MCDONALDS CORP

FORM 10-K
(Annual Report)

Filed 03/04/05 for the Period Ending 12/31/04

Address	ONE MCDONALD'S PLAZA OAK BROOK, IL 60523
Telephone	630 623 3000
CIK	0000063908
Symbol	MCD
SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	12/31

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Filed 3/4/2005 For Period Ending 12/31/2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______to _______

Commission File Number 1-5231

McDONALD'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**36-2361282** **(I.R.S. Employer Identification No.)**
McDonald's Plaza **Oak Brook, Illinois** **(Address of Principal Executive Offices)**	**60523** **(Zip Code)**

Registrant's telephone number, including area code: (630) 623-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange Chicago Stock Exchange
8 7/8 % Debentures due 2011	New York Stock Exchange
7.05% Debentures due 2025	New York Stock Exchange
7.31% Subordinated Deferrable Interest Debentures due 2027	New York Stock Exchange
6 3/8 % Debentures due 2028	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of voting common held by nonaffiliates of the registrant was $32,650,753,434 as of June 30, 2004. The number of shares of common stock outstanding was 1,272,117,313 as of January 31, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this 10-K incorporates information by reference from the registrant's 2005 definitive proxy statement which will be filed no later than 120 days after December 31, 2004.

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- **Part I**

***Item 1.* Business**

McDonald's Corporation, the registrant, together with its subsidiaries, is referred to herein as the "Company."

(a) General development of business

During 2004, there have been no significant changes to the Company's corporate structure or material changes in the Company's method of conducting business. Effective January 1, 2005, we reorganized certain of our subsidiaries to facilitate the organization of our geographic segments into a structure that more appropriately reflects the operation of the Company's worldwide business. We created separate Delaware corporate entities for certain of the geographic segments, namely McDonald's USA, McDonald's Europe, McDonald's AMEA (Asia, Middle East and Africa), McDonald's Latin America and McDonald's International. An additional subsidiary was created for McDonald's Ventures which consists of our non-McDonald's brands.

(b) Financial information about segments

Segment data for the years ended December 31, 2004, 2003 and 2002 are included in Part II, Item 8, page 39 of this Form 10-K.

(c) Narrative description of business

- *General*

The Company primarily operates and franchises McDonald's restaurants in the food service industry. These restaurants serve a varied, yet limited, value-priced menu (see Products) in more than 100 countries around the world.

The Company also operates Boston Market and Chipotle Mexican Grill and has a minority ownership interest in U.K.-based Pret A Manger. In December 2003, the Company sold its Donatos Pizzeria business.

Since McDonald's restaurant business comprises virtually all of the Company's consolidated operating results, this narrative primarily relates to that business, unless otherwise noted.

All restaurants are operated either by the Company, by independent entrepreneurs under the terms of franchise arrangements (franchisees/licensees), or by affiliates operating under license agreements.

The Company's operations are designed to assure consistency and high quality at every McDonald's restaurant. When granting franchises and forming joint ventures, the Company is selective and generally is not in the practice of franchising to or partnering with investor groups or passive investors.

Under the conventional franchise arrangement, franchisees provide capital by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company generally shares the investment by owning or leasing the land and building. Franchisees contribute to the Company's revenue stream through payment of rent and service fees based upon a percent of sales, with specified minimum rent payments, along with initial fees. The conventional franchise arrangement typically lasts 20 years and franchising practices are generally consistent throughout the world. A discussion regarding site selection is included in Part I, Item 2, page 5 of this Form 10-K.

The Company, its franchisees/licensees and affiliates purchase food, packaging, equipment and other goods from numerous independent suppliers that have been approved by the Company. The Company has established and strictly enforces high-quality standards. The Company has quality assurance labs around the world to ensure that our high standards are consistently met. The quality assurance process not only involves ongoing product reviews, but also on-site inspections of suppliers' facilities. Further, a Quality Assurance Board, composed of the Company's technical, safety and supply chain specialists, provides strategic global leadership for all aspects of food quality and safety. In addition, the Company works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement.

Independently owned and operated distribution centers, also approved by the Company, distribute products and supplies to most McDonald's restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of our products and in the delivery of customer service.

McDonald's global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald's brand image and differentiate the Company from competitors. Marketing and promotional efforts focus on value, food taste, menu choice and the customer experience. In addition, the Company is focused on being a leader in social responsibility, as the Company believes it is important to give back to the people and communities around the world who are responsible for our success.

- *Products*

McDonald's restaurants offer a substantially uniform menu. In addition, McDonald's tests new products on an ongoing basis.

McDonald's menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Big N' Tasty, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, Chicken Selects, french fries, premium salads, milk shakes, McFlurry desserts, sundaes, soft serve cones, pies, cookies, and soft drinks and other beverages. In addition, the restaurants sell a variety of other products during limited-time promotions.

McDonald's restaurants in the U.S. and certain international markets are open during breakfast hours and offer a full- or limited-breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddle, biscuit and bagel sandwiches, hotcakes and muffins.

Chipotle serves gourmet burritos and tacos. Boston Market is a home-meal replacement concept serving chicken, meatloaf and a variety of other main and side dishes. Pret A Manger is a quick-service food concept that serves mainly prepared and packaged cold sandwiches, snacks and drinks during lunchtime.

- *Intellectual property*

The Company owns valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information, some of which, including “McDonald’s,” “The Golden Arches Logo,” “Ronald McDonald,” “Big Mac” and other related marks, are of material importance to the Company’s business. Depending on the jurisdiction, trademarks generally are valid as long as they are used or registered. Patents and licenses are of varying remaining durations.

- *Seasonal operations*

The Company does not consider its operations to be seasonal to any material degree.

- *Working capital practices*

Information about the Company’s working capital practices is incorporated herein by reference to Management’s discussion and analysis of financial condition and results of operations for the years ended December 31, 2004, 2003 and 2002 in Part II, Item 7, pages 10 through 26, and the Consolidated statement of cash flows for the years ended December 31, 2004, 2003 and 2002 in Part II, Item 8, page 30 of this Form 10-K.

- *Customers*

The Company’s business is not dependent upon a single customer or small group of customers.

- *Backlog*

Company-operated restaurants have no backlog orders.

- *Government contracts*

No material portion of the business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

- *Competition*

McDonald’s restaurants compete with international, national, regional and local retailers of food products. The Company competes on the basis of price, convenience and service and by offering quality food products. The Company’s competition in the broadest perspective includes restaurants, quickservice eating establishments, pizza parlors, coffee shops, street vendors, convenience food stores, delicatessens and supermarkets.

In the U.S., there are about 529,000 restaurants that generated $373 billion in annual sales in 2004. McDonald’s restaurant business accounts for 2.5% of those restaurants and 6.5% of the sales. No reasonable estimate can be made of the number of competitors outside the U.S.

- *Research and development*

The Company operates a research and development facility in the U.S. and two facilities in Europe. While research and development activities are important to the Company’s business, these expenditures are not material. Independent suppliers also conduct research activities that benefit the McDonald’s System, which includes franchisees and suppliers as well as the Company, its subsidiaries and joint ventures.

- *Environmental matters*

The Company is not aware of any federal, state or local environmental laws or regulations that will materially affect its earnings or competitive position or result in material capital expenditures. However, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations. During 2004, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

- *Number of employees*

During 2004, the Company’s average number of employees worldwide, including Company-operated restaurant employees, was approximately 438,000. This includes employees at McDonald’s Company-operated restaurants as well as other restaurant concepts operated by the Company.

(d) Financial information about geographic areas

Financial information about geographic areas is incorporated herein by reference to Management’s discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 26 and Segment and geographic information in Part II, Item 8, page 39 of this Form 10-K.

(e) Available information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information.

Financial and other information can also be accessed on the investor section of the Company's website at www.mcdonalds.com. The Company makes available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (630) 623-7428 or by sending a request to McDonald's Corporation Investor Relations Service Center, Department 300, McDonald's Plaza, Oak Brook, Illinois 60523.

Also posted on McDonald's website are the Company's Corporate Governance Principles, the charters of McDonald's

Audit Committee, Compensation Committee and Governance Committee, the Company's Standards of Business Conduct, the Code of Ethics for the Chief Executive Officer and Financial Officers and the Code of Conduct for the Board of Directors. Copies of these documents are also available free of charge by calling (630) 623-7428 or by sending a request to McDonald's Corporation Investor Relations Service Center, Department 300, McDonald's Plaza, Oak Brook, Illinois 60523.

