—$375.7.

Other postretirement benefits and postemployment benefits, excluding severance benefits related to the 1998 home office productivity initiative, were immaterial.

### Stock options

At December 31, 2000, the Company had three stock-based compensation plans, two for employees and one for nonemployee directors. Options to purchase common stock are granted at the fair market value of the stock on the date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, beginning a year from the date of grant, and expire ten years from the grant date. At December 31, 2000, 13.6 million shares of common stock reserved for issuance under the plans were 185.3 million, including 9.5 million shares available for future grants. A summary of the status of the Company’s plans as of December 31, 2000, 1999, and 1998, and changes during the years then ended, is presented in the following table.

**Options exercisable at end of year:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average exercise price</th>
<th>Shares exercisable at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$ 28.3</td>
<td>1,130,000</td>
</tr>
<tr>
<td>1999</td>
<td>$ 29.3</td>
<td>1,240,000</td>
</tr>
<tr>
<td>2000</td>
<td>$ 30.1</td>
<td>1,570,000</td>
</tr>
</tbody>
</table>

Options granted each year were 2.0%, 1.9% and 2.5% of weighted-average common shares outstanding for 2000, 1999 and 1998, representing grants to approximately 14,103, 12,700 and 11,500 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

The average per share cost of treasury stock issued for option exercises over the last three years was about $7.00. The average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because the Company prohibits the program through share repurchases. As a result, stock option exercises have generated additional capital, since cash received from exercises has exceeded the Company’s average.
Leasing arrangements
At December 31, 2000, the Company was lessee at 6,055 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and at 6,064 restaurant locations through improved leases (the Company leases land and building). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance.

In addition, the Company is lessee under non-cancelable lease agreements covering offices and vehicles.

Future minimum payments required under existing operating leases at initial terms of one year or more are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts outstanding</th>
<th>Other Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$ 746.3</td>
<td>$ 63.3</td>
</tr>
<tr>
<td>2002</td>
<td>753.3</td>
<td>151.1</td>
</tr>
<tr>
<td>2003</td>
<td>705.8</td>
<td>45.6</td>
</tr>
<tr>
<td>2004</td>
<td>671.2</td>
<td>35.9</td>
</tr>
<tr>
<td>2005</td>
<td>623.5</td>
<td>34.8</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,817.6</td>
<td>221.1</td>
</tr>
</tbody>
</table>

Total minimum payments: $8,270.5 $439.3 $9,769.8

Plant expense was (in millions): 2000—$886.4; 1999—$706.3; 1998—$723.0. These amounts included percent rents in excess of minimum rents (in millions): 2000—$133.0; 1999—$117.1; 1998—$116.7.

Property and equipment

<table>
<thead>
<tr>
<th>Subsequent year</th>
<th>Amounts outstanding</th>
<th>Other Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$33.3</td>
<td>$3.06</td>
</tr>
<tr>
<td>2001</td>
<td>8,250.0</td>
<td>7,535.6</td>
</tr>
<tr>
<td>2002</td>
<td>7,133.5</td>
<td>6,706.5</td>
</tr>
<tr>
<td>2003</td>
<td>7,372.2</td>
<td>7,006.5</td>
</tr>
<tr>
<td>2004</td>
<td>7,046.5</td>
<td>6,750.9</td>
</tr>
<tr>
<td>Thereafter</td>
<td>23,899.4</td>
<td>22,431.5</td>
</tr>
</tbody>
</table>

Accumulated depreciation and amortization: 2000—36,421.5; 1999—31,758.3

Net property and equipment: $17,048.7 $16,324.5

Depreciation and amortization expense was (in millions): 2000—$200.9; 1999—$568.1; 1998—$580.8.

Employee benefit plans

The Company’s Profit Sharing Program for U.S.-based employees includes profit sharing, 401(k) and leveraged stock ownership (ESOP) features. The 401(k) feature allows participants to make pre-tax contributions that are partly matched from shares released under the ESOP. Executives, restaurant and restaurant managers participate in additional ESOP allocations and profit sharing contributions, based on their compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year.

