

**D**ear fellow shareholders:  
I'm happy to tell you that McDonald's 1997 financial results were again record-setting. Yet, 1997 was a disappointing year – our financial performance wasn't what we wanted and our stock price lagged the market.

No excuses. I believe we control our destiny.

**In the U.S.**, over the past several years, we built restaurants – a lot of them. This expansion hurt our relationship with some franchisees, and we opened some less-than-perfect sites. And by focusing on adding restaurants, we took our eye off the basics that made us famous – quality, service, cleanliness and value. To top it off, at the same time, our competition improved and lowered prices.

So, how are we shaping our destiny? We've set three U.S. priorities to make it a success.

*Our first priority is to improve restaurant operations.* To create a meaningful gap between McDonald's and the competition, we must excel. We must be the best. We'll make hotter, fresher food that's better tasting. We'll serve customers faster, make sure they get what they ordered, and be friendlier while doing it. We'll make our restaurants more appealing. We've already taken an important step – we've developed a new food preparation system that makes it easier to serve great food at the speed of McDonald's.

*Our second priority is to re-open the value gap.* We want the best prices for customers, but we also want them to enjoy the total experience. This has many facets; an important one is food taste. So, we're

looking at our menu to make sure it has the taste you want at a price you want to pay. We're emphasizing the unique emotional bond we have with customers through a new U.S. advertising campaign. We're also encouraging visits through more local advertising which addresses individual market needs.

*Our last and most important priority is people.*

We're strengthening relationships with our franchisees and energizing employees. We've started by reorganizing the U.S. business, bringing management and decision-making closer to customers and franchisees. Our five division presidents are talented and aggressive, and are making sales- and profit-building changes tailored to their markets' opportunities. Jack Greenberg is leading our U.S. team with dedication, insight and a willingness to take reasonable risk.

They have a balanced view of the business and are focused on making decisions in the best interests of both our shareholders and owner/operators.

We are focused on improving returns and cash flow for franchisees and the Company. We're expanding, while more carefully analyzing potential returns.

These priorities affect the very core of our business, and I believe McDonald's U.S.A. will be stronger because of them. I believe the U.S. quick-service restaurant market has room for significant growth, and I want that growth to be ours.

**Internationally**, we see a world of opportunity. Our ten largest markets outside the U.S. contribute more than 80 percent of international operating income. If you look at this another way, the other 98 markets contribute less than 20 percent. Talk about potential!

I believe we must be nimble, quick to change what's not working and to improve what is.

Granted, the strong U.S. dollar and tough economies in key markets during 1997 pushed performance below our historical trendline. These short-term, cyclical issues in no way reduce customers' long-term demand for McDonald's. By staying the course, we are gaining strength today and positioning ourselves to seize opportunities when these cycles turn.

Our strategies internationally are simple. Make customers happy with everyday low prices and outstanding restaurant operations so they visit more frequently. Increase market share by attracting more customers more often. And, increase profitability by being more efficient and creating economies of scale.

These strategies use words like "more" and "increase." That's because our goal is to improve an already strong position. Over the years, we took the risks, investing capital and hard work, to ready the Company for long-term growth. As with many new businesses, international was not profitable at first. Fortunately, we had a strong and growing U.S. business to support us in the early years. As we grew, we built an infrastructure and gained operating experience that are priceless and, I might add, very tough to duplicate. Today, our international business represents about 60 percent of operating income, and we can draw on our vast experience to handle just about anything.

And while some competitors *talk* about plans to expand into international markets, we are *doing* business in 108 countries and territories outside the U.S. Our international business – by itself – would rank in

the top half of the Fortune 500. We have a unique global advantage, and we intend to expand it.

I attribute this success to Jim Cantalupo and his team. They embody the term entrepreneurial spirit. With their knowledge, dedication and skill, they've set and executed the priorities and put the right people and infrastructures in place to support a growing business. And, they continue to tailor our strategies market-by-market, weaving Brand McDonald's into the fabric of everyday life around the world.



Jim Cantalupo, President and Chief Executive Officer—International; Mike Quinlan, Chairman and Chief Executive Officer; and Jack Greenberg, Vice Chairman, Chairman and Chief Executive Officer—U.S.A.

There's a lot of excitement in McDonaldland. I am confident we can grow earnings per share in each of the next five years in the range of 10 to 15 percent excluding foreign currency translation. When you consider the size and scope of our global business, this growth is substantial. And, such performance should enhance shareholder value.

My confidence is rooted in the dedication and best efforts of our capable employees, franchisees and suppliers, and the outstanding contributions of McDonald's Board of Directors whose focus is the long-term best interest of our shareholders.

In conclusion, I believe in taking measured risks to shape our destiny. I believe we must be nimble, quick to change what's not working and to improve what is. Also, I believe our greatest days lie ahead.

Sincerely,

Michael R. Quinlan

Chairman and Chief Executive Officer, Shareholder

March 15, 1998