The Company's then Chief Executive Officer, Charles H. Bell, certified to the New York Stock Exchange (NYSE) on June 16, 2004, pursuant to Section 303A.12 of the NYSE's listing standards, that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards as of that date.

Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

Item 2 . Properties

The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the Company. To assess potential, the Company analyzes traffic and walking patterns, census data, school enrollments and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns the land and building or secures long-term leases for restaurant sites, which ensures long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network. Additional information about the Company's properties is included in Management's discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 26 and in Financial statements and supplementary data in Part II, Item 8, pages 27 through 43 of this Form 10-K.

Item 3. Legal proceedings

The Company has pending a number of lawsuits which have been filed from time to time in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's entire business. The following is a brief description of the more significant of these categories of lawsuits. In addition, the Company is subject to various federal, state and local regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

- *Shareholders*

On April 2, 2004, a class action lawsuit was filed in the United States District Court for the Northern District of Illinois (Case No. 04C-2422) (*Allan Selbst v. McDonald's Corporation, Jack M. Greenberg, Matthew H. Paull and Michael J. Roberts*), alleging violation of federal securities laws. Two nearly identical actions were subsequently filed in the same court. On October 19, 2004, the lead plaintiff filed its amended and consolidated class action complaint, alleging, among other things, that the Company and individual defendants misled investors by issuing false and misleading financial reports and earnings projections in a series of press releases and other public statements between December 14, 2001 and January 22, 2003, thereby overstating the Company's current and anticipated earnings. The amended complaint seeks class action certification, unspecified compensatory damages, and attorneys' fees and costs. On January 18, 2005, the defendants filed a motion to dismiss the amended complaint which remains pending.

We received notice of a shareholder derivative action, filed July 9, 2004, in the Circuit Court of Cook County, Illinois, Chancery Division, (Case No. 04CH10921) (*Marilyn Clark, Derivatively on Behalf of McDonald's Corporation v. Jack M.Greenberg, Matthew H. Paull, Michael J. Roberts, James A. Skinner, Stanley R. Stein, Gloria Santona, Fred L.Turner, Michael R.Quinlan, Hall Adams, Jr., Charles H. Bell, Edward A. Brennan, Robert A. Eckert, Enrique Hernandez, Jr., Jeanne P. Jackson, Donald G. Lubin, Walter E.Massey, Andrew J. McKenna, Cary D. McMillan, John W. Rogers, Jr., Terry L. Savage, Roger W. Stone, and Robert N. Thurston*). This suit is purportedly brought on behalf of McDonald's Corporation against several of its current and former directors and officers (collectively "Individual Defendants"), and the Corporation as a nominal defendant. *Clark* contains allegations similar to the federal court complaint, with additional allegations that the Individual Defendants participated in or failed to prevent the alleged securities fraud violations described above. *Clark* alleges that these acts or omissions by the Individual Defendants constitute breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. *Clark* seeks judgement in favor of McDonald's Corporation for (1) unspecified damages sustained by the Corporation; (2) injunctive relief restricting the proceeds of Individual Defendants' trading activities or other assets to assure the Corporation has an effective remedy; (3) restitution and disgorgement of all profits, benefits and other compensation; and (4) attorneys' fees and costs. None of the defendants has been served with this complaint.

The Company believes that it has substantial legal and factual defenses to the plaintiffs' claims and we intend to defend these lawsuits vigorously.

- *Obesity*

On or about February 17, 2003, two minors, by their parents and guardians, filed an Amended Complaint against McDonald's Corporation in the United States District Court for the Southern District of New York (Case No. 02

Civ. 7821 (RWS)) *(Ashley Pelman, a child under the age of 18 years,by her mother and natural guardian, Roberta Pelman and Jazlen Bradley, a child under the age of 18 years, by her father and natural guardian, Israel Bradley v. McDonald's Corporation)* seeking class action status on behalf of individuals in New York under the age of 18 (and their parents and/or guardians), who became obese or developed other adverse health conditions allegedly from eating McDonald's products. On September 3, 2003, the Court dismissed all counts of the complaint with prejudice. On January 25, 2005, following an appeal by the plaintiffs, the Second Circuit Court of Appeals Court vacated the District Court's decision to dismiss alleged violations of Section 349 of the New York Consumer Protection Act as set forth in Counts I-III of the amended complaint.

The surviving counts in the amended complaint allege that McDonald's violated Section 349 of the New York Consumer Protection Act through the following conduct: (1) the combined effect of McDonald's various promotional representations during the class period was to create the false impression that its food products were nutritionally beneficial and part of a healthy lifestyle if consumed daily; (2) McDonald's failed adequately to disclose that its use of certain additives and the manner of its food processing rendered certain of its foods substantially less healthy than represented; and (3) McDonald's deceptively represented that it would provide nutritional information to its New York customers when in reality such information was not readily available at a significant number of McDonald's outlets in New York visited by the plaintiffs and others.

Plaintiffs seek unspecified compensatory damages; an order directing McDonald's to label its individual products specifying the fat, salt, sugar, cholesterol and dietary content; "funding of an educational program to inform children and adults of the dangers of eating certain foods" sold by McDonald's; and attorneys' fees and costs.

The Company believes that it has substantial legal and factual defenses to the plaintiffs' claims and we intend to defend these lawsuits vigorously.

- *Franchising*

A substantial number of McDonald's restaurants are franchised to independent entrepreneurs operating under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, contentions regarding grants or terminations of franchises, payments of rents, franchisee claims for additional franchises or rewrites of franchises, and delinquent payments. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald's franchise.

- *Suppliers*

The Company and its affiliates and subsidiaries do not supply, with minor exceptions outside the U.S., food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its suppliers on a number of issues including, by way of example, compliance with product specifications and the Company's business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- *Employees*

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes arise regarding hiring, firing and promotion practices.

- *Customers*

The Company's restaurants serve a large cross-section of the public. In the course of serving so many people, disputes arise as to products, service, accidents, advertising, nutritional and other disclosures as well as other matters typical of an extensive restaurant business such as that of the Company.

- *Intellectual property*

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to defend and protect its use of its intellectual property.

- *Government regulations*

Local, state and federal governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, franchising, health, safety, environment, zoning and employment. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from the issuance of additional requirements in the future.

Item 4. Submission of matters to a vote of shareholders

None.

The following are the Executive Officers of our Company:

Ralph Alvarez, 49, is President of McDonald's North America, a position to which he was appointed in January 2005. He served as President, McDonald's USA, from July 2004 to January 2005. From January 2003 to July 2004, Mr. Alvarez served as the Chief Operations Officer for McDonald's USA. Prior to that time he served as President, Central Division–McDonald's USA from October 2001 to January 2003; President of McDonald's Mexico from November 2000 to October 2001; and Regional Director for Chipotle Mexican Grill from February 1999 to November 2000. Except for a brief period in 1999, Mr. Alvarez has served the Company for 10 years.

M. Lawrence Light, 63, is Corporate Executive Vice President–Global Chief Marketing Officer. He has served in that position since joining the Company in September 2002. Prior to joining McDonald's, he was President and Chief Executive Officer of Arcature, a brand consultancy. Mr. Light has been with the Company for two years.

Matthew H. Paull, 53, is Corporate Senior Executive Vice President and Chief Financial Officer. From July 2001 to June 2004 he was Corporate Executive Vice President and Chief Financial Officer. Prior to that time, he served as Senior Vice President, Corporate Tax and Finance from December 2000 to July 2001, Senior Vice President from January 2000 to December 2000 and Vice President from June 1993 to January 2000. Mr. Paull has been with the Company for 11 years.

David M. Pojman, 45, is Corporate Senior Vice President– Controller, a position he has held since March 2002. He served as Vice President and Assistant Corporate Controller from January 2000 to March 2002; and from July 1997 to January 2000, he served as Vice President–International Controller. Mr. Pojman has been with the Company for 22 years.

Michael J. Roberts, 54, is President and Chief Operating Officer, a post to which he was elected on November 22, 2004 and also has served as a Director since that date. Previously, he was Chief Executive Officer–McDonald's USA from July 2004 to November 2004 and prior to that, President–McDonald's USA from June 2001. From July 1997 to June 2001, Mr. Roberts was President, West Division–McDonald's USA. Mr. Roberts has been with the Company for 27 years.