Participant 401(k) contributions, profit sharing contributions and any related earnings can be invested in McDonald’s common stock or among six other investment alternatives. The Company’s matching contributions and ESOP allocations are generally invested in McDonald’s common stock.

Total U.S. costs for the Profit Sharing Program, including related nonqualified benefits, were (in millions): 2000—$498.9; 1999—$494.4; 1998—$493.3.

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2000—$38.1; 1999—$37.2; 1998—$37.7.

Other postretirement benefits and postemployment benefits, excluding severance benefits related to the 1998 home office productivity initiative, were immaterial.

Stock options

At December 30, 2000, the Company had three stock-based compensation plans, two for employees and one for nonemployee directors. Options to purchase common stock are granted at the fair market value of the stock on the date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, beginning a year from the date of grant, and expire 10 years from the grant date. At December 31, 2000, the number of shares of common stock reserved for issuance under the plans was 185.3 million, including 9.5 million shares available for future grants. A summary of the status of the Company’s plans as of December 31, 2000 and 1999, and changes during the years then ended, is presented in the following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts outstanding</th>
<th>Other Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$308.1</td>
<td>$67.5</td>
</tr>
<tr>
<td>2001</td>
<td>2,550.6</td>
<td>417.4</td>
</tr>
<tr>
<td>2002</td>
<td>2,550.6</td>
<td>417.4</td>
</tr>
<tr>
<td>2003</td>
<td>2,550.6</td>
<td>417.4</td>
</tr>
<tr>
<td>2004</td>
<td>2,550.6</td>
<td>417.4</td>
</tr>
<tr>
<td>Thereafter</td>
<td>6,704.6</td>
<td>1,259.9</td>
</tr>
</tbody>
</table>

Outstanding at beginning of year 164.7 $235.6 164.0 $139.2 156.3 $16.79

Granted 136.5 11.4 24.3 22.8 6.0 20.0

Exercised (15.0) 13.6 8.8 12.3 2.2 12.0

Forfeited (7.4) 27.9 5.6 18.0 3.2 21.6

Outstanding at end of year 175.8 $258.4 167.3 $203.6 164.0 $19.32

Options exercisable at end of year 79.3 68.4 64.4

Options granted each year were 2.0%, 1.9% and 2.5% of weighted-average common shares outstanding for 2000, 1999 and 1998, representing grants to approximately 14,100, 12,700 and 11,500 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

The average per share cost of treasury stock issued for option exercises over the last three years was about $7.00. The average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because the Company prohibits the use of share repurchases. As a result, stock option exercises have generated additional capital, since cash received from exercises has exceeded the Company’s average income from operations.
acquisition cost of treasury stock. In addition, stock option exercises resulted in $419.6 million of tax benefits for the Company during the three years ended December 31, 2000. The following table presents information related to options outstanding and options exercisable at December 31, 2000, based on ranges of exercise prices.

<table>
<thead>
<tr>
<th>Exercise Price</th>
<th>Number of Options Outstanding</th>
<th>Number of Options Exercisable</th>
<th>Weighted-Average Remaining Contractual Life</th>
<th>Weighted-Average Exercise Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0.04 - $ 0.09</td>
<td>3,856,000</td>
<td>2,028,000</td>
<td>7.7 years</td>
<td>$ 0.05</td>
</tr>
<tr>
<td>$ 0.10 - $ 0.15</td>
<td>3,427,000</td>
<td>1,320,000</td>
<td>6.5 years</td>
<td>$ 0.13</td>
</tr>
<tr>
<td>$ 0.16 - $ 0.23</td>
<td>3,171,000</td>
<td>1,354,000</td>
<td>5.5 years</td>
<td>$ 0.16</td>
</tr>
<tr>
<td>$ 0.24 - $ 0.34</td>
<td>3,035,000</td>
<td>1,390,000</td>
<td>4.5 years</td>
<td>$ 0.24</td>
</tr>
<tr>
<td>$ 0.35 - $ 0.46</td>
<td>3,884,000</td>
<td>1,664,000</td>
<td>3.5 years</td>
<td>$ 0.36</td>
</tr>
</tbody>
</table>

