



# TARGET INCENTIVE PLAN GUIDE

2021

**Internal Use – Confidential**

This document contains commercially sensitive information which is intended for internal use by McDonald's employees only. Please do not distribute externally.





---

## ▼ TABLE OF CONTENTS

INTRODUCTION.....	2
IMPORTANT CHANGE FOR 2021.....	2
GLOSSARY OF TERMS .....	3
QUICK OVERVIEW.....	3
HOW IT WORKS .....	4
SCHEME RULES .....	6
TIP BONUS EXAMPLE.....	7
FAQ.....	8

---

## ▼ INTRODUCTION

At McDonalds we believe in sharing business success with our employees – we do this through our annual **Target Incentive Plan, TIP.**

TIP is designed to drive performance through our growth strategy ‘Accelerating the Arches’: aligning focus around our key business goals. The greater the business successes - the higher the value of your reward.

The UK & ROI follows a global Target Incentive Plan (TIP) framework that is linked directly to Company Operating Income, System wide Sales and each employee’s performance and contribution.

---

## ▼ IMPORTANT CHANGE FOR 2021

Each year we review how the TIP is calculated to ensure it aligns with our growth strategy ‘Accelerating the Arches’ and our key business goals. For 2021, we have made the following changes to the **Team Performance Factor.**

We will shift from **three** core metrics to **two** core metrics. Given the impact of the pandemic on customer behaviour, comparable guest counts will not be included as a metric in the TPF calculation this year. The two core metrics are:

1. Operating Income continues to be a core metric, as it best reflects and aligns with the most important elements of our business strategy, while also being easily understood by employees. The weighting of this modifier is 50%.
2. **System wide sales will again be included, but at a 50% weighting,** reinforcing our external and internal messaging around sales growth within the Accelerating the Arches Growth Strategy and the importance of new store openings to the continued strength of system.

There is no change to the Individual Performance Factors, which will remain at: 150% for Exceptional, 100% for Significant, 50% for Some Improvement Required, and 0% for Unacceptable.



## GLOSSARY OF TERMS

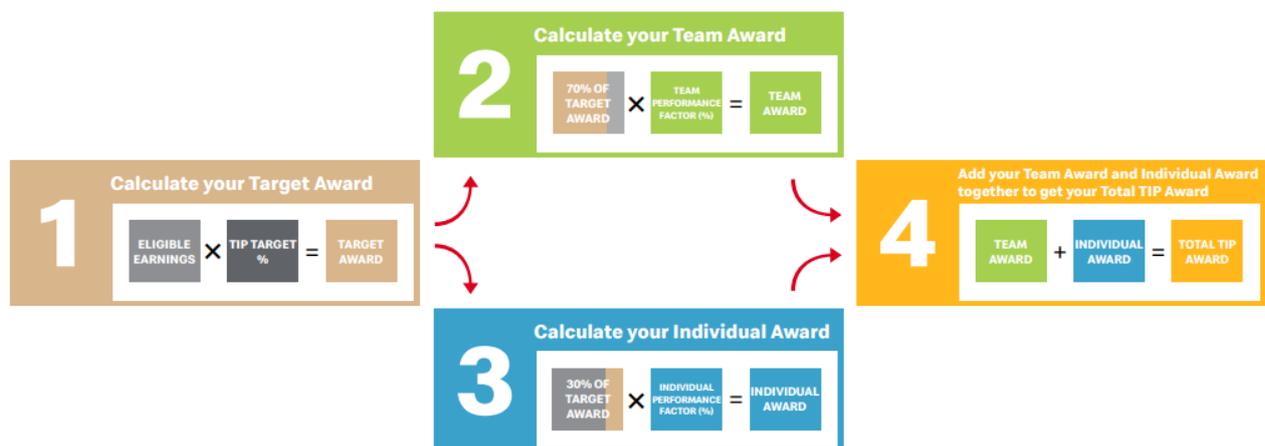
Individual Performance Factor (IPF)	The adjustment in the bonus calculation based on individual performance.
Individual Target Award	Your target bonus which is calculated by multiplying your 30 <sup>th</sup> December 2021 salary with your TIP target %
Operating Income	The measure of the Company operating profit. This is the profit measure that the UK & ROI business is assessed against by Global.
Target Incentive Plan (TIP)	The name of the framework of the bonus scheme, which includes a target amount (as a % of salary), an adjustment based on Company performance and an adjustment based on personal performance.
Team Performance Factor (TPF)	The adjustment in the bonus calculation based on Company performance. This is made up of a financial element, Operating Income, as well as Comparable Guest Count and one Modifier (Delivery Sales).
TIP target %	A percentage of your basic salary, which increases in line with greater responsibility and accountability.

## QUICK OVERVIEW

Your Individual Target Award will be calculated by multiplying your Basic Salary (at 30th December 2021) by your TIP target percentage.

