WHAT DO YOU HAVE A TASTE FOR?

People are eating out more often, and their tastes are becoming more adventurous. As a result, they are demanding more variety…and McDonald’s is listening.

Our New Tastes Menu—available in Australia, Canada, Hong Kong, Taiwan and the U.S.—is adding excitement and variety for customers through an ongoing rotation of product offerings.

Designed to firmly establish McDonald’s as a place for variety, we are supporting our New Tastes Menu with advertising. We also are making it easy for customers to determine what’s new by prominently featuring current selections on our menu boards. Our goal is to entice regular customers to visit us even more frequently and to attract new customers by satisfying their cravings for something different.

Pictured on the covers are McDonald’s World Famous Fries, a rich triple-thick chocolate shake and some New Tastes Menu items recently or soon to be featured in the U.S. on a national or local level: the mouthwatering McPhilly Cheesesteak sandwich, the satisfying Cheddar Bacon Sausage McMuffin, the succulent crispy coated, all-white-meat Chicken Select Strips with zippy dipping sauces and the tempting Tin Roof Waffle Cone Sundae.
### 11-year summary

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Franchised sales</strong></td>
<td>$24,838</td>
<td>24,463</td>
<td>23,830</td>
<td>22,330</td>
<td>20,863</td>
<td>19,969</td>
<td>19,123</td>
<td>17,146</td>
<td>15,756</td>
<td>14,474</td>
<td>12,959</td>
</tr>
<tr>
<td><strong>Company-operated sales</strong></td>
<td>$11,040</td>
<td>10,467</td>
<td>9,512</td>
<td>8,895</td>
<td>8,136</td>
<td>7,571</td>
<td>6,863</td>
<td>5,793</td>
<td>5,157</td>
<td>5,103</td>
<td>4,908</td>
</tr>
<tr>
<td><strong>Affiliated sales</strong></td>
<td>$4,752</td>
<td>5,251</td>
<td>5,149</td>
<td>4,754</td>
<td>4,639</td>
<td>4,272</td>
<td>3,928</td>
<td>3,048</td>
<td>2,674</td>
<td>2,308</td>
<td>2,061</td>
</tr>
<tr>
<td><strong>Total Systemwide sales</strong></td>
<td>$40,630</td>
<td>40,181</td>
<td>38,491</td>
<td>35,979</td>
<td>33,638</td>
<td>31,812</td>
<td>29,914</td>
<td>25,987</td>
<td>23,587</td>
<td>21,885</td>
<td>19,928</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$14,870</td>
<td>14,243</td>
<td>13,259</td>
<td>12,421</td>
<td>11,409</td>
<td>10,687</td>
<td>9,795</td>
<td>8,321</td>
<td>7,408</td>
<td>7,133</td>
<td>6,695</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>$2,697</td>
<td>(1)</td>
<td>3,330</td>
<td>3,320</td>
<td>2,762</td>
<td>2,908</td>
<td>2,633</td>
<td>2,241</td>
<td>1,984</td>
<td>1,862</td>
<td>1,679</td>
</tr>
<tr>
<td><strong>Income before taxes</strong></td>
<td>$2,330</td>
<td>(2)</td>
<td>2,882</td>
<td>2,884</td>
<td>2,307</td>
<td>2,407</td>
<td>2,251</td>
<td>1,887</td>
<td>1,676</td>
<td>1,448</td>
<td>1,299</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$1,637</td>
<td>(2)</td>
<td>2,060</td>
<td>1,148</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
</tr>
<tr>
<td><strong>Cash provided by operations</strong></td>
<td>$2,688</td>
<td>2,751</td>
<td>3,009</td>
<td>2,766</td>
<td>2,442</td>
<td>2,442</td>
<td>2,442</td>
<td>2,442</td>
<td>2,442</td>
<td>2,442</td>
<td>2,442</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>$1,906</td>
<td>1,945</td>
<td>1,868</td>
<td>1,879</td>
<td>2,111</td>
<td>2,375</td>
<td>2,064</td>
<td>1,539</td>
<td>1,317</td>
<td>1,087</td>
<td>1,129</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>$1,672</td>
<td>2,800</td>
<td>4,242</td>
<td>4,884</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
<td>4,351</td>
</tr>
<tr>
<td><strong>Treasury stock purchases</strong></td>
<td>$1,090</td>
<td>2,002</td>
<td>933</td>
<td>1,162</td>
<td>765</td>
<td>605</td>
<td>500</td>
<td>628</td>
<td>92</td>
<td>117</td>
<td></td>
</tr>
</tbody>
</table>

**Financial position at year end**

| Total assets | $22,535 | 21,684 | 20,983 | 19,784 | 18,242 | 17,386 | 15,415 | 13,592 | 12,035 | 11,681 | 11,349 |
| Total debt   | $8,918 | 8,474 | 7,252 | 7,043 | 6,463 | 5,523 | 4,836 | 4,351 | 3,713 | 3,857 | 4,615 |
| Total shareholders’ equity                  | $9,488 | 9,204 | 9,639 | 9,645 | 9,465 | 9,659 | 9,717 | 9,968 | 9,634 | 9,567 | 9,734 |
| Shares outstanding (in millions)          | 1,280.7 | 1,304.9 | 1,350.8 | 1,356.2 | 1,371.4 | 1,387.4 | 1,378.4 | 1,390.4 | 1,343.4 | 1,343.4 | 1,343.4 |