Gloria Santona, 54, is Corporate Executive Vice President, General Counsel and Secretary, a position she has held since July 2003. From June 2001 to July 2003, she was Corporate Senior Vice President, General Counsel and Secretary. From December 2000 to June 2001, she was Vice President, U.S. General Counsel and Secretary. From March 1997 to December 2000, she was Vice President, Deputy General Counsel and Secretary. Ms. Santona has been with the Company for 27 years.

James A. Skinner, 60, is Vice Chairman and Chief Executive Officer, a post to which he was elected on November 22, 2004, and also has served as a Director since that date. He served as Vice Chairman from January 2003 to November 2004 and as President and Chief Operating Officer of McDonald's Worldwide Restaurant Group from February 2002 to December 2002. Prior to that, he served as President and Chief Operating Officer of McDonald's Europe, Asia/ Pacific, Middle East and Africa from June 2001 to February 2002; and President of McDonald's Europe from December 1997 to June 2001. Mr. Skinner has been with the Company for 34 years.

Russell P. Smyth, 48, is President–McDonald's Europe, a position to which he was appointed in January 2003. He served as President of Partner Brands from December 2001 to January 2003; International Relationship Partner for Southeast and Central Asia from May 1999 to December 2001; and Vice President of the Latin America Group from July 1996 to May 1999. Mr. Smyth has been with the Company for 21 years.

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- **Part II**

Item 5. Market for registrant's common equity, related shareholder matters and issuer purchases of equity securities

The Company's common stock trades under the symbol MCD and is listed on the New York and Chicago stock exchanges in the U.S.

The following table sets forth the common stock price ranges on the New York Stock Exchange composite tape and dividends declared per common share.

DOLLARS PER SHARE	2004 High	2004 Low	2004 Dividend	2003 High	2003 Low	2003 Dividend
Quarter:						
First	**29.98**	**24.54**	**—**	17.38	12.12	—
Second	**29.43**	**25.05**	**—**	22.95	13.88	—
Third	**28.25**	**25.64**	**.550**	24.37	20.40	.400
Fourth	**32.96**	**27.31**	**—**	27.01	23.01	—
Year	**32.96**	**24.54**	**.550**	27.01	12.12	.400

The number of shareholders of record and beneficial owners of the Company's common stock as of January 31, 2005 was estimated to be 971,000.

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 excess cash flow for debt repayments and returning cash to shareholders either through share repurchases or dividends. The Company has paid dividends on common stock for 29 consecutive years through 2004 and has increased the dividend amount at least once every year. As in the past, further dividends will be considered after reviewing returns to shareholders, profitability expectations and financing needs and will be declared at the discretion of the Company's Board of Directors.

The following table presents information related to repurchases of common stock the Company made during the three months ended December 31, 2004.

Issuer purchases of equity securities

Period	Total number of Shares purchased	Average price paid per share	Total number of shares purchased under the program*	Maximum dollar amount that may yet be purchased under the program
October 1-31, 2004	5,649	$ 28.85	5,649	$ 3,432,124,000
November 1-30, 2004	94,104	$ 29.72	94,104	$ 3,429,327,000
December 1-31, 2004	280,419	$ 30.27	280,419	$ 3,420,838,000
Total	380,172	$ 30.12	380,172	$ 3,420,838,000

* *In October 2001, the Company announced that its Board of Directors authorized a $5.0 billion share repurchase program with no specified expiration date. In accordance with the Company's internal policy, the Company repurchases shares only during limited timeframes in each month.*

The following table summarizes information about our equity compensation plans as of December 31, 2004. All outstanding awards relate to our Common Stock. Shares issued under all of the following plans may be from the Company's treasury, newly issued or both.

Equity compensation plan information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	109,245,239[(1)]	$ 24.01	57,228,770
Equity compensation plans not approved by security holders	59,341,140[(2)]	$ 34.86	

Total	168,586,379	$ 27.68	57,228,770

(1) *Includes stock options outstanding under the following plans: 2001 Omnibus Stock Ownership Plan–59,192,137 shares; 1992 Stock Ownership Incentive Plan (1992 Plan)–46,788,226 shares; 1975 Stock Ownership Option Plan (1975 Plan)–1,338,506 shares; and Non-Employee Director Stock Option Plan–197,828 shares. Also includes 1,728,542 restricted stock units granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan.*

(2) *Includes stock options outstanding under the following plans: 1992 Plan–58,291,640; 1975 Plan–1,000,000; and 1999 Non-Employee Director Stock Option Plan–49,500.*

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Item 6. Selected financial data

11-year summary

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Company-operated sales	**$14,224**	12,795	11,500	11,041	10,467	9,512	8,895	8,136	7,571	6,863	5,793
Franchised and affiliated revenues	**$ 4,841**	4,345	3,906	3,829	3,776	3,747	3,526	3,273	3,116	2,932	2,528
Total revenues	**$19,065**	17,140	15,406	14,870	14,243	13,259	12,421	11,409	10,687	9,795	8,321
Operating income	**$ 3,541**[1]	2,832[2]	2,113[3]	2,697[4]	3,330	3,320	2,762[5]	2,808	2,633	2,601	2,241
Income before taxes and cumulative effect of accounting changes	**$ 3,203**[1]	2,346[2]	1,662[3]	2,330[4]	2,882	2,884	2,307[5]	2,407	2,251	2,169	1,887
Net income	**$ 2,279**[1]	1,471[2,6]	893[3,7]	1,637[4]	1,977	1,948	1,550[5]	1,642	1,573	1,427	1,224
Cash provided by operations	**$ 3,904**	3,269	2,890	2,688	2,751	3,009	2,766	2,442	2,461	2,296	1,926
Capital expenditures	**$ 1,419**	1,307	2,004	1,906	1,945	1,868	1,879	2,111	2,375	2,064	1,539
Treasury stock purchases	**$ 605**	439	687	1,090	2,002	933	1,162	765	605	321	500
Financial position at year end:											
Total assets	**$27,838**	25,838	24,194	22,535	21,684	20,983	19,784	18,242	17,386	15,415	13,592
Total debt	**$ 9,220**	9,731	9,979	8,918	8,474	7,252	7,043	6,463	5,523	4,836	4,351
Total shareholders’ equity	**$14,201**	11,982	10,281	9,488	9,204	9,639	9,465	8,852	8,718	7,861	6,885
Shares outstanding IN MILLIONS	**1,270**	1,262	1,268	1,281	1,305	1,351	1,356	1,371	1,389	1,400	1,387
Per common share:											
Net income–basic	**$ 1.81**[1]	1.16[2,6]	.70[3,7]	1.27[4]	1.49	1.44	1.14[5]	1.17	1.11	.99	.84
Net income–diluted	**$ 1.79**[1]	1.15[2,6]	.70[3,7]	1.25[4]	1.46	1.39	1.10[5]	1.15	1.08	.97	.82
Dividends declared	**$ .55**	.40	.24	.23	.22	.20	.18	.16	.15	.13	.12
Market price at year end	**$ 32.06**	24.83	16.08	26.47	34.00	40.31	38.41	23.88	22.69	22.56	14.63
Company-operated restaurants	**9,212**	8,959	9,000	8,378	7,652	6,059	5,433	4,887	4,294	3,783	3,216
Franchised restaurants	**18,248**	18,132	17,864	17,395	16,795	15,949	15,086	14,197	13,374	12,186	10,944
Affiliated restaurants	**4,101**	4,038	4,244	4,320	4,260	4,301	3,994	3,844	3,216	2,330	1,739
Total Systemwide restaurants	**31,561**	31,129	31,108	30,093	28,707	26,309	24,513	22,928	20,884	18,299	15,899
Franchised and affiliated sales [8]	**$37,065**	33,137	30,026	29,590	29,714	28,979	27,084	25,502	24,241	23,051	20,194

(1) *Includes pretax operating charges of $130 million related to asset/goodwill impairment and $160 million ($21 million related to 2004 and $139 million related to prior years) for a correction in the Company’s lease accounting practices and policies (see Other operating expense, net note to the consolidated financial statements for further details), as well as a nonoperating gain of $49 million related to the sale of the Company’s interest in a U.S. real estate partnership, for a total pretax expense of $241 million ($172 million after tax or $0.13 per share).*

(2) *Includes pretax charges of $408 million ($323 million after tax or $0.25 per share) primarily related to the disposition of certain non-McDonald’s brands and asset/goodwill impairment. See Other operating expense, net note to the consolidated financial statements for further details.*

(3) *Includes pretax charges of $853 million ($700 million after tax or $0.55 per share) primarily related to restructuring certain international markets and eliminating positions, restaurant closings/asset impairment and the write-off of technology costs. See Other operating expense, net note to the consolidated financial statements for further details.*

(4) *Includes pretax operating charges of $378 million primarily related to the U.S. business reorganization and other global change initiatives, and restaurant closings/asset impairment as well as net pretax nonoperating income of $125 million primarily related to a gain on the initial public offering of McDonald’s Japan, for a total pretax expense of $253 million ($143 million after tax or $0.11 per share).*

(5) *Includes pretax charges of $322 million ($219 million after tax or $0.16 per share) consisting of $162 million of Made For You costs and $160 million related to a home office productivity initiative.*

(6) *Includes a $37 million after-tax charge ($0.03 per share) to reflect the cumulative effect of the adoption of SFAS No.143 “Accounting for Asset Retirement Obligations,” which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time the obligations are incurred. See Summary of significant accounting policies note to the consolidated financial*

statements for further details.