- 70% of your Individual Target award is multiplied by the Team Performance Factor (TPF)
- 30% of your Individual Target award is multiplied by your Individual Performance Factor (IPF)

The two amounts are added together to obtain your Total TIP Award payment.





## HOW IT WORKS

The bonus calculation includes the following three elements:

**TIP Target:** Your Individual Target Award will be calculated by multiplying your Basic Salary (at 30th December 2021) by your TIP target percentage

**Team Performance Factor 70%:** The businesses annual performance against agreed goals, the key metrics are Operational Income and System Wide Sales

**Individual Performance Factor 30%:** Is based on your performance rating determined by you manager, which has considered your performance against your agreed 2021 objectives, plus consideration of your other results during the year

### TIP Target

The starting point for the calculation is a percentage of each employee’s basic salary, which increases in line with greater responsibility and accountability:

Grade:	10 – 7	6 - 5	4 – 3, Director of Operations, Franchisee Consultants	2
TIP %	5%	10%	15%	20%

### Team Performance Factor (TPF)

The Team Performance Factor is the result of a business unit’s annual performance against approved goals. The measurements used in determining the Team Performance Factor are defined below.

#### Operating Income

Operating income is the primary measure as it best reflects and aligns with the most important elements of our business strategy.

#### System Wide Sales

System Wide sales reinforces our external and internal messaging around sales growth within the Accelerating the Arches Growth Strategy.

All of the modifiers are based on achievement of our Plan. Each modifier will flex (both upwards and downwards) in proportion to our Plan achievement, **up to a maximum of 225% for the Team Performance Factor.**

The Team Performance Factor will be communicated at Town Hall meetings. The Final Team Performance Factor is agreed by the compensation committee and will be announced in February 2022.





## Individual Performance Factor (IPF)

To enhance the differentiation of each level of performance and to reinforce a pay for performance culture, we have Individual Performance Factor (IPF). These are fixed rate that directly correspond to your performance rating.

By differentiating individual performance, we are able to better reward those who make exceptional contributions to the business. Performance differentiation is key to our reward strategy and supports the principle of raising the bar on performance as we strive to deliver outstanding customer experience. It continues to be essential that managers and employees set focussed and transparent goals and have frequent performance conversations throughout the year.

Please refer to the below table:

Performance Rating	IPF
<b>4 – Exceptional</b>	150%
<b>3 – Significant Performance</b>	100%
<b>2 – Some Improvement Required</b>	50%
<b>1 – Unacceptable Performance</b>	0%

The overall Company performance ratings are calibrated to insure a distribution for the UK & ROI of, 20% Exceptional, 70% Significant and 10% Some Improvement required/Unacceptable.

Please note that any employee with a performance rating of “1 (unacceptable performance)” will **not** be eligible for **any** TIP payment (IPF and TPF).





---

## SCHEME RULES

The 2021 bonus year runs from 1 January 2021 to 31 December 2021. Payments will be communicated to you and paid in March 2022.

### Part time employees Pro-rata

Employees working part-time will have their bonus payment based on their part-time basic salary. If they change working hours part way through the year, e.g. change from full time to part time, the bonus will be calculated pro-rata considering this.

### Eligibility Criteria

Operations employees who are grade 4 and above, as well as office employees who have joined the business before 1 October 2021 are eligible for a bonus payment. Employees who join the bonus scheme, during the bonus year will be eligible for a pro-rated bonus payment.

To qualify for any bonus payments, an eligible employee must be actively employed by the Company at the Time of payment, typically March pay run.

Bonus payments will be made in accordance with the employee's grade contracted working hours and location as at the end of each month.

Please refer to the below table for eligibility criteria:

Circumstance	Payment Eligibility
Move to a franchisee or is TUPE'd to a Franchised	Eligible for bonus payments for each complete month worked in McOpCo. The salary used will be the salary as at the date of leaving or 30th December 2021 (whichever is earlier).
Secondment - Support to restaurant (s)	Time spent in restaurant will not affect TIP bonus payable. Eligible for full bonus period.
Secondment – Restaurant to Support	Eligible to TIP, prorated for the duration of the secondment. They will also be entitled to any bonus earned during the months spent in the restaurant(s). (See the 2021 Restaurant Bonus Scheme booklet for details).
Extended Leave (Excluding Sabbatical)	Periods of extended leave without pay will result in a pro-rata payment calculation.
Sabbatical	Eligible to receive full bonus entitlements
Extended Sick Leave	Eligible where company sick pay is paid. Unpaid sick leave will result in pro-rata calculation.
Parental Leave (Maternity, Adoption, Shared Parental Leave)	Eligible for full bonus entitlement.
Cessation of Employment – Retirement	Eligible for payment on a pro-rata basis for the period of the performance year you were employed.  The payment will typically be paid in the ordinary course of business
Cessation of Employment – Resignation	Eligible for payment if employed at time of payment.