**Per common share**

| Net income | $1.27 | 1.49 | 1.44 | 1.14 | 1.17 | 1.11 | .99 | .84 | .73 | .65 | .59 |
| Net income–diluted | $1.25 | 1.46 | 1.39 | 1.10 | 1.15 | 1.08 | .97 | .82 | .71 | .63 | .57 |
| Dividends declared | $.23 | 2.22 | .20 | .18 | .16 | .15 | .13 | .12 | .10 | .09 |
| Market price at year end | $26.47 | 34.00 | 40.31 | 38.41 | 23.88 | 22.69 | 22.56 | 14.63 | 14.25 | 12.19 | 9.50 |

**Total Systemwide restaurants** 30,093

(1) Includes $378 million of pretax special operating charges primarily related to the U.S. business reorganization and other global change initiatives, and the closing of 163 underperforming restaurants in international markets.

(2) Includes the $378 million of pretax special operating charges noted above and $125 million of net pretax special nonoperating income items primarily related to a gain on the initial public offering of McDonald’s Japan, for a net pretax expense of $253 million ($143 million after tax or $0.11 per share). Net income also reflects an effective tax rate of 29.8 percent, primarily due to the one-time benefit of tax law changes in certain international markets ($147 million).

(3) 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).

## 5-year performance

### SYSTEMWIDE SALES (IN BILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$33.6</td>
<td>$40.6</td>
</tr>
</tbody>
</table>

### OPERATING INCOME (IN BILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$2.8</td>
<td>$3.1</td>
</tr>
</tbody>
</table>

### TOTAL ASSETS (IN BILLIONS)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$18.2</td>
<td>$22.5</td>
</tr>
</tbody>
</table>

In 2002, we plan to add between 1,300 and 1,400 McDonald’s restaurants, as well as open 100 to 150 new restaurants under our Partner Brands.
Dear shareholder:

From many different perspectives, 2001 was one tough year.

It was a year in which the strength and resolve of the United States was tested. It was a year in which the resourcefulness of many of the world’s best-known companies, including McDonald’s, was tested.

Clearly, I am disappointed in McDonald’s global business performance. I also am deeply concerned about the erosion in total shareholder value that has occurred as a result.

Our 2001 performance was hampered by the strong U.S. dollar and weak economies in many countries in which we operate. And obviously, the tragic events of September 11 have had an impact.

Additionally, despite McDonald’s outstanding quality and safety record, our business suffered from consumer concerns about beef safety in Europe and Japan. Fortunately, this negative impact was significantly less on our business than on other companies selling beef in these markets, because so many customers knew they could trust our high standards.

Let me state the obvious: we can and must do better than the 4 percent constant currency sales increase we generated in 2001. We must deliver the kinds of growth in sales and profits that can make a positive difference in the value of your investment in McDonald’s.

The reality is there will always be challenges. It is our job to manage through the challenges by leveraging our strengths to overcome them. We often tell our children, “With challenges come opportunities.” The same is true for businesses. So, more than ever before, McDonald’s must adapt and evolve to seize opportunities as they unfold.

Over the years, three core strengths have driven our business success. They differentiate McDonald’s from other companies, are not easily imitated and can be leveraged to create a significant benefit for consumers and shareholders. We intend to build on these strengths to return our business to double-digit growth.

The first is our ability to forge bonds of trust with customers throughout the world. People know they can enjoy the same great taste of a Big Mac whether they are at a McDonald’s in Paris, France, or Paris, Texas. They also know that they can rely on McDonald’s high-quality and safety standards.

The second strength is our expertise in finding, negotiating, building and managing a complex network of real estate locations. This is evidenced by the fact that we operate more

Our goal for 2002 is to leverage our powerful strengths to improve performance and ensure that our foundation for growth is rock solid.

Last year, McDonald’s served 46 million customers a day, an increase of more than 1 million customers a day compared with 2000.
Than 30,000 conveniently located points of distribution in 121 countries across the globe.

The third strength is our ability to execute a retail business model successfully in markets around the world. This is about finding the right balance on the global-local continuum… about being able to train and develop a diverse group of employees, franchisees, joint-venture partners and suppliers who are committed to core principles and operating systems.

These are powerful strengths. Our goal for 2002 is to leverage them to improve performance and ensure that our foundation for growth is rock solid. We are holding ourselves accountable for results.

First and foremost, we plan to improve the customers’ experience, especially in markets where our customer satisfaction scores have slipped. Frankly, this is unacceptable.

We have rededicated ourselves to giving customers the world over an outstanding experience on each and every visit to McDonald’s. We know that if we raise the bar on the Quality, Service, Cleanliness and Value we deliver, customers will visit our restaurants more often.

We also made important changes in 2001 to help us achieve better results.