(7) *Includes a $99 million after-tax charge ($0.08 per share–basic and $0.07 per share–diluted) to reflect the cumulative effect of the adoption of SFAS No.142 "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and instead subjects it to annual impairment tests. See Summary of significant accounting policies note to the consolidated financial statements for further details. Adjusted for the nonamortization provisions of SFAS No.142, net income per common share would have been $0.02 higher in 2001 and 2000 and $0.01 higher in 1999-1996.*

(8) *While franchised and affiliated sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised and affiliated revenues and are indicative of the financial health of the franchisee base.*

Item 7. Management's discussion and analysis of financial condition and results of operations

Overview

Description of the business

The Company primarily operates and franchises McDonald's restaurants. In addition, the Company operates certain non-McDonald's brands that are not material to the Company's overall results. Of the more than 30,000 McDonald's restaurants in over 100 countries, more than 8,000 are operated by the Company, approximately 18,000 are operated by franchisees/licensees and about 4,000 are operated by affiliates. In general, the Company owns the land and building or secures long-term leases for restaurant sites regardless of who operates the restaurant. This ensures longterm occupancy rights and helps control related costs.

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees primarily include rent, service fees and/or royalties that are based on a percent of sales, with specified minimum rent payments. Fees vary by type of site, amount of Company investment and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is managed as distinct geographic segments: United States; Europe; Asia/Pacific, Middle East and Africa (APMEA); Latin America and Canada. In addition, throughout this report we present a segment entitled "Other" that includes non-McDonald's brands (e.g., Boston Market and Chipotle Mexican Grill). The U.S. and Europe segments each accounts for approximately 35% of total revenues. France, Germany and the United Kingdom account for about 65% of Europe's revenues; Australia, China and Japan (a 50%-owned affiliate accounted for under the equity method) account for over 45% of APMEA's revenues; and Brazil accounts for about 40% of Latin America's revenues. These seven markets along with the U.S. and Canada are referred to as "major markets" throughout this report and comprise approximately 70% of total revenues.

In analyzing business trends, management considers a variety of performance and financial measures including Systemwide sales growth, comparable sales growth, operating margins and returns.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases certain compensation plans on these results because the Company believes they better represent the underlying business trends.
- Systemwide sales in this report include sales by all McDonald's and Other restaurants, whether operated by the Company, by franchisees or by affiliates. While sales by franchisees and affiliates are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because it is the basis on which the Company calculates and records franchised and affiliated revenues and is indicative of the financial health of our franchisee base.
- Comparable sales are a key performance indicator used within the retail industry and are indicative of acceptance of the Company's initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales represent the percent change in constant currency sales from the same period in the prior year for all McDonald's restaurants in operation at least thirteen months. McDonald's reports on a calendar basis and therefore the comparability of the same month, quarter and year with the corresponding period of the prior year will be impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a given timeframe can have a positive or negative impact on comparable sales. The Company refers to this impact as the calendar shift/trading day adjustment. This impact varies geographically due to consumer spending patterns and has the greatest impact on monthly comparable sales and typically has minimal impact annually, with the exception of leap years, such as 2004, due to an incremental full day of sales.
- Return on incremental invested capital (ROIIC) is a measure reviewed by management to determine the effectiveness of capital deployed. The one-year return is calculated by taking the increase in operating income plus depreciation and amortization between 2004 and 2003 (numerator) and dividing this by the weighted average of 2004 and 2003 adjusted cash used for investing activities (denominator). The calculation assumes an average exchange rate over the periods included in the calculation. In addition to the one-year ROIIC, management reviews this measure over longer time periods in assessing the effectiveness of capital deployed and in allocating capital to business units.

Strategic direction and financial performance

In 2002, the Company's results reflected a focus on growth through adding new restaurants, with associated high levels of capital expenditures and debt financing. This strategy, combined with challenging economic conditions and increased competition in certain key markets, adversely affected results and returns on investment.

In 2003, the Company introduced a comprehensive revitalization plan to increase McDonald's relevance to today's consumers as well as improve our financial discipline. We redefined our strategy to emphasize growth through adding more customers to existing restaurants and aligned the System around our customer-focused Plan to Win. Designed to deliver operational excellence and leadership marketing, this Plan focuses on the five drivers of exceptional customer experiences—people, products, place, price and promotion.

The near-term goal of our revitalization plan was to fortify the foundation of our business. By year-end 2004, we substantially achieved this goal.

We improved the taste of many of our core menu offerings and introduced products that have been well received by consumers such as new salad lines, breakfast and chicken offerings. We offered a variety of price options that appeal to a broad spectrum of consumers. We streamlined processes such as new product development and restaurant operations, improved our training programs, and implemented performance measures, including a restaurant review and measurement process, to enable and motivate restaurant employees to serve customers better. We have begun to remodel many of our restaurants to create more contemporary, welcoming environments. We also launched the "i'm lovin' it" marketing theme, which achieved high levels of consumer awareness worldwide and gained McDonald's recognition as 2004 Marketer of the Year by *Advertising Age* magazine.

Over the past two years, we have also exercised increased financial discipline; we paid down debt, reduced capital expenditures and reduced selling, general & administrative expenses as a percent of revenues. In addition, we returned a significant amount of excess cash to shareholders in the form of dividends and share repurchases.

For each quarter of 2004, McDonald's increased customer visits, improved margins and delivered double-digit growth in operating income and earnings per share. In addition, comparable sales were positive across all geographic segments during each and every quarter.

Our 2004 performance reflected the underlying strength of our U.S. business, which generated impressive sales and margin improvements for the second consecutive year. In Europe, our 2004 comparable sales for the year were 2.4%. This indicates that we are making progress toward revitalizing this important business segment, despite challenges in certain markets.

Highlights from the year included:

- Comparable sales increased 6.9% on top of a 2.4% increase in 2003.
- Consolidated revenues increased 11% to a record high of $19 billion. Excluding the positive impact of currency translation, revenues increased 7%.
- Systemwide sales increased 12%. Excluding the positive impact of currency translation, Systemwide sales increased 8%.
- Net income per common share totaled $1.79, compared with $1.15 in 2003.
- Company-operated margins as a percent of sales improved 80 basis points progressing towards our goal of increasing Company-operated margins to the levels reached in the year 2000.
- Cash from operations increased more than $600 million to $3.9 billion, primarily due to increased margins driven by higher sales at existing restaurants as well as stronger foreign currencies.
- Capital expenditures increased to $1.4 billion, with a higher percentage related to reinvestment in existing restaurants as compared with 2003.
- Debt pay-down totaled more than $800 million.
- The annual dividend was increased 38%, to about $700 million.
- Share repurchases totaled about $600 million.
- ROIIC was 41% for 2004. The decrease in impairment and other charges included in the increase in operating income between 2004 and 2003 benefited the return 10 percentage points. (See attached exhibit to this report.)

Outlook for 2005

The long-term goal of our revitalization plan was to create a differentiated customer experience—one that builds brand loyalty and delivers sustainable, profitable growth for shareholders. Looking forward, consistent with that goal, we are targeting average annual Systemwide sales and revenue growth of 3% to 5%, average annual operating income growth of 6% to 7%, and annual returns on incremental invested capital in the high teens. These targets exclude the impact of foreign currency translation.

As we move into 2005, we continue to execute our restaurant review and measurement process through a combination of graded restaurant visits, anonymous mystery shops and customer surveys, and we are rewarding high service levels with special incentives.