Weighted-average remaining contractual life is based on the remaining term of the original contractual term of the option, reduced for estimated option forfeitures. The weighted-average exercise price is the fair value of the stock option at the date of grant as measured by the Black-Scholes option pricing model. The model was designed to estimate the fair value of exchange-traded options that, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable basis to estimate the fair value of employee stock options. The following table presents the pro forma disclosures and the weightened-average assumptions used to estimate the fair value of these options:

<table>
<thead>
<tr>
<th>Year</th>
<th>Pro Forma Net Income</th>
<th>EPS</th>
<th>Weighted-Average Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$1,892,154,000</td>
<td>$ 0.35</td>
<td>5,348,000</td>
</tr>
<tr>
<td>1999</td>
<td>$1,842,047,000</td>
<td>$ 0.34</td>
<td>5,348,000</td>
</tr>
<tr>
<td>1998</td>
<td>$1,747,040,000</td>
<td>$ 0.33</td>
<td>5,348,000</td>
</tr>
</tbody>
</table>

Pro forma net income and net income per common share were determined as if the Company had accounted for its employee stock options under the fair value method of FASB No. 123. For pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. If SFAS No. 123 is adopted, it will have a material effect on the Company's financial statements. However, it is not possible to determine the effect on the Company's stock options of implementation of SFAS No. 123 because the effect will depend on the future level of grants, the stock price volatility, and other factors.

Quarterly results (unaudited)

<table>
<thead>
<tr>
<th>Quarter Ended</th>
<th>Revenues</th>
<th>Purchased goods</th>
<th>Operating expenses</th>
<th>Net income</th>
<th>Diluted EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td>$2,676,639</td>
<td>$2,424,964</td>
<td>$2,769,385</td>
<td>$2,560,000</td>
<td>$2,341,460</td>
</tr>
<tr>
<td>June 30</td>
<td>$1,908,304</td>
<td>$1,650,812</td>
<td>$1,725,123</td>
<td>$1,700,832</td>
<td>$1,539,123</td>
</tr>
<tr>
<td>September 30</td>
<td>$1,878,365</td>
<td>$1,675,708</td>
<td>$1,725,207</td>
<td>$1,700,032</td>
<td>$1,539,032</td>
</tr>
<tr>
<td>March 31</td>
<td>$1,884,672</td>
<td>$1,664,000</td>
<td>$1,725,123</td>
<td>$1,700,832</td>
<td>$1,539,123</td>
</tr>
</tbody>
</table>

Management's report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and financial information appearing in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the U.S. and include certain amounts based on management's judgment and best estimates. Other financial information presented in this annual report is consistent with the financial statements. The Company maintains a system of internal controls over financial reporting, including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and assets safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures that are communicated throughout the Company; careful selection, training and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain high standards of proper business practices throughout the world.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that it maintains an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition. The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were appointed to audit the Company's financial statements and financial information which are contained in this annual report. The financial statements are presented in accordance with accounting principles generally accepted in the U.S. The financial statements include all adjustments, which are considered necessary for a fair presentation of the Company's financial position at December 31, 2000, and its results of operations and cash flows for each of the three years in the period ended December 31, 2000. The consolidated financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable basis for our opinion whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the U.S. ERNST & YOUNG LLP Chicago, Illinois January 24, 2001

Report of independent auditors

The Board of Directors and Shareholders

McDonald's Corporation

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable basis for our opinion whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the U.S.
acquisition cost of treasury stock. In addition, stock option exercises include a full seven years of grants, and therefore, may not be determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. For pro forma disclosures, the options’ estimated fair value was amortized over their expected seven-year life. SFAS No. 123 does not apply to stock options under the fair value method of SFAS No. 123. For pro forma disclosures, the options’ estimated fair value was amortized over their expected seven-year life.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that it maintains an effective system of internal control over financial reporting and safeguarding of assets in the U.S. and include certain amounts based on management’s expectations.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented herein. The Board of Directors, operating through its Audit Committee, composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has unrestricted access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD’S CORPORATION
January 24, 2001