We restructured our global organization to create clearer lines of accountability and
greater role clarity in our hamburger business. We created a single point of leadership for our Partner Brands to help us capture more meal occasions outside the reach of McDonald's. We also elevated the role of corporate strategy and business development in order to accelerate ideas for growing our existing businesses and to identify new business opportunities.

In addition, we implemented a number of initiatives around the world in 2001 that are expected to generate ongoing annual savings of about $100 million in selling, general and administrative expenses, starting this year.

In the U.S., we have streamlined the responsibilities of our field staff so they can focus more attention on the Quality, Service and Cleanliness that our customers receive. We have improved training for our restaurant managers to enhance their ability to adapt to changing situations in their day-to-day restaurant environments. We are compiling more objective customer perspectives and using an enhanced national restaurant evaluation system. And, we are providing more menu variety and are implementing programs to improve customers’ perception of the value we represent. Importantly, we are linking employee compensation more directly to customer satisfaction, as well as to financial performance.

We won’t see the results of these U.S. initiatives overnight. But our customers will begin to see a noticeable difference as the year progresses. In 2001, we implemented a similar change initiative across Europe. Called EuroMission, the goal is to increase sales and transactions by collaborating on strategies and implementing programs that drive employee satisfaction, customer service and value.

With consumer concerns regarding the safety of the European beef supply largely behind us, our management team is moving quickly to take advantage of improved business conditions.

On the other hand, we expect the weak economic conditions in many Asian and Latin American markets to continue for some time. Yet, these countries represent an enormous long-term opportunity for McDonald’s, given their potential for economic growth and their large populations. Accordingly, in the short term, we are focusing on increasing our affordability and building our brand.

While attractive prices are important everywhere, they are especially important in countries experiencing economic difficulties and where income levels are often low. To profitably support the great value we offer in these challenging—yet promising—countries, we have been, and continue to be, focused on improving our cost structures. And since attractive prices alone are not enough, we are intent on strengthening the preference for McDonald’s by delivering on the basics of cleanliness, quality and speed of service and by providing experiences that build bonds with kids and families.
McDonald’s brand is strong, and our business is resilient. We have taken action to improve our customers’ experience and drive long-term success.

Globally, we plan to add between 1,300 and 1,400 McDonald’s restaurants in 2002. These plans reflect our intent to be cautious with investments in markets that are experiencing economic difficulties and to increase openings in those markets with attractive near-term opportunities.

Collectively, the actions we have taken are designed to create a stronger, more nimble McDonald’s—a global organization that is leaner and better aligned, a management group that is more focused and more accountable, and a worldwide corps of owner/operators, joint-venture partners, developmental licensees, employees and suppliers that is committed to the ideals that have won the trust of so many the world over.

McDonald’s global management team, which I believe is one of the most talented in the world, shares my sense of urgency to deliver improved results. Further, that sense of urgency permeates the entire organization of owner/operators, suppliers and employees.

Our shareholders should expect nothing less.

We are a System with a long heritage of success. Certainly, we are not pleased with recent performance. At the end of the day, there can be no excuses…legitimate or otherwise.

The many changes and initiatives we have undertaken, combined with our powerful brand and lead position in most markets in which we do business, put us in an excellent position to improve results.

And that’s what we intend to do.

In closing, I want to thank you for your continued confidence in McDonald’s. We deeply appreciate your trust. I am confident that the McDonald’s System can, and will, return the business to the kind of growth you expect and deserve.

Sincerely,

Jack M. Greenberg
Chairman and Chief Executive Officer
Shareholder

March 12, 2002
In July 2001, Matt Paull was appointed Executive Vice President and Chief Financial Officer of McDonald’s Corporation. Prior to becoming CFO, he was the Company’s Senior Vice President—Finance. Matt brings a wealth of business experience, as well as financial expertise, to the position. The brief interview that follows is provided to introduce Matt to investors.

How do you see your role as CFO?

I view my role in very broad terms. Of course, measuring growth in sales and income, as well as improvements in returns, margins and other financial metrics are critical to gauging performance. I oversee the establishment and measurement of those metrics to ensure that we are focused on building the business for the benefit of shareholders.

Yet, that is only part of my job. I view working with the entire management team to focus the organization on critical nonfinancial goals as one of my key responsibilities. Setting and achieving the right nonfinancial goals—such as improving the speed, accuracy and friendliness of our service, as well as other customer satisfaction attributes—ultimately will determine whether we achieve our financial goals.

How is the Company determining whether important nonfinancial goals are being met?

We are assessing the quality of our customers’ experiences with metrics that are both timely and actionable. More specifically, we have calibrated and refined our measurement criteria and essentially eliminated the subjectivity that often creeps into evaluation processes. Perhaps more importantly, we are holding our people more accountable and are tying their compensation more directly to results.

How have world economic situations impacted the Company’s expansion plans?

Opening profitable restaurants is part of our growth strategy. We have the financial capacity to invest for the long term. At the same time, we plan to invest prudently.

When planning openings, we consider each market’s current economic conditions, long-term demographic and lifestyle trends, competitive environment and stage of development, as well as the potential effect on existing McDonald’s restaurants and returns.