We also continue to evolve our menu to remain relevant. In the U.S., Fruit N' Walnut Salads, as well as new, premium chicken sandwiches will be added to the menu, along with a new coffee blend. In Europe, we will introduce a range of new products. In Canada, Toasted Deli Sandwiches were introduced during the fourth quarter of 2004 and a similar product line is being launched in Australia in 2005. New products and branded everyday value remain a focus, as we continue to refresh our offerings and feature our EuroSaver Menu in several European markets, the Amazing Value Menu in Asia and the Dollar Menu in the U.S.

We continue our remodeling and rebuilding efforts and are enhancing our convenience with initiatives such as extended hours.

Another priority in 2005 is our continued focus on the well-being of our customers. We plan to build on the progress made last year through menu choice, providing education and information about our food, and encouraging physical activity through various programs and partnerships. This year we will leverage our size, reach, and resources to positively impact millions of families worldwide.

We are confident in our plans for 2005. At the same time, we recognize the challenges we face. For example, we must continue to deliver solid results in the U.S., a very competitive marketplace, despite difficult sales comparisons. We believe that the combination of initiatives that benefited our U.S. business in 2004 along with new products will continue to create positive momentum in 2005.

Outside the U.S., we must build on successes in some markets and overcome challenges in others. Notably, some key markets must increase consumer relevance, while others must build the business despite economic challenges. We believe that we are in a better position to overcome these issues today than we have been for some time. For example, in 2005 we sent 20 million households in the U.K. a brand book that combines value offers with important information designed to educate our customers about our product quality, balanced choices and social responsibility efforts. Additionally, we introduced a value menu in Germany, an economically challenged market, with heavy advertising support. Our plan is to leverage successes in markets, such as the U.S., Australia and France, to improve results in other countries.

In light of Chipotle Mexican Grill's strong performance and growing popularity, we are exploring strategic alternatives to fuel growth of this emerging fast-casual brand, which currently operates more than 400 restaurants. We believe Chipotle's value and potential might be maximized through alternative strategies that could include raising additional equity capital in public or private markets. This would have an additional benefit of enabling us to allocate more resources to growing sales and profits at existing McDonald's restaurants.

While the Company does not provide specific guidance on earnings per share, the following information is provided to assist in analyzing the Company's results.

- Changes in constant currency Systemwide sales are driven by changes in comparable sales and restaurant unit expansion. The Company expects net restaurant additions to add slightly more than 1 percentage point to sales growth in 2005 (in constant currencies). Most of this anticipated growth will result from restaurants opened in 2004.
- The Company does not provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in U.S. comparable sales would increase annual earnings per share by about 2 cents. Similarly, an increase of 1 percentage point in Europe's comparable sales would increase annual earnings per share by about 1.5 cents.
- The Company expects full-year 2005 selling, general & administrative expenses to be relatively flat or to increase slightly in constant currencies and to decline as a percent of revenues and Systemwide sales, compared with 2004.
- A significant part of the Company's operating income is from outside the U.S., and about 70% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro and the British Pound. If the Euro and the British Pound both move 10% in the same direction (compared with 2004 average rates), the Company's annual earnings per share would change about 6 cents to 7 cents. In 2004, foreign currency translation benefited earnings per share by 6 cents due primarily to the Euro and the British Pound.
- For 2005, the Company expects its net debt principal repayments to be approximately $600 million to $800 million. At the end of 2004, McDonald's debt-to-capital ratio was 39%. We plan to maintain a debt-to-capital ratio of 35% to 40% in the near term. The Company expects interest expense to be relatively flat in 2005 compared with 2004, based on current interest and foreign currency exchange rates and after considering net repayments.
- The Company expects capital expenditures for 2005 to be approximately $1.7 billion, reflecting higher investment in existing restaurants and stronger foreign currencies.
- The Company expects to return at least $1.3 billion to shareholders through dividends and share repurchases in 2005.
- The Company plans to adopt Financial Accounting Standards Board (FASB) Statement 123(R), *Share-Based Payment*, during first quarter 2005 and restate prior periods. Partly in anticipation of these new accounting rules, the Company modified its compensation plans to limit eligibility to receive share-based compensation and shifted a portion of share-based compensation to primarily cash-based incentive compensation. We expect the 2005 impact of the adoption of Statement 123(R) combined with the modifications to the Company's compensation plans to be about $0.10 per share of expense.

A number of factors can affect our business, including the effectiveness of operating initiatives and changes in global and local business and economic conditions. These and other risks are noted under Forward-looking statements at the end of Management's discussion and analysis.

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Consolidated operating results

Operating results

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	2004 Amount	2004 Increase/ (decrease)	2003 Amount	2003 Increase/ (decrease)	2002 Amount
Revenues					
Sales by Company-operated restaurants	**$ 14,224**	**11%**	$ 12,795	11%	$ 11,500
Revenues from franchised and affiliated restaurants	**4,841**	**11**	4,345	11	3,906
Total revenues	**19,065**	**11**	17,140	11	15,406
Operating costs and expenses					
Company-operated restaurant expenses	**12,100**	**10**	11,006	11	9,907
Franchised restaurants–occupancy expenses	**1,003**	**7**	938	12	840
Selling, general & administrative expenses	**1,980**	**8**	1,833	7	1,713
Other operating expense, net	**441**	**(17)**	531	(36)	833
Total operating costs and expenses	**15,524**	**8**	14,308	8	13,293
Operating income	**3,541**	**25**	2,832	34	2,113
Interest expense	**358**	**(8)**	388	4	374
Nonoperating (income) expense, net	**(20)**	**nm**	98	27	77
Income before provision for income taxes and cumulative effect of accounting changes	**3,203**	**36**	2,346	41	1,662
Provision for income taxes	**924**	**10**	838	25	670
Income before cumulative effect of accounting changes	**2,279**	**51**	1,508	52	992
Cumulative effect of accounting changes, net of tax*	**—**	**nm**	(37)	nm	(99)
Net income	**$ 2,279**	**55%**	$ 1,471	65%	$ 893
Per common share-diluted:					
Income before cumulative effect of accounting changes	**$ 1.79**	**52%**	$ 1.18	53%	$ .77
Cumulative effect of accounting changes*	**—**	**nm**	(.03)	nm	(.07)
Net income	**$ 1.79**	**56%**	$ 1.15	64%	$ .70
Weighted average common shares outstanding–diluted	**1,273.7**		1,276.5		1,281.5

* *See Cumulative effect of accounting changes for further discussion.*
nm *Not meaningful .*

Impairment and other charges, net

The Company recorded charges associated with certain strategic actions, as well as from annual goodwill and asset impairment testing in 2004, 2003 and 2002. These charges generally represent actions or transactions related to the implementation of strategic initiatives of the Company, items that are unusual or infrequent in nature (such as the dispositions of certain non-McDonald's brands in 2003), charges resulting from impairment testing and a lease accounting correction in 2004. McDonald's management does not include these items when reviewing business performance trends because we do not believe these items are indicative of expected ongoing results.

On a pretax basis, the Company recorded $241 million of impairment and other charges (net) in 2004, $408 million of impairment and other charges in 2003 and $853 million of impairment and other charges in 2002. All items were recorded in other operating expense with the exception of the gain related to the sale of the Company's interest in a U.S. real estate partnership during 2004, which was recorded in nonoperating income.

Impairment and other charges–(income)/expense

	Pretax			After tax (3)			Per common share–diluted		
IN MILLIONS, EXCEPT PER SHARE DATA	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Restaurant closings/impairment (1)	**$130**	$136	$402	**$116**	$140	$336	**$ .09**	$ .11	$ .26
Restructuring	—	272	267	—	183	244	—	.14	.19
Lease accounting correction:									
Current year's impact	**21**	—	—	**13**	—	—	**.01**	—	—
Prior years' impact	**139**	—	—	**92**	—	—	**.07**	—	—
Other:									
Operating	**—**	—	184	**—**	—	120	**—**	—	.10
Nonoperating	**(49)**	—	—	**(49)**	—	—	**(.04)**	—	—
Total (2)	**$241**	$408	$853	**$172**	$323	$700	**$ .13**	$ .25	$ .55

(1) *Although restaurant closings occur each year, the restaurant closing charges in 2003 and 2002, discussed below, were the result of separate intensive reviews by management in conjunction with other strategic actions.*
(2) *See Other operating expense, net note to the consolidated financial statements for a summary of the activity in the related liabilities, if any. The Company expects to use cash provided by operations to fund the remaining obligations, primarily related to leases.*
(3) *Certain items were not tax effected.*

- *Restaurant closings/asset impairment*

In 2004, the Company recorded $130 million of pretax charges for asset and goodwill impairment, primarily in South Korea driven by its significant decline in performance over the past few years.