Management’s report
Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and financial information appearing in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the U.S. and include certain amounts based on management’s judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements. The Company maintains a system of internal controls over financial reporting, including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation of reliable published financial statements and asset safeguarding. The system includes a documented organization-wide and appropriate division of responsibilities, established policies and procedures that are communicated throughout the Company; careful selection, training and development of our people; and utilization of an internal audit structure.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant included in this report financial statements and related financial information for the period covered by this report. The financial statements and related financial information are the responsibility of the registrant’s management. The financial statements and related financial information have been prepared in accordance with accounting principles generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the financial statements and related financial information and performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the registrant as of December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000. The consolidated financial statements are the responsibility of McDonald’s Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

The Board of Directors and Shareholders
McDonald’s Corporation

We have audited the accompanying consolidated balance sheet of McDonald’s Corporation as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2000. Those financial statements are the responsibility of McDonald’s Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald’s Corporation as of December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the U.S.

ERNST & YOUNG LLP
Chicago, Illinois
January 24, 2001

Report of independent auditors
The Board of Directors and Shareholders
McDonald’s Corporation

Quarterly results (unaudited)

<table>
<thead>
<tr>
<th>Range of options exercised</th>
<th>Options outstanding</th>
<th>Options exercisable</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Weighted-average remaining contractual life in years</td>
<td>Weighted-average exercise price</td>
</tr>
<tr>
<td>7 to 9</td>
<td>3.8</td>
<td>$ 8.02</td>
</tr>
<tr>
<td>10 to 15</td>
<td>3.6</td>
<td>13.48</td>
</tr>
<tr>
<td>16 to 23</td>
<td>3.7</td>
<td>20.4</td>
</tr>
<tr>
<td>24 to 31</td>
<td>3.5</td>
<td>25.5</td>
</tr>
<tr>
<td>32 to 45</td>
<td>4.1</td>
<td>37.8</td>
</tr>
<tr>
<td>5 to 7</td>
<td>175.8</td>
<td>$25.34</td>
</tr>
</tbody>
</table>

Pro forma net income and net income per common share were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. For pro forma disclosures, the options’ estimated fair value was amortized over their expected seven-year life. SFAS No. 123 does not apply to stock options under the fair value method of SFAS No. 123.

| Weighted-average fair value per option granted | 14.11 | 14.00 | 7.55 |

Assumptions
Expected dividend yield | 24.0% | 26.0% | 26.0% |
Expected stock price volatility | 36.6% | 22.5% | 19.0% |
Risk-free interest rate | 6.39% | 5.72% | 5.09% |
Expected life of options on issue | 7.7 | 7.7 | 7.7 |

Range Number contractual average Number average
1 (1) Beginning in 2000, dividends are declared and paid on an annual, rather than quarterly, basis. The annual dividend amount for 1999 was $0.195.
Directors and corporate officers

Board of Directors

Hall Adams, Jr.  Senior CEO, Leo Burnett & Co., Inc.
Gordon Gray  Chairman, North American Metals Distribution, Inc.
Emilfa Hernandez, Jr.  Chairman and CEO, Inter-Con Security Systems, Inc.
Jeanne Jaccino  CIEG, Walmart.com
Donald Keough  Chairman, Aker & Company Incorporated
Donald Labin  Partner, Sennenschein Nash & Rosenzweig
Walter Massey  President, Morehouse College
Andrew McKenna  President and CEO, Box USA Group, Inc.
Barry National  Chairman and CEO, Inter-Cons Productions, Ltd.
David Nussman  Financial Journalist, Author
Andrew McKenna  Chairman and CEO, Andrew McKenna
Donald Lubin  Partner, Sonnenschein Donald Lubin
Donald Keough  Chairman, Donald Keough
Jack Greenberg  Chairman and CEO, Jack Greenberg
Michael Roberts  President, Michael Roberts
Debra Koenig  Corporate General Counsel
Russell Smyth  Managing Director, Netherlands
James Cantalupo  Managing Director, West Division
James Cantalupo  President, James Cantalupo
Michael Quinn  Chairman of the Executive Committee
Freddy Turner  Senior Chairman
Jana Martin  Junior Chairman
Corporate Officers