Based on these criteria, we reduced the number of restaurant additions over the past few years and expect to add 1,300 to 1,400 McDonald’s restaurants in 2002. About 60 percent of these openings will be in the U.S., Europe and Canada, where economies are relatively stable and returns are strong. We also are adding restaurants in China, where the near- and long-term growth potential is enormous.

At the same time, we are reducing openings in markets with weak economic environments until we see signs of improvement. Since we already have a clear competitive lead in these countries, this temporary slowdown makes good business sense.

In addition, we plan to open 100 to 150 new restaurants under our Partner Brands in 2002.

What are McDonald’s priorities for using the cash it generates?

McDonald’s consistently generates a significant amount of cash from operations, and our focus remains on using that cash to enhance shareholder value.

Clearly, our priority is to invest in growing the business—first by investing in Brand McDonald’s and second, by investing in our Partner Brand concepts. Our goal is to put our cash to work to capture more meal occasions and to generate attractive returns in the process.

Further, since our annual cash from operations is more than $2.5 billion, a sizeable amount remains after making capital expenditures. We deploy that excess cash—together with our credit capacity—to repurchase shares of McDonald’s stock and to pay dividends—both uses that benefit shareholders.

We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time.
PEOPLE ARE EATING OUT MORE THAN EVER BEFORE.

Expenditures on food and drink away from home in the U.S. are expected to increase by $87 billion—in real terms—during the 10-year period ending December 2010.

Time pressure is a key factor causing increased demand for food service in major markets around the world.

THE MORE PEOPLE EAT OUT, THE MORE VARIETY THEY WANT.

Due to the desire for a greater variety of tastes and experiences, new food categories are emerging—such as “fast casual,” which combines quick counter service and value pricing with the menu and atmosphere of a casual restaurant.

ONE BRAND CAN’T BE ALL THINGS TO ALL PEOPLE.

People choose where to eat based on situational factors, such as with whom they are dining…how much time they have…what is convenient or available…how much money they want to spend…the atmosphere they are seeking…and the type of food they are craving.

THERE IS A LOT OF OPPORTUNITY FOR GROWTH.

In our 10 largest markets, McDonald’s share of total commercial meals is 12 percent…and assuming that people eat three meals a day, our share of total meals consumed is less than 1 percent.
McDonald's is the place for a Big Mac and World Famous Fries...and a whole lot more.
The vast majority of McDonald’s future growth will come from our core hamburger business, which we are determined to grow to its fullest potential. To start, we are building on our strengths.

McDonald’s is already a favorite with kids and families. We have terrific Happy Meals and PlayPlaces…we’re the home of Ronald McDonald…and we connect with kids of all ages through our relationship with Disney.

We are building on this special bond with our Mighty Kids Meal, the perfect transition meal for youngsters between the ages of eight and 10. The Mighty Kids Meal satisfies their growing appetites with larger entrées, such as double cheeseburgers or six-piece Chicken McNuggets, along with a small fry and drink, while still providing great Happy Meal toys.

We also are reinforcing our powerful relationship with kids by appealing to their sense of fun. Notably, we are enhancing the play areas in a number of our restaurants around the world by adding interactive electronic game centers, such as Kidzpace.

McDonald’s is also top of mind when customers want a hand-held meal on the run. So, we are making a visit to McDonald’s more convenient by speeding up service and improving the quality of the overall experience. (See story on page 21.)

In addition, we are creating new sales and profit generators by increasing the variety we offer. While we are often the first place customers think of when they have a craving for great-tasting hamburgers and fries, we’re not always top of mind when they have a taste for something different. So, we have made it a priority to gain recognition as a place for variety, as well as value.

Customers in the U.S. now have more choices, including Fruit ‘N Yogurt Parfaits, McSalad Shakers and Breakfast Bagel sandwiches, as well as traditional favorites, such as Big Mac and Quarter Pounder sandwiches.

In several European markets, we offer large beef sandwiches, similar to France’s popular, promotional, premium Le 280. And customers in the U.K. and Belgium are giving a thumbs up to our new McChicken Premiere sandwich—a tasty chicken breast patty, leaf lettuce, salsa and sour cream on a focaccia bun.

In many Asian markets, where customers prefer chicken to beef, we offer an array of chicken products—including Chicken McCrispy, Spicy McWings and the Spicy Chicken Filet Burger—designed to appeal to local tastes. In addition, we are exploring ways to add value and variety to our menus throughout Asia with new fish, pork and rice products.

We also are mixing it up a bit and offering customers ongoing food news with our New Tastes Menu in Australia, Canada, Hong Kong, Taiwan and the U.S. This rotating menu allows markets to select and showcase limited-time taste offerings from a wide variety of breakfast, entrée and dessert pleasers. For example, the Outback Omelette McMuffin—a pepper and onion omelet served on a toasted English muffin with bacon, cheese and a tangy BBQ sauce—is a popular choice among customers Down Under.

