



THE MARKET

Dining out has always been a popular social activity. These days, eating away from home is a part of everyday life that many people take for granted. However, meals in restaurants were once only an occasional indulgence enjoyed by a privileged few. The popular food service revolution of the last 50 years changed all that. Today, dining out is a social activity enjoyed every day throughout the world by people of all ages and backgrounds. In fact, 16 percent of all meals in the United States are eaten away from home. For McDonald's, this little bit of sociology translates into 22 million customers every day across the nation.

ACHIEVEMENTS

McDonald's has become the world's most extensive retail organization, generating some \$40 billion in annual sales from more than 30,000 restaurants worldwide. Its market share in the United States is more than its next two competitors combined. Internationally, McDonald's represents 50 percent of all globally branded outlets and captures more than two-thirds of those sales.

HISTORY

The McDonald's story began 48 years ago in San Bernardino, California. Ray Kroc was a salesman supplying milkshake multi-mixers to a drive-in restaurant run by two brothers, Dick and Mac

McDonald. Kroc, calculating from his own figures that the restaurant must be selling over 2,000 milkshakes a month, was intrigued to know more

THE PRODUCT

From its early roots as a small, family-run hamburger restaurant, McDonald's has evolved into a multibillion-dollar quick-service restaurant industry. While hamburgers and fries remain the mainstay of McDonald's business, an instinctive ability to anticipate and fulfill real consumer needs has been central to McDonald's success. A prime example of this approach is the Filet-O-Fish sandwich, which was conceived by Lou Groen, a Cincinnati-based franchisee in a predominantly Catholic area. Groen noticed that his business was negatively impacted on Fridays, which was then a day of abstinence from meat for many Catholics. He developed a fish-based product to meet the needs of the local community. The Filet-O-Fish sandwich was launched in 1963 and went on to become a popular menu item in many of McDonald's international markets.

Another franchisee — Jim Deligatti from Pittsburgh —

was responsible in 1968 for the creation of McDonald's most successful menu item ever, the Big Mac sandwich. Nine years later, Herb Peterson, another franchisee, was the driving force behind the development of the Egg McMuffin for McDonald's



about the secret behind the success of the brothers' thriving business. He visited the restaurant, which promised its customers "Speedee Service" and watched in awe as restaurant staff filled orders for 15-cent hamburgers with fries and shakes every 15 seconds. Kroc saw the massive potential and decided to become involved. The McDonald's brothers accepted Kroc's offer to become their national franchising agent. On April 15, 1955, he opened his first McDonald's restaurant in Des Plaines, Illinois, a suburb just north of Chicago.

Rapid growth followed. McDonald's served more than 100 million hamburgers within its first three years, and the 100th McDonald's restaurant opened in 1959. In 1961, Kroc paid \$2.7 million to buy out the McDonald's brothers' interest, and in 1963 the billionth McDonald's hamburger was served live on prime-time TV.

The brand proved equally popular outside the United States. McDonald's quickly established successful international markets in Canada, Japan, Australia, and Germany. Today, more than 1.5 million people work for McDonald's around the globe. What started as an American phenomenon has become a truly international brand.



breakfast menu — a move that would change the breakfast habits of millions of Americans.

RECENT DEVELOPMENTS

McDonald's published its first-ever Global Social Responsibility Report in 2002, detailing its commitment to doing what is right, to being a good neighbor and partner in every community it





serves, and to conducting its business with the environment in mind.

McDonald's history of giving back to local communities represents a longstanding commitment, and the report demonstrates that this legacy is alive and well even in a changing world. Being a global brand brings global responsibilities with it, and the report not only details McDonald's accomplishments to date, but also sets an aggressive agenda of socially responsible goals to strive for in the future.

More details on McDonald's Social Responsibility Report are available by visiting the company's Web site at www.mcdonalds.com/corporate/social/.

PROMOTION

Needless to say, McDonald's promotional skills are virtually second-to-none. From the global presence of the Golden Arches to the fact that their spokesman, Ronald McDonald, speaks 25 languages, McDonald's devotion to promotion is legendary.

But what can happen when a company like McDonald's turns up the promotional heat on an issue of global concern? The answer is: Great Things.