In 2003, the Company recorded $136 million of net pretax charges consisting of: $148 million primarily related to asset/goodwill impairment in Latin America; $30 million for about 50 restaurant closings associated with strategic actions in Latin America; and a $42 million favorable adjustment to the 2002 charge for restaurant closings, primarily due to about 85 fewer closings than originally anticipated.

In 2002, the Company recorded $402 million of pretax charges consisting of: $302 million related to management's decision to close about 750 underperforming restaurants primarily in the U.S. and Japan; and $100 million primarily related to the impairment of assets for certain existing restaurants in Europe and Latin America. Most of the restaurants identified for closing had negative cash flows and/or very low annual sales volumes. Also, in many cases they would have required significant capital investment to remain financially viable.

- *Restructuring*

In 2003, the Company recorded $272 million of pretax charges consisting of: $237 million related to the loss on the sale of Donatos Pizzeria, the closing of all Donatos and Boston Market restaurants outside the U.S. and the exit of a domestic joint venture with Fazoli's; and $35 million related to revitalization plan actions of McDonald's Japan, including headcount reductions, the closing of Pret A Manger stores in Japan and the early termination of a long-term management services agreement. These actions were consistent with management's strategy of concentrating the Company's capital and resources on the best near-term opportunities and avoiding those that distract from restaurant-level execution.

In 2002, the Company initiated actions designed to optimize restaurant operations and improve the business and recorded $267 million of net pretax charges consisting of: $201 million related to the anticipated transfer of ownership in five countries in the Middle East and Latin America to developmental licensees and ceasing operations in two countries in Latin America; $81 million primarily related to eliminating approximately 600 positions (about half of which were in the U.S. and half of which were in international markets), reallocating resources and consolidating certain home office facilities to control costs; and a $15 million favorable adjustment to the 2001 restructuring charge due to lower employee-related costs than originally anticipated. Under the developmental license business structure, which the Company successfully employs in about 30 markets outside the U.S. (approximately 400 restaurants), the licensee owns the business, including the real estate interest. While the Company generally does not have any capital invested in these markets, it receives a royalty based on a percent of sales.

• *Lease accounting correction*

Like other companies in the restaurant and retail industries, McDonald's recently reviewed its accounting practices and policies with respect to leasing transactions. Following this review and in consultation with its external auditors, McDonald's has corrected an error in its prior practices to conform the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property. The result of the correction is primarily to accelerate the recognition of rent expense under certain leases that include fixed-rent escalations by revising the computation of straight-line rent expense to include these escalations for certain option periods. As the correction relates solely to accounting treatment, it does not affect McDonald's historical or future cash flows or the timing of payments under the related leases and its effect on the Company's current or prior years' earnings per share, cash from operations and shareholders' equity is immaterial. These adjustments primarily impact the U.S., China, Boston Market and Chipotle. Other markets were less significantly impacted, as many of the leases outside of the U.S. do not contain fixed-rent escalations. In 2005, we expect the rent expense related to this computation to be about $25 million of which about 40% relates to non-McDonald's brands.

• *Other*

In 2004, the Company recorded a nonoperating gain of $49 million related to the sale of the Company's interest in a U.S. real estate partnership. As a result of this transaction, the Company was able to reverse a valuation allowance related to certain capital loss carryforwards (see Provision for income taxes in Management's discussion and analysis).

In 2002, the Company recorded $184 million of pretax charges consisting of $170 million primarily related to the write-off of software development costs as a result of management's decision to terminate a long-term technology project; and $14 million primarily related to the write-off of receivables and inventory in Venezuela as a result of the temporary closure of all McDonald's restaurants due to a national strike. Although the terminated technology project was expected to deliver long-term benefits, it was no longer viewed as the best use of capital, as the anticipated Systemwide cost over several years was expected to be more than $1 billion.

Impact of foreign currencies on reported results

While changing foreign currencies affect reported results, McDonald's lessens exposures, where practical, by financing in local currencies, hedging certain foreign-denominated cash flows, and purchasing goods and services in local currencies.

In 2004 and 2003, foreign currency translation had a positive impact on consolidated revenues, operating income and earnings per share due to the strengthening of several major currencies, primarily the Euro and British Pound. In 2002, foreign currency translation had a minimal impact on revenues as the stronger Euro and British Pound were offset by weaker Latin American currencies (primarily the Argentine Peso, Brazilian Real and Venezuelan Bolivar); however, operating income in 2002 was positively impacted by foreign currency translation primarily due to the stronger Euro and British Pound.

Impact of foreign currency translation on reported results

	Reported amount			Currency translation benefit/(loss)		
IN MILLIONS, EXCEPT PER SHARE DATA	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Revenues	**$19,065**	$17,140	$15,406	**$779**	$886	$ 15
Company-operated margins *(1)*	**2,003**	1,695	1,513	**91**	101	29
Franchised margins *(1)*	**3,832**	3,405	3,064	**139**	195	39
Selling, general & administrative expenses	**1,980**	1,833	1,713	**(57)**	(68)	8
Operating income	**3,541**	2,832	2,113	**160**	189	90
Income before cumulative effect of accounting changes	**2,279**	1,508	992	**80**	89	42
Net income	**2,279**	1,471	893	**80**	89	42
Per common share–diluted:						
Income before cumulative effect of accounting changes	**1.79**	1.18	.77	**.06**	.07	.03
Net income	**1.79**	1.15	.70	**.06**	.07	.04

(1) Includes McDonald's restaurants only.

Revenues

In 2004, consolidated revenue growth was driven by positive performance in all segments as well as stronger foreign currencies. Consolidated revenue growth in 2003 was driven by stronger foreign currencies and strong performance in the U.S.

Revenues

	Amount			Increase/ (decrease)		Increase/(decrease) excluding currency translation	
DOLLARS IN MILLIONS	**2004**	**2003**	**2002**	**2004**	**2003**	**2004**	**2003**
Company-operated sales:							
U.S.	**$ 3,828**	$ 3,594	$ 3,172	**7%**	13%	**7%**	13%
Europe	**5,174**	4,498	3,982	**15**	13	**5**	—
APMEA	**2,390**	2,158	2,115	**11**	2	**7**	(3)
Latin America	**933**	774	696	**21**	11	**21**	20
Canada	**730**	632	505	**16**	25	**8**	11
Other	**1,169**	1,139	1,030	**3**	11	**3**	10
Total	**$14,224**	$12,795	$11,500	**11%**	11%	**6%**	6%
Franchised and affiliated revenues:							
U.S.	**$ 2,697**	$ 2,445	$ 2,251	**10%**	9%	**10%**	9%
Europe	**1,563**	1,377	1,154	**14**	19	**3**	1
APMEA	**331**	289	253	**14**	14	**4**	—
Latin America	**75**	85	118	**(12)**	(28)	**(10)**	(20)
Canada	**168**	146	128	**15**	14	**7**	1
Other	**7**	3	2	**nm**	33	**nm**	33
Total	**$ 4,841**	$ 4,345	$ 3,906	**11%**	11%	**7%**	5%
Total revenues:							
U.S.	**$ 6,525**	$ 6,039	$ 5,423	**8%**	11%	**8%**	11%
Europe	**6,737**	5,875	5,136	**15**	14	**4**	—
APMEA	**2,721**	2,447	2,368	**11**	3	**7**	(3)
Latin America	**1,008**	859	814	**17**	6	**18**	14
Canada	**898**	778	633	**15**	23	**8**	9
Other	**1,176**	1,142	1,032	**3**	11	**3**	11
Total	**$19,065**	$17,140	$15,406	**11%**	11%	**7%**	6%

In the U.S., the increases in revenues in 2004 and 2003 were due to the combined strength of the strategic menu, marketing and service initiatives. Also, franchised and affiliated revenues increased at a higher rate than Company-operated sales due to a higher percentage of franchised restaurants throughout 2004 compared with 2003, while throughout 2003 there was a higher percentage of Company-owned restaurants than in 2002.

In 2004, the increase in Europe’s revenues was due to strong comparable sales in Russia, which is entirely Company-operated, and positive comparable sales in France, the U.K. and many other markets, partly offset by Germany’s poor performance. In 2003, Europe’s revenues reflected strong performance in Russia driven by expansion and positive comparable sales, along with expansion in France, partly offset by weak results in the U.K. and Germany.