In addition, we are exploring ways to increase variety by giving customers more flexibility with our Menú a Tu Pinta, which is available throughout Chile, and our McPick Value Meal menu, which is in a small market test in the U.S. These menus allow customers to create their own value meal by selecting one of several entrées and two side items from seven choices, which include side McSalad Shakers, hot apple pies, French fries and soft drinks. And for those who prefer to dine a la carte, we are testing value menus that highlight products, such as cheeseburgers, McChicken sandwiches and soft serve cones, that are available everyday for $1 or less. Currently, such menus are available in more than 4,000 McDonald’s restaurants across the U.S.

Looking forward, we will continue to stir the pot and cook up new and different ways to give customers around the world compelling kinds of tastes, variety, values and experiences that will make them choose McDonald’s again and again.

The restaurant industry’s share of U.S. food dollars has grown from 26% in 1955 to 46% today…and it is expected to grow to 53% by 2010.

National Restaurant Association
A sampling of McDonald’s menu variety
Pictured are just a few of McDonald’s permanent and promotional products from around the world.
McDonald’s is a trusted friend among kids… and grown-ups, too.
Designed to capture McDonald’s meal occasions in locations where the sales potential would not support a large, traditional restaurant, McSnack Spot offers a limited selection of McDonald’s menu items, as well as snack favorites.

This concept brings two great restaurant experiences together under one roof with classic, cooked-to-order diner fare and traditional McDonald’s favorites.

Originally developed in Australia, McCafés generally are attached to existing McDonald’s restaurants and have a cosmopolitan atmosphere with distinct adult appeal.

McTreat Spot kiosks sell indulgent sweet treats in high-traffic, high-volume locations.

McCafé

McTreat Spot

McSnack
There is more innovation than ever under The Golden Arches, as we explore opportunities to extend the ways in which we serve our customers. Take, for example, our McCafé coffee concept. Originally developed in Australia, McCafés generally are attached to existing McDonald’s restaurants and have a cosmopolitan atmosphere with distinct adult appeal. Here, customers can enjoy premium coffees, cakes and pastries—all at a value price compared with typical coffeehouses.

Clearly, the coffee market varies significantly by country, and the demographics need to be right. So, McCafés may not be appropriate for all our restaurants. Yet, in the right locations, they can add to the bottom line. In Australia, where the coffee market is growing at an annual rate of 10 percent, we have experienced significant sales increases with McCafé additions. These increases are being driven by the sale of McCafé offerings, as well as incremental regular menu sales to our coffee-loving customers. Today, we operate more than 300 McCafés in over 15 countries, and we will continue to explore opportunities to add McCafés where they make sense.

We also want to be top of mind when customers want an indulgent sweet treat or a snack when they are on the go. So, we are using dessert kiosks and small restaurant units to earn such recognition and capture incremental sales.

For example, McDonald’s currently operates more than 600 dessert kiosks in Latin America. Initially developed about 10 years ago in Brazil, where they have been very successful, these kiosks typically sell bottled water and a variety of soft serve products, including McFlurry desserts. Since they are situated in shopping malls near full McDonald’s restaurants, they serve as billboards for those restaurants, as well as convenient places for customers to break to satisfy their sweet tooth.

Now, we are adapting this profit generator for the U.S. market with McTreat Spot kiosks and are testing a variety of dessert concepts in southeast Asia.

In the U.S., our McTreat Spot kiosks are situated in high-traffic, high-volume locations, like the Minneapolis, Minnesota, airport, the Circus-Circus Casino in Las Vegas, Nevada, and the Woodfield Shopping Mall in Schaumburg, Illinois. Offerings include satisfying sundaes, rich McFlurry desserts, refreshing Fruit ‘N Yogurt Parfaits and delicious triple-thick shakes. Initial results indicate that McTreat Spot kiosks are attracting customers who would have gone somewhere else to satisfy their cravings.

We also have a small test of a concept called McSnack Spot underway in Texas. It is designed to capture McDonald’s meal occasions in locations, such as within retail outlets and train stations, where the sales potential would not support a large, traditional restaurant. McSnack Spots are highly efficient operating units that require low investments and generate high profit margins. They offer a limited selection of McDonald’s menu items, as well as snack favorites, such as popcorn and pretzels. Early results indicate great consumer acceptance.

Another concept in early test that is resonating with consumers is McDonald’s with the Diner Inside. It brings two great restaurant experiences together under one roof with classic, cooked-to-order diner fare and traditional McDonald’s favorites.

We opened our first diner in Kokomo, Indiana, in 2001 and have several under construction. Current plans include converting a number of restaurants in a television market to McDonald’s with the Diner Inside in order to conduct an advertised sales test.

Clearly, we are pursuing a number of opportunities to extend the reach of Brand McDonald’s and are monitoring results to determine whether a viable business case can be made for profitably expanding each of the concepts in test.

We are committed to ongoing innovation and experimentation. Our intent is to tap into our assets to give customers what they want, to enhance their experience and to build the business under The Golden Arches.

We are tapping into the growing trend for retro-nostalgia with a concept that combines a McDonald’s restaurant with a classic diner experience. The concept—McDonald’s with the Diner Inside—is designed to be best in class in the midscale dining arena, serving both traditional diner fare, such as Belgian waffles, triple decker sandwiches and chicken fried steak, as well as Big Mac sandwiches, Chicken McNuggets and Happy Meals.