Chairman of the Executive Committee
Michael Quinlan
Chairman and CEO
Jack Greenberg
Business Consultant
Box USA Group, Inc.
Chairman and CEO,
Roger Stone
Productions, Ltd.
Financial Journalist, Author
Chairman and CEO,
Andrew McKenna
Partner, Sonnenschein
Donald Lubin
Incorporated
Chairman, Allen & Company
Donald Keough
CEO, Walmart.com
Security Systems, Inc.
Chairman and CEO, Inter-Con
Enrique Hernandez, Jr.
Distribution, Inc.
Chairman, North American Metals
Hal Adams, Jr.
Retired CEO, Leo Burnett & Co., Inc.

Directors and corporate officers

Corporate Officers

Claira Babrowski  
Executive Vice President
Charles Bell  
President-Alaska/Pacific, Middle East and Africa Group
James Cantalupo  
Vice Chairman and President
Michael Conley  
Executive Vice President, 
Chief Financial Officer
Lynn Crump-Caine  
Executive Vice President
Kohin Dunn  
President–Great Lakes Division
Alan Feldman  
President–U.S.A.
Harry Gonzalez, Jr.  
President–Northwest Division
Jack Greenberg  
Chairman and Chief Executive Officer
Jeffrey Kinder  
Executive Vice President, 
Corporate General Counsel
Debra Koenig  
President–Southeast Division
Raymond Miles, Jr.  
Executive Vice President
Michael Roberts  
President–West Division
Eduardo Sanchez  
President–Latin America Group
James Steiner  
President–Europe Group
Stanley Stein  
Executive Vice President
Donald Thompson  
President–Midwest Division
Marin Whaly  
President–North Asia
Corporate Controller
Christopher Peschio  

Corporate Officers

Corporate Secretary
Gina Sartoni
Advisory Directors

Appointed to serve a one-year term in a non-voting capacity
Kohin Dunn  President–Great Lakes Division
Adriann Hendrix  Managing Director, Netherlands
Russell Smyth  Senior Vice President, International Relationship Partner
Susan Warzecka  Senior Vice President, U.S. Human Resources

Investor information

Investor information and services

Accessed information and assistance are available:

- www.equiserve.com. See ‘‘McDonald’s, the Web and you’’ on the outside back cover for more information.
- by calling 1-800-MCD-1STOV (1-800-623-1782) from the U.S. and Canada or 1-201-222-4900 (collect) from other countries. An automated response system is available 24 hours/day, 7 days a week. Representatives are available weekdays from 9:30 a.m. to 5:00 p.m. Eastern Time.
- via a TDD service for the hearing impaired at 1-201-222-4485 weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time.
- by writing to our transfer agent at the address at right.

WeDirect Shareholders and beneficiaries to purchase McDonald’s common stock and reinvest dividends. To obtain a Plan prospectus and enrollment form, go online at www.mcdonalds.com, call 1-800-228-9623 to have these materials mailed to you, or call 1-800-623-0172 to faxed to you.

Dividend policy: Given our returns on equity and assets and growth opportunities, we believe retaining a significant portion of earnings in the business is prudent. Therefore, our per share dividend is modest. Dividends are paid on an annual basis at the discretion of the Board.

2007 Individual investor events:
- March 3-4 – Annual Meeting and Shareholder Investment Conference, Las Vegas, NV
- June 22 – TCI inLouisiana Mississipp-Chip Group Investing Conference, New Orleans, LA
- McDonald’s 2000 Annual Report on Form 10-K may be obtained online without charge at www.sec.gov or via a link from www.mcdonalds.com. You may also write our Investor Relations Service Center at the home office address listed at right.