In 2004, the increase in APMEA’s revenues was due primarily to strong performance in China and Australia as well as positive comparable sales in many other markets, partly offset by poor performance in South Korea. In 2003, APMEA’s revenues benefited from positive comparable sales in Australia and expansion in China, but were negatively affected by weak results in Hong Kong, South Korea and Taiwan, compounded by consumer concerns about Severe Acute Respiratory Syndrome (SARS) in several markets in the first half of the year.

In Latin America, revenues in 2004 and 2003 increased in constant currencies primarily due to a higher percentage of Company-operated restaurants and positive comparable sales, especially in 2004.

The following tables present Systemwide sales growth rates and the increase or decrease in comparable sales.

Systemwide sales

	Increase/(decrease)			Increase/(decrease) excluding currency translation		
	2004	2003	2002	2004	2003	2002
U.S.	**10%**	9%	1%	**10%**	9%	1%
Europe	**14**	18	11	**4**	2	5
APMEA	**12**	6	(3)	**6**	(2)	(3)
Latin America	**13**	(4)	(17)	**13**	4	4
Canada	**15**	17	1	**7**	4	2
Other	—	10	9	—	10	9
Total	**12%**	11%	2%	**8%**	5%	2%

Comparable sales–McDonald's restaurants

	Increase/(decrease)		
	2004	2003	2002
U.S.	**9.6%**	6.4%	(1.5)%
Europe	**2.4**	(0.9)	1.0
APMEA	**5.6**	(4.2)	(8.5)
Latin America	**13.0**	2.3	1.0
Canada	**5.4**	—	(2.5)
Total	**6.9%**	2.4%	(2.1)%

Operating margins

Operating margin information and discussions relate to McDonald's restaurants only and exclude non-McDonald's brands.

- *Company-operated margins*

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. Company-operated margin dollars increased $308 million or 18% (13% in constant currencies) in 2004 and increased $182 million or 12% (5% in constant currencies) in 2003. The constant currency increase in both periods was primarily due to strong comparable sales.

Company-operated margins–McDonald's restaurants

IN MILLIONS	2004	2003	2002
U.S.	**$ 731**	$ 635	$ 507
Europe	**807**	708	631
APMEA	**264**	213	239
Latin America	**89**	47	66
Canada	**112**	92	70
Total	**$2,003**	$1,695	$1,513
PERCENT OF SALES			
U.S.	**19.1%**	17.7%	16.0%
Europe	**15.6**	15.7	15.9
APMEA	**11.0**	9.9	11.3
Latin America	**9.5**	6.1	9.4
Canada	**15.3**	14.6	13.7

Total	**15.3%**	14.5%	14.4%

Operating cost trends as a percent of sales were as follows: food & paper costs increased in 2004 and decreased in 2003, payroll costs decreased in 2004 and were flat in 2003, and occupancy & other operating decreased in 2004 and increased in 2003.

In the U.S., the Company-operated margin percent increased in 2004 primarily due to positive comparable sales, partly offset by higher commodity costs and higher staffing levels. The U.S. Company-operated margin percent increased in 2003 primarily due to positive comparable sales and lower payroll as a percent of sales due to improved productivity and lower wage inflation, partly offset by higher commodity costs.

In Europe, Russia's strong performance benefited the Company-operated margin percent for 2004 but was more than offset by weak performance in Germany and the U.K. as well as higher commodity costs for the segment. In 2003, Europe's Company-operated margin percent reflected weak performance in the U.K., partly offset by improved margin performance in Germany and France.

In APMEA, the Company-operated margin percent in 2004 reflected improved performance in Hong Kong, Australia and China and poor performance in South Korea. In 2003, the margin declined significantly due to concerns of SARS impacting sales in many markets, partly offset by the SARS-related sales tax relief received from the Chinese government.

In Latin America, the Company-operated margin percent for 2004 reflected improved performance, primarily in Brazil, Argentina and Venezuela. In 2003, results reflected difficult economic conditions in these markets.

- *Franchised margins*

Franchised margin dollars represent revenues from franchised and affiliated restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented more than 65% of the combined operating margins in 2004, 2003 and 2002. Franchised margin dollars increased $427 million or 13% (8% in constant currencies) in 2004 and $341 million or 11% (5% in constant currencies) in 2003.

Franchised margins–McDonald's restaurants

IN MILLIONS	**2004**	**2003**	**2002**
U.S.	**$2,177**	$1,945	$1,781
Europe	**1,195**	1,044	885
APMEA	**284**	248	217
Latin America	**45**	54	79
Canada	**131**	114	102
Total	**$3,832**	$3,405	$3,064
PERCENT OF REVENUES			
U.S.	**80.7%**	79.5%	79.1%
Europe	**76.5**	75.8	76.7
APMEA	**85.7**	85.6	85.8
Latin America	**60.1**	64.3	66.9
Canada	**78.0**	78.2	79.2
Total	**79.3%**	78.4%	78.5%

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The consolidated franchised margin percent increased for 2004 but slightly declined in 2003. Both periods benefited from strong comparable sales but reflected higher occupancy costs, due in part to an increased proportion of leased sites.

Selling, general & administrative expenses

Consolidated selling, general & administrative expenses increased 8% in 2004 and 7% in 2003 (5% and 3% in constant currencies). The constant currency increases in 2004 and 2003 reflected higher performance-based incentive compensation. In addition, 2003 included severance and other costs associated with the strategic decision to reduce restaurant openings.

Selling, general & administrative expenses as a percent of revenues declined to 10.4% in 2004 compared with 10.7% in 2003 and 11.1% in 2002, and selling, general & administrative expenses as a percent of Systemwide sales declined to 3.9% in 2004 compared with 4.0% in 2003 and 4.1% in 2002. Management believes that analyzing selling, general & administrative expenses as a percent of Systemwide sales as well as revenues is meaningful because these costs are incurred to support Systemwide restaurants.

Selling, general & administrative expenses

	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
DOLLARS IN MILLIONS	**2004**	**2003**	**2002**	**2004**	**2003**	**2004**	**2003**
U.S.	**$ 602**	$ 567	$ 558	**6%**	2%	**6%**	2%
Europe	**485**	424	359	**14**	18	**4**	2
APMEA	**189**	173	158	**9**	10	**4**	2
Latin America	**107**	102	102	**5**	—	**5**	8
Canada	**64**	54	49	**20**	9	**11**	(3)
Other	**96**	115	114	**(16)**	1	**(16)**	—
Corporate (1)	**437**	398	373	**10**	7	**10**	7
Total	**$1,980**	$1,833	$1,713	**8%**	7%	**5%**	3%

(1) Corporate expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, supply chain management and training.

Other operating expense, net

Other operating (income) expense, net

DOLLARS IN MILLIONS	**2004**	**2003**	**2002**
Gains on sales of restaurant businesses	**$ (45)**	$ (55)	$(114)
Equity in earnings of unconsolidated affiliates	**(60)**	(37)	(24)
Other expense:			
Impairment and other charges (1)	**130**	408	853
Prior years' lease accounting correction	**139**	—	—
Other (2)	**277**	215	118
Total	**$441**	$531	$ 833

(1) See Other operating expense, net note to the consolidated financial statements for a discussion of the charges and a summary of the activity in the related liabilities.

(2) Includes $21 million for current year's impact of lease accounting correction.

- *Gains on sales of restaurant businesses*

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 facilities 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. Resulting gains or losses are recorded in operating income because the transactions are a recurring part of our business.

- *Equity in earnings of unconsolidated affiliates*

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. The increase in 2004 was primarily due to stronger performance in the U.S. and improved results from our Japanese affiliate. The increase in 2003 was primarily due to strong results in the U.S.

- *Other expense*

The following table presents impairment and other charges and lease accounting correction amounts included in other operating expense by segment for 2004, 2003 and 2002.