During its first year of operation, the McDonald’s restaurant in Kokomo, Indiana, which had been converted to a McDonald’s with the Diner Inside, saw significant sales increases.

More than 60% of Americans snack regularly.

2000 Roper Reports, Roper ASW
McDonald's serves up great experiences all day long.
**Growing the core McDonald’s business is our number one priority.** At the same time, we know customers want—and are spending their eating-out dollars on—a variety of foods and dining experiences. So, we plan to supplement the growth of our core business and add shareholder value with a portfolio of Partner Brands—concepts that we believe will make a meaningful contribution to earnings over the next five to 10 years.

We embarked on our Partner Brand strategy in 1998, with the purchase of a minority interest in Chipotle Mexican Grill, which then consisted of 14 restaurants in Denver, Colorado. Today, we have a portfolio of four Partner Brand concepts—Boston Market, Chipotle, Donatos Pizzeria and Pret A Manger. Collectively, they generate approximately $1 billion in annual sales. To put this in perspective, there are only 12 quick-service restaurant chains with more than $1 billion in annual sales.

For our strategy to succeed, we must ensure that we have the right portfolio of Partner Brands. Accordingly, we have established very specific criteria against which to measure each brand’s potential. It must demonstrate broad consumer appeal. It must have a scalable, replicable business model that produces returns that exceed our cost of capital. It also must have the long-term potential to have thousands of restaurants.

We think our Partner Brands are best-in-class players in their respective large and growing market segments. Here’s a brief rundown on each brand.

**Boston Market** serves the needs of increasingly time-pressed consumers who want a home-style meal without the fuss. With more than 650 restaurants across the country, Boston Market is targeting the $18 billion U.S. home-meal replacement opportunity with selections that include rotisserie chicken, grilled chicken, ham, meatloaf and a wide array of salads, side dishes and desserts. Customers can choose to take their meals home or dine in the restaurant. They also can take advantage of Boston Market’s catering service. In early 2002, we opened our first Boston Market in Australia, and we have plans to open in Canada by year end.

**Chipotle**, which operates more than 175 restaurants, offers fresh, gourmet burritos and tacos in an energetic, contemporary atmosphere. Credited by some industry analysts as pioneering a new category—“fast casual”—Chipotle competes within and beyond the $13 billion U.S. Mexican restaurant segment. This concept’s unique style and flavorful food combinations have generated a loyal customer following and strong positive comparable sales growth.

**Donatos Pizzeria** competes in the $24 billion U.S. pizza segment. With nearly 200 restaurants across the U.S., Donatos is known for world-class, thin-crust pizza with fresh Edge-to-Edge toppings. Donatos enjoys a loyal following in its home market of Columbus, Ohio, and plans to build brand awareness and further differentiate itself from the competition with a new and inviting pizzeria format. Building on a heritage of innovation, this new format accommodates varied lifestyles with dine-in, take-out and delivery service, as well as a call-ahead pick-up window and catering options. The first Donatos in Germany is scheduled to open later this year.

**Pret A Manger**, in which we have a minority interest, sells upscale, ready-to-eat sandwiches that are prepared daily on the premises. Pret is relatively new to the $30 billion U.S. cold sandwich segment with seven shops in New York City, and competes in the $5 billion U.K. segment, with more than 115 shops there. The concept’s popularity is evidenced by its strong comparable sales increases in 2001. Pret opened its first shop in Hong Kong early this year and has plans to open in Japan. We believe these four brands have a lot of potential. We will nurture and grow each carefully and will scale a brand only after it demonstrates that it can meet our stringent criteria. In the end, we will leverage our resources and competencies to capture more meal occasions around the world—both under and beyond The Golden Arches.

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**Americans no longer consider going out to eat a luxury. It has become an integral part of their lives.**

*Yankelovich Partners*
Many consumers want an alternative to cooking that allows them to slow down and spend more time with loved ones.

Boston Market offers fresh, delicious home-style meals—without the hassle of preparation and cleanup.

<< CHICKEN WHITE-MEAT INDIVIDUAL MEAL WITH MASHED POTATOES, STEAMED VEGETABLE MEDLEY AND CORNBREAD

Unique in the mainstream pizza category, Donatos’ menu includes a distinctive line of Signature Pizzas, plus a selection of oven-baked Big Don Subs and fresh, crispy salads. But it’s the Edge-to-Edge toppings that have made Donatos famous.

<< THE WORKS PIZZA

Chipotle’s recipes are original and innovative, using only the finest ingredients. The guacamole is made fresh daily, and marinated meat is grilled throughout the day.

<< CHICKEN TACOS

Pret creates hand-made, natural food. If it’s not natural, it’s not Pret. All Pret’s sandwiches, baguettes and wraps are made fresh daily in every shop.

<< THAI CHICKEN SANDWICH WITH PRET COOL LEMON DRINK

Chipotle

Donatos

Pret

Boston Market

-Chicken White-Meat Individual Meal with Mashed Potatoes, Steamed Vegetable Medley and Cornbread

-“The Works” Pizza

-Chicken Tacos
experience tells us...