Stock exchange listings

New York, Chicago, Paris, German, and Swiss

Trading symbol

MCD

Annual meeting

May 17, 2001
10:30 a.m. – 12:00 p.m. (Central Time)
Rosemont Theatre
5400 North River Road
Rosemont, IL 60018

Website

www.mcdonalds.com

General inquiries

Customers and general public
1-630-623-3878
Financial media
1-630-623-6198
Franchising
1-630-623-7494
Stockbroker inquiries
1-630-623-5157

Transfer agent, registrar and MCDirect Shares administrator
EquiServe Trust Company, N.A.
Attn: McDonald’s Shareholder Services
P.O. Box 2021
Jersey City, NJ 07303-2597

The following trademarks and services are owned by McDonald’s Corporation and affiliated companies:
- Arches logo, We Love To See You Smile.
- McDonald’s Shareholder Services.
- McDonald’s Corporation and affiliated companies.
- Big Mac, Big Mac, Big Mac,
- Black and White, Black and White, Black and White,
- Clubhouse logo, Clubhouse logo,
- Don’t miss a bite, Don’t miss a bite,
- eMac Digital, eMac Digital,
- Extra Value Meal, Extra Value Meal,
- Filet-O-Fish, Filet-O-Fish,
- Fish, Fish, Fish,
- Great Lakes logo, Great Lakes logo,
- House Charities, Ronald McDonald House Charities
- House Charities, Ronald McDonald House Charities
- India logo, India logo,
- McMagination, McMagination,
- McDonald, Ronald McDonald
- McDonald, Ronald McDonald Care Mobile,
- McDonald, Ronald McDonald House Charities,
- McDonald, Ronald McDonald House Charities
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- McDonald, Ronald McDonald House Charities
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- McDonald, Ronald McDonald House Charities
- McDonald, Ronald McDonald House Charities
- McDonald’s Shareholder Services,
- MCDirect Shares,
- McDonald’s Corporation and affiliated companies.
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- MCDirect Shares,
Board of Directors
Hal Adams, Jr.* 5, 6
Refere CEO, Lee Bennett & Co., Inc.
Gordon Gray† 5
Chairman, North American Metals Distribution, Inc.
Enrique Hernando, Jr.† 5, 6
Chairman and CEO, Inter-Con Security Systems, Inc.
Jeanne Jasinow* 5, 6
CEO, Wal-Mart.com
Donald Keough† 5
Chairman, Allen & Company Incorporated
Donald Lubin* 5, 6
Partner, Siemensche
Nash & Rosenhall
Water Massy* 5, 6
President, Moorehouse College
Andrew McKenna* 5, 6
Chairman of the Executive Committee
Chairman and CEO
Jack Greenberg
Vice Chairman and President
James Cantalupo
Business Consultant
Robert Thurston* 5, 6
Business Consultant
James Cantalupo† 5
Chairman and CEO
Michael Quinn† 5
Chairman of the Executive Committee
Fried Turner†
Senior Chairman
Charme Marion
Honorary Director
Corporate Officers
Clare Babrowicki
Executive Vice President
Charles Bell
President—Asia/Pacific, Middle East
and Africa Group
James Cantalupo† 5
Vice Chairman and President
Michael Conley† 5
Executive Vice President,
Chief Financial Officer
Lynn Crump-Colin
Executive Vice President
Kohlin Dunn
President—Great Lakes Division
Alan Feldman† 5
President—U.S.A.
Harry Gonzalo, Jr.
President—Northwest Division
Jack Greenberg
Chairman and Chief Executive Officer
Jethro Kinder† 5
Executive Vice President,
Corporate General Counsel
Debra Koenig
President—Southeast Division
Raymond Mejia, Jr.
Executive Vice President
Michael Roberts
President—West Division
Eduardo Sanchez
President—Latin America Group
James Steiner† 5
President—Europe Group
Stanley Stein
Executive Vice President
Donald Thompson
President—Midwest Division
Marvin Whaley
President—North Asia
Corporate Controller
Christopher Plesszor† 5
Corporate Secretary
Gina Santora
Advisory Directors
Appointed to serve a one-year term in a non-voting capacity
Kohlin Dunn
President—Great Lakes Division
Adrian Hendrix
Managing Director, Netherlands
Russell Smyth
Senior Vice President, International Relationship Partner
Susan Warzecka
Senior Vice President, U.S. Human Resources
Investor information
Investor information and services
Accounted information and assistance are available:
– at www.squareric.com. See ‘McDonald’s, the Web and you’ on the outside back cover for more information:
– by calling 1-800-MCD-1-STCK
– via a TBD service for the hearing impaired at 1-201-222-4493 week-
days from 9:00 a.m. to 5:00 p.m. Eastern Time.
– In Canada or 1-201-222-4990 (collect)
– by calling 1-800-Mc1-STCK
– through your broker.
– by visiting MCDirect Share Transfer
– through the investor service center at the home office address at right.
– Attn: McDonald
– in writing to the transfer agent at the address at right.
– Directly via our website at www.mcdonalds.com, mcdonalds.com, McDonald
– online without charge at www.sec.gov,
– going to www.mcdonalds.com/stockshares/annual for more information.
– or calling 1-630-623-0172 to have them mailed to you,
– or via a link from www.mcdonalds.com.
– on the annual report, or going to www.mcdonalds.com/stockshares/annual for more information.
– or via a link from www.mcdonalds.com.
– Attn: McDonald
– in writing to the transfer agent at the address at right.
– Directly via our website at www.mcdonalds.com, mcdonalds.com, McDonald
– online without charge at www.sec.gov,
– going to www.mcdonalds.com/stockshares/annual for more information.
– or via a link from www.mcdonalds.com.
– attn: McDonald
– in writing to the transfer agent at the address at right.
– Directly via our website at www.mcdonalds.com, mcdonalds.com, McDonald
McDonald’s, the Web and you