On November 20, 2002, a visit to McDonald's brought extra value to the lives of millions of children in need around the world. On that day, participating McDonald's restaurants in more than 100 countries united for a history-making fundraising initiative called World Children's Day, benefiting Ronald McDonald House Charities (RMHC) and important local children's causes. In



While specific fund-raising programs varied by country, McDonald's restaurants shared a single goal: to join with customers in a global effort that would make a difference for children in their communities and around the world. World

Children's Day activities took place in, among other places, New Zealand, Hong Kong, Russia, Jordan, Egypt, Germany, France, Mexico, and Western Samoa. Of course, McDonald's Restaurants in cities across the

United States held their own activities as well, with nationally known celebrities participating in Chicago, New York, and Los Angeles.

"With the help of many generous people around the world, World Children's Day was the most expansive single-day fundraising event in McDonald's history, probably any company's history," said Ken Barun, RMHC president and CEO.

Ronald McDonald House Charities, a nonprofit, 501(c)3 organization, creates, finds, and supports programs that directly improve the health and well-being of children through its network of 174 local Chapters currently serving in 44 countries. Named one of America's Top 100 Charities by *Worth* magazine in 2001 and 2002, the charity makes grants to not-for-profit organizations and provides support to Ronald McDonald Houses and Ronald McDonald Care Mobiles worldwide. To date, Ronald McDonald House Charities' national body and global network of local Chapters have awarded more than \$340 million in grants to children's programs.

BRAND VALUES

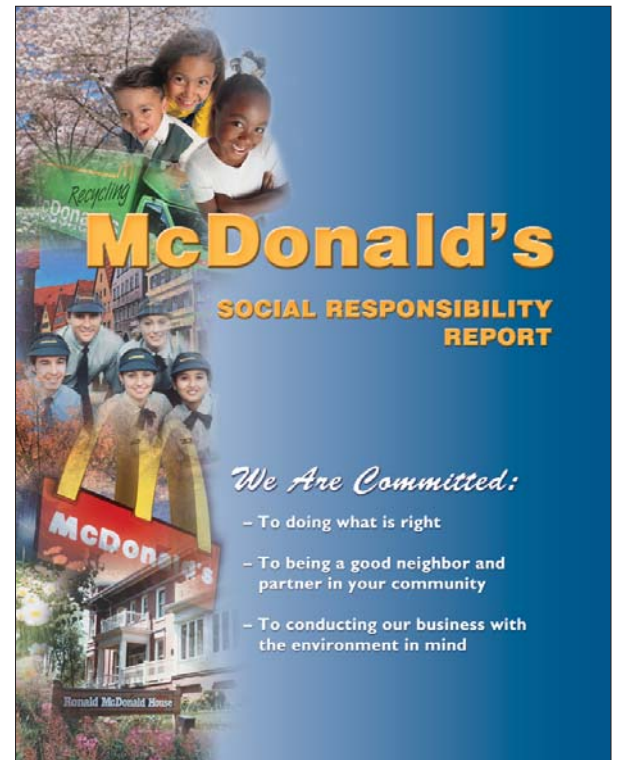
Founder Ray Kroc developed his brand vision for McDonald's around a simple but effective consumer-driven premise of quality, service, cleanliness, and value. Kroc's winning formula was quickly shortened to QSC&V — an acronym that

would become and remain an enduring cornerstone of the brand.

If QSC&V is the cornerstone of the McDonald's brand, then trust is its bedrock. To its customers, McDonald's is a brand that can be

trusted to place the customer at the center of its world and to know the right thing to do.

The key to McDonald's success has been its capacity to touch universal consumer needs with such consistency that the essence of the brand has



somehow always been relevant to the local culture, no matter how different that culture might be from McDonald's origins. With one of the most powerful brands in the business, McDonald's appears set to enjoy healthy growth long into the future.

THINGS YOU DIDN'T KNOW ABOUT McDONALD'S

- McDonald's partners with the Red Cross to help communities when natural disasters and other events prompt a need for assistance. For example, the company provided more than 750,000 free meals around the clock in New York City, at the Pentagon, and in Pennsylvania after the terrorist attacks of September 11, 2001. The company believes that's what neighbors do in times of need.
- The company's promotional efforts also support many youth activities. Last year, for instance, McDonald's not only celebrated the 25th staging of its All-American High School Basketball Game in New York, but also inaugurated its first annual game featuring the top high school girls in the nation.



the United States, McDonald's donated \$1 from the sale of every Big Mac, Egg McMuffin, Happy Meal, and Mighty Kids Meal to RMHC. Money collected internationally went to children's causes of local interest.