McDONALD’S IS UNIQUELY SUITED TO TAP INTO THE GROWING EATING-OUT DEMAND AROUND THE WORLD.

We manage a complex network of 30,000 local community restaurants in 121 countries and are adding more than 1,300 restaurants annually.

McDONALD’S IS ONE OF THE MOST POWERFUL BRANDS IN THE WORLD.

McDonald’s is a brand that customers the world over recognize and trust.

McDonald’s is known as a great place for kids and families; for convenient, hand-held meals; for World Famous Fries and Big Macs; and for outstanding value.

We are building on these strengths, while also innovating to become top of mind as a place for taste and variety.

McDONALD’S PORTFOLIO OF PARTNER BRANDS SERVES NEEDS BEYOND THOSE THAT BRAND McDONALD’S CAN FILL.

Through Boston Market, Chipotle, Donatos Pizzeria and Pret A Manger, we are meeting customers’ desires for a variety of foods and dining experiences.

WE ARE IN AN EXCELLENT POSITION TO CAPTURE MORE MEAL OCCASIONS BOTH UNDER AND BEYOND THE GOLDEN ARCHES.
One of our key global growth strategies is to deliver exceptional customer experiences through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value.

However, even the very best food, promotions, restaurants and value are meaningless without top-notch service.

But what exactly is outstanding service? And how are we doing?

Outstanding service starts with a welcoming smile and ends with a satisfied customer. Although we often get high marks from customers, both internal and external data indicate that at times we miss the mark.

So, we’re taking action.

The following are just some initiatives underway to put sparkle in our service.

TRAINING FOR THE UNEXPECTED
Our restaurant teams must have the knowledge and tools needed to deliver great customer experiences. So, training is an ongoing priority for McDonald’s.

An enhanced training program that is being rolled out in the U.S. teaches our restaurant managers how to plan and prepare for each shift by simulating a variety of scenarios. For example, they are being taught how to optimize customer service if several crewmembers cannot make it into work or if busloads of hungry tourists unexpectedly arrive at the same time.

Such simulations really pay off. Restaurant teams that have gone through this training are finding it easier to do their jobs. They are more focused and more productive than before, and their shifts run more smoothly. Most importantly, they are giving our customers the fast, friendly service they deserve.

KEEPING IT SIMPLE
Our people in the U.S. are eliminating non-value-added restaurant activities while optimizing our menu, merchandising and operations—all to the benefit of the customer.

“Look after the customer, and the business will take care of itself.”
Ray Kroc, McDonald’s Founder
Such efforts are part of an ongoing simplification process that focuses on big and small changes, such as using easy-to-open sauce tubes...eliminating menu items that don’t sell well...streamlining inventory management by consolidating cup and lid sizes...and using fewer, more targeted point-of-purchase materials.

As appropriate, these simplification initiatives will be shared with other markets around the world, making our restaurants more employee and customer friendly.

DIVIDING AND CONQUERING
More and more of our restaurant staffs in Japan, the U.S. and Latin America are using a new team-based service approach to enhance our customers’ front-counter experiences. It’s really simple: one crewmember takes the order and payment, while another assembles and presents the order.

It’s fast, too. Using this system, the crew at a McDonald’s on the Pennsylvania Turnpike served a caravan of seven buses in 35 minutes, less than half the time it otherwise would have taken. Also, our people in Venezuela and Costa Rica attribute increases in transactions and average checks to the better customer/crew interaction resulting from this servicing technique.

In light of these positive results, we are beginning to test this team approach to wowing our customers in a number of other countries.

FASTER IS BETTER
Customers using the drive-thru tend to be pressed for time. So, we continue to focus on improving the speed of our drive-thru service.

We are exploring opportunities to enhance the drive-thru experience by serving two cars at a time. In some locations, we are using double-lane drives. In others, crew people equipped with remote order-taking devices are assisting drive-thru customers during busy periods.

Adding a creative twist to branding speed of service at the front counter, as well as in the drive-thru, we have adopted a Formula 1 racecar-inspired approach in a number of Asian markets. Racing-themed signs and uniforms, as well as timers and crew incentives, make the program fun for crew and customers alike. In Indonesia, where this approach originated, we have rung up double-digit comparable sales increases for the past two years. Further, 95 percent of our transactions in that market have been completed in 60 seconds or less.

NO MONEY...NO WORRY
We also are exploring alternative payment methods to make a visit to McDonald’s more convenient.

Customers now can pay for their McDonald’s meal by swiping electronic devices or credit/debit cards past an electronic reader at a number of McDonald’s restaurants around the world. For example, more than 400 restaurants in the Chicago, Illinois, region accept Mobil Speedpasses as a payment method, and many of our restaurants in Australia, Denmark, France, Germany and New Zealand accept credit or debit cards. In some cases, customers can even get cash back.

This payment option not only speeds service, but customers are finding that being short on cash does not mean having to pass up a meal at McDonald’s.

NOT SO MYSTERIOUS AFTER ALL
We are putting ourselves in our customers’ shoes. We are introducing mystery shopper programs in countries where we have not used them and stepping up their use in those that do.