The Web is a great vehicle to provide convenient, value-added services to shareholders. Here are a few highlights of what’s available to McDonald’s shareholders on the Web.

> **Learn more...stay informed** No doubt about it, the Investors section of www.mcdonalds.com is the source for the latest McDonald’s investor news and updates on recent and upcoming investor activities. Listen to or watch Investor Webcasts of events, such as the annual meeting or quarterly earnings conference calls. Sign up for E-Mail Notification so you’ll be automatically advised when new investor information and services are available on our website.

> **Annual Report and Proxy online** Yes, Virginia, you can eliminate those bulky paper annual reports and proxy materials from your mailbox and help save your Company money. Sign up to access our annual report and proxy and to vote your shares online, and we’ll e-mail everything you need to do so. MCDirect Shares participants, investors holding McDonald’s stock certificates and those whose shares are held in safekeeping at EquiServe can sign up at www.econsent.com/mcd by providing their account number and registration or U.S. social security number. Most investors whose shares are held by their broker or bank can sign up at www.icsdelivery.com.

> **Access MCDirect Shares** The Web makes it more convenient to access and participate in the Company’s direct stock purchase plan, MCDirect Shares. At www.equiserve.com, eligible investors can obtain a MCDirect Shares prospectus, enroll in the Plan and use many of the Plan’s services while online.

> **Answers about your account** How many shares do I have? When was my last stock purchase? How do I transfer shares? To my children? MCDirect Shares participants, investors holding McDonald’s stock certificates and those whose shares are held in safekeeping at EquiServe can get answers to questions like these and many more 24 hours a day, seven days a week at www.equiserve.com. To access your account on this secure site, you will need McDonald’s issue number—9826, your account number, U.S. Social Security number, if applicable, and password. To obtain a password, follow the instructions on this site. If your broker or bank holds your shares, you may want to ask if a similar service is available.

> **More smiles online** There are all types of fun and interesting information on www.mcdonalds.com. Click on Ronald & Friends for games and more, find a restaurant in the U.S. or U.K., or learn about McDonald’s in other countries. You also can get information about nutrition, franchising, U.S. career opportunities, Company history, promotions in many parts of the world and much more on our website.