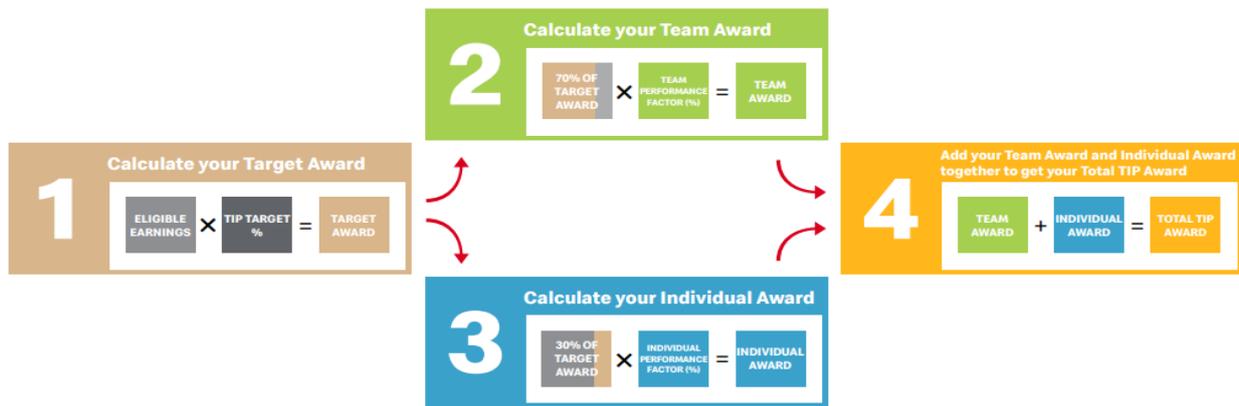


### Performance and Misconduct issues

Employees, whose performance rating is “1 Unacceptable Performance”, will not be eligible for any bonus payment. Employees will forfeit the right to any bonus if one or more of the following occurs during the bonus scheme year:

- First written warning for poor performance
- Final written warning for poor performance
- Final written warning for misconduct
- Demotion
- Dismissal

### TIP BONUS EXAMPLE:



\* For illustration purposes only \*

A grade 4 employee has a basic salary of **£45,000** and a 2021 Annual Performance Rating of ‘3 – Significant Performance’. The compensation team has announced a TPF of 126%.

**Team Performance Factor (TPF) = 126%**

**Individual Performance Factor (IPF) = 100%**

<b>Basic Salary</b>	x	<b>TIP Target</b>	=	<b>Individual Target Award</b>	
<b>£45,000</b>		<b>15%</b>		<b>£6,750</b>	
<b>Team Bonus</b>					
<b>Ind. Target Award</b>	x	<b>70%</b>	x	<b>Team Performance Factor</b>	= <b>Team Bonus</b>
<b>£6,750</b>		<b>70%</b>		<b>126.0%</b>	<b>£5,954</b>
<b>+</b>					
<b>Individual Bonus</b>				<b>Individual Perform. Factor</b>	= <b>Individual Bonus</b>
<b>Ind. Target Award</b>	x	<b>30%</b>	x	<b>100%</b>	<b>£2,025</b>
<b>£6,750</b>		<b>30%</b>			
					}
					<b>Total Bonus</b>
					<b>£7,979</b>



## FAQS

### How will I know what the Team Performance Factor is?

Progress of the Team Performance Factor will be communicated at Town Hall meetings.

### What are the maximum bonus factors?

Up to 225% on Operating Income and System Wide Sales, giving a maximum total of 225% for team performance.

### How will I know what TIP bonus I might receive?

A TIP calculator is available on the Intranet under 'Office > People > Reward and Recognition > Office Bonus Scheme'. This can be used to estimate your Total TIP award.

### When is the TIP bonus paid?

Any bonus payment is normally paid to eligible employees via payroll on 15<sup>th</sup> March 2022 or the working day prior if this falls on a weekend. It is subject to normal deductions for Income Tax and National Insurance.

### Who should I contact with any queries?

Once the bonus payments are announced, employees may query their bonus within the first 14 days. This must happen via email to their reporting manager.

Any other queries regarding the scheme rules or operation may be directed via the People Services Helpdesk on 0345 606 0321.

### *Disclosure*

*Once the bonus payments are announced, employees may query their bonus by writing (includes email), within 14 days, to their reporting manager.*

*Any other queries regarding the scheme rules or operation may be directed via the People Services Helpdesk on 0345 606 0321*

*The TIP bonus scheme is discretionary and McDonald's reserve the right to vary or withdraw the scheme at any time during the bonus scheme year. Participation in the scheme does not provide an automatic entitlement to a payment*

*This document is written for the benefit of UK & ROI market employees. Employees with UK contracts working in a Segment or Corporate role will have slightly differing arrangements*