In essence, mystery shoppers are “undercover” restaurant visitors who evaluate the experience from a customer’s perspective. The results of mystery shops, which are often accompanied by crew and manager incentives for excellent performance, are helping our restaurant staffs to celebrate successes and identify training opportunities. In addition, the feedback is being used to assist each restaurant’s management team to develop action plans to raise the bar on service levels.

We believe this relevant measurement tool will drive improved performance. In fact, customer satisfaction scores in Argentina and Australia have improved since mystery shops were introduced.

“Satisfied customers are our goal and our reward.”
Jack Greenberg, McDonald’s Chairman and Chief Executive Officer
McDonald’s was founded on values. The entire McDonald’s System owes a huge debt of gratitude to the men and women who shaped the Company in the early days and defined who we are and that for which we stand. We have never lost sight of the foundation they laid.

As a result, Brand McDonald’s has earned the trust and confidence of people the world over. We earn the right to that trust each and every day. It is a fragile—yet priceless—asset. And we are committed to protecting and nurturing our Brand.

UNWAVERING COMMITMENT TO SAFETY AND QUALITY

McDonald’s goes to great lengths to ensure that all aspects of our customers’ experience, from the food we serve to the toys in our Happy Meals, meet our high-quality and safety standards.

To start, we are aligned with world-class suppliers that share our high standards, and our restaurant staffs around the world are trained in the proper storage, handling and preparation of our products. In addition, we continuously seek opportunities to raise the bar on our own stringent safety criteria, which always meet—and often exceed—those established by industry and governments.

For example, last year we intensified our leadership efforts in the area of meat safety through the formation of McDonald’s International Scientific Advisory Council. This Council of leading scientists and medical experts from around the world reviewed key industry safety practices for beef. We are pleased that the members of the Council not only validated the McDonald’s System’s best practices, but also worked with us to identify new opportunities to further heighten the safety of our beef supply.

COMMUNITY INVOLVEMENT

We value the communities we serve and believe that it is important to give back to others on both a local and global level.

We are active in the communities in which we do business. This involvement extends from owner/operators’ support of local soccer teams to being there in times of need. After all, that’s what good neighbors do. The entire System of employees, franchisees and suppliers have a long history of helping those...
less fortunate, including offering much needed assistance after natural disasters, such as earthquakes and hurricanes.

McDonald’s also has long held the belief that we have a responsibility to protect the environment for future generations. Consistent with our leadership position on a host of environmental issues, we, in partnership with Conservation International, are collaborating with McDonald’s suppliers to further integrate environmentally sustainable practices into their operations. Primary areas of focus include the conservation of water and energy and the safeguarding of animal and plant biodiversity.

RONALD McDO NAL D HOUSE CHARITIES
One of the more visible aspects of our ongoing commitment to others is our support of Ronald McDonald House Charities (RMHC). RMHC works tirelessly to improve the health and well being of children by funding programs that meet their special needs and by supporting more than 200 Ronald McDonald Houses, which provide a home-away-from-home for families of children with serious illnesses.

We are privileged and pleased that we can have a positive impact on the lives of children around the world and that many of our employees, franchisees, joint-venture partners, suppliers, shareholders and customers share our belief in, and support of, RMHC.

PEOPLE FIRST
At McDonald’s, we value our people, their ideas and their contributions. We are committed to diversity, and do not and will not tolerate discrimination of any kind. In fact, treating people right is at the heart of our vision to be the best—and it is an expectation to which we hold the entire System.

We also value hard work and expect McDonald’s people to give their very best. We empower them, hold them accountable for their decisions and actions, pay them fairly and reward them for performance.

We are gratified to note that last year, McDonald’s received the prestigious Best Employer Award in Brazil. We also were recognized as one of the 100 Best Employers for Working Mothers in the U.S. and ranked third among America’s Best Companies for Minorities. Although we are proud of these and other achievements, we know that we can—and must—do more in order to become the best employer in each community around the world.

CASTING A LONG SHADOW
Honesty and integrity are at the very core of who we are. We are demanding…but fair. We expect the same from those with whom we associate.

Our suppliers know that we expect them to maintain our high-quality and safety standards, to share our commitment to socially responsible activities, and to value and respect their employees.

Consistent with our philosophy of treating employees right, we insist that suppliers abide by McDonald’s Code of Conduct, which describes how we expect them, as well as their suppliers who work on McDonald’s business, to treat their employees.

Our commitment to good employee practices is not negotiable. We reserve the right to verify compliance by having external monitors conduct periodic, announced and unannounced inspections of the facilities making products for McDonald’s. In addition, we emphasize dialogues, training and remediation. Although we will terminate suppliers when absolutely necessary, our objective is to help them to continuously improve.

RMHC was ranked as one of America’s 100 Best Charities by Worth magazine.
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Trading symbol
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Annual meeting
May 23, 2002
10:30 a.m. Central Time
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McDonald’s Office Campus
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Live webcast available on www.mcdonalds.com/corporate/investor

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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 12, 2002. 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 or implied in our forward-looking statements: the effectiveness of operating initiatives and advertising and promotional efforts, as well as changes in: global and local business and economic conditions; currency exchange and interest rates; food, labor and other operating costs; political or economic 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.

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