Impairment and other charges

IN MILLIONS	U.S.	Europe	APMEA	Latin America	Canada	Other	Corporate	Consolidated
2004								
Restaurant closings/impairment	**$ 10**	**$ 25**	**$ 93**	**$ 2**				**$ 130**
Lease accounting correction:								
Current year's impact	**8**		**4**			**$ 9**		**21**
Prior years' impact	**62**	**1**	**42**		**$ 4**	**30**		**139**
Total	**80**	**26**	**139**	**2**	**4**	**39**		**290**
Currency translation (loss)		**(1)**	**(10)**					**(11)**
Total excluding currency translation	**$ 80**	**$ 25**	**$ 129**	**$ 2**	**$ 4**	**$ 39**		**$ 279**
2003								
Restaurant closings/impairment [(1)]	$(11)	$ (20)	$ 20	$ 109	$ (1)	$ 29	$ 10	$ 136
Restructuring			35			237		272
Total	(11)	(20)	55	109	(1)	266	10	408
Currency translation benefit/(loss)		3	(5)	(20)		(11)		(33)
Total excluding currency translation	$(11)	$ (17)	$ 50	$ 89	$ (1)	$255	$ 10	$ 375
2002								
Restaurant closings/impairment	$ 74	$ 135	$ 81	$ 62	$ 4	$ 31	$ 15	$ 402
Restructuring	25	9	141	66	2	3	21	267
Other		4		14	4		162	184
Total	99	148	222	142	10	34	198	853
Currency translation benefit/(loss)		(17)	(3)	23				3
Total excluding currency translation	$ 99	$ 131	$ 219	$ 165	$ 10	$ 34	$ 198	$ 856

(1) *Bracketed amounts resulted from favorable adjustments to 2002 charges primarily due to fewer than anticipated restaurant closings.*

In addition, other expense for 2004 reflected higher losses on asset dispositions, certain costs incurred to acquire restaurants operated by litigating franchisees in Brazil and provisions for certain contingencies, partly offset by lower provisions for uncollectible receivables in 2004 compared with 2003. Other expense in 2003 reflected higher losses on asset dispositions, higher provisions for uncollectible receivables and costs in the U.S. related to sites that will no longer be developed as a result of management's decision to significantly reduce capital expenditures.

Operating income

Consolidated operating income in 2004 and 2003 included higher combined operating margin dollars and higher selling, general & administrative expenses when compared with 2003 and 2002, respectively. In addition, 2003 included lower gains on sales of restaurant businesses when compared with 2002. In all three years, the Company recorded impairment and other charges that are included in these results.

Operating income

	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
DOLLARS IN MILLIONS	2004	2003	2002	2004	2003	2004	2003
U.S.	**$2,182**	$1,982	$1,673	**10%**	18%	**10%**	18%

Europe	**1,471**	1,339	1,022	**10**	31	**—**	13
APMEA	**200**	226	64	**(11)**	nm	**(20)**	nm
Latin America	**(20)**	(171)	(133)	**89**	(28)	**91**	(7)
Canada	**178**	163	125	**9**	30	**2**	15
Other	**(16)**	(295)	(66)	**94**	nm	**94**	nm
Corporate	**(454)**	(412)	(572)	**(10)**	28	**(10)**	28
Total	**$3,541**	$2,832	$2,113	**25%**	34%	**19%**	25%

nm *Not meaningful.*

In 2004 and 2003, U.S. operating income included higher combined operating margin dollars, partly offset by higher selling, general & administrative expenses and higher other operating expenses (excluding impairment charges and lease accounting correction), compared to 2003 and 2002, respectively.

Europe's constant currency results in 2004 benefited from strong performances in France and Russia as well as improved performance in Italy, offset by weak results in the U.K. Germany's performance weakened during the second half of 2004, and we expect the economic challenges there to continue to impact our performance in the near-term. In 2003, Europe's constant currency results also benefited from strong performance in France and Russia; however, difficult economic conditions in Germany and weak results in the U.K. negatively impacted results.

In APMEA, operating income in constant currencies for 2004 benefited from Australia's performance as well as improved performance in Hong Kong and China, partially offset by poor results in South Korea. APMEA's 2003 operating income reflected strong results in Australia. However, weak results in most other markets, compounded by concerns about SARS in certain markets, negatively impacted the segment.

In 2004, Latin America's operating loss decreased as compared with 2003, due to significantly lower provisions for uncollectible receivables and improved performance in Venezuela and Argentina. In addition, operating income in 2004 included certain costs incurred to acquire restaurants owned by litigating franchisees in Brazil. Latin America's operating income significantly declined in 2003 due to the continuing difficult economic conditions experienced by several key markets in the segment and significantly higher provisions for uncollectible receivables.

Interest expense

Interest expense decreased in 2004 due to lower average debt levels and interest rates, partly offset by stronger foreign currencies. Interest expense increased in 2003 due to stronger foreign currencies, partly offset by lower average debt levels and interest rates.

Nonoperating (income) expense, net

Nonoperating (income) expense includes miscellaneous income and expense items such as interest income, minority interests, and gains and losses related to other investments, financings and foreign currency translation.

Nonoperating (income) expense in 2004 included a gain of $49 million related to the sale of the Company's interest in a U.S. real estate partnership as well as higher interest income. Nonoperating expense in 2003 reflected an $11 million loss on the early extinguishment of debt as well as higher foreign currency translation losses compared with 2002.

Provision for income taxes

The following table presents the reported effective income tax rates as well as the effective income tax rates before impairment and other charges.

Effective income tax rates

	2004	2003	2002
Reported effective income tax rates	**28.9%**	35.7%	40.3%
Impact of impairment and other charges, net (1)	**(0.1)**	(2.2)	(7.6)
Effective income tax rates before above charges	**28.8%**	33.5%	32.7%

(1) *Certain items were not tax effected.*

The effective income tax rate for the full year 2004 benefited from an international transaction and the utilization of certain previously unrealized capital loss carryforwards, both of which impacted 2004 only. In 2003 and 2002, the effective income tax rates were negatively impacted by certain asset impairment and other charges that were not tax effected, while 2004 has a lesser amount of such items.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $1,319 million in 2004 and $1,032 million in 2003. Substantially all of the net tax assets arose in the U.S. and other profitable markets.

Cumulative effect of accounting changes

Effective January 1, 2003, the Company adopted SFAS No.143, *Accounting for Asset Retirement Obligations*, which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Effective January 1, 2002, the Company adopted SFAS No.142, *Goodwill and Other Intangible Assets*, which eliminates the amortization of goodwill and instead subjects it to annual impairment tests. See Summary of significant accounting policies note to the consolidated financial statements for further discussion.

Cash flows

The Company generates significant cash from operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchase.

Cash from operations totaled $3.9 billion and exceeded capital expenditures by $2.5 billion in 2004, while cash from operations totaled $3.3 billion and exceeded capital expenditures by $2.0 billion in 2003. Cash provided by operations increased $635 million in 2004 due to strong operating results, primarily in the U.S., and changes in working capital, partly offset by higher income tax payments. Cash provided by operations increased $379 million in 2003 due to strong operating results, primarily in the U.S., partly offset by changes in working capital.

Cash provided by operations

DOLLARS IN MILLIONS	**2004**	**2003**	**2002**
Cash provided by operations	**$3,904**	$3,269	$2,890
Cash provided by operations as a percent of capital expenditures	**275%**	250%	144%

Cash used for investing activities totaled $1.4 billion in 2004 due to higher capital expenditures and lower sales of property, offset by lower purchases of restaurant business. Cash used for investing activities also totaled $1.4 billion in 2003, a decrease of $1.1 billion compared with 2002 primarily due to lower capital spending as a result of fewer restaurant openings and fewer purchases of restaurant businesses.

Cash used for financing activities totaled $1.6 billion in 2004, a decrease of $103 million primarily due to higher proceeds from employee stock option exercises, partly offset by higher share repurchases and an increase in the common stock dividend. In 2003, cash used for financing activities totaled $1.7 billion, an increase of $1.2 billion primarily due to net debt repayments.

As a result of the above activity, the Company's cash balance increased $887 million from December 31, 2003 to $1.4 billion at December 31, 2004, compared to an increase of $162 million from December 31, 2002 to December 31, 2003.

In addition to its cash provided by operations, the Company can meet short-term funding needs through commercial paper borrowings and line of credit agreements. Accordingly, the Company purposefully maintains a relatively low current ratio, which was .81 at year-end 2004.

Restaurant development and capital expenditures

As a result of the Company's strategically shifting its focus in 2003 from adding new restaurants to building sales at existing restaurants, the Company again reduced restaurant openings in 2004. The Company opened 430 traditional McDonald's restaurants and 198 satellite restaurants (small, limited-menu restaurants for which the land and building are generally leased), and closed 185 traditional restaurants and 134 satellite restaurants. About 70% of McDonald's restaurant additions occurred in the major markets in 2004. In 2003, the Company opened 513 traditional McDonald's restaurants and 319 satellite restaurants, and closed 486 traditional restaurants and 184 satellite restaurants.

Systemwide restaurants at year end (1)

	2004	2003	2002
U.S.	**13,673**	13,609	13,491
Europe	**6,287**	6,186	6,070
APMEA	**7,567**	7,475	7,555
Latin America	**1,607**	1,578	1,605
Canada	**1,362**	1,339	1,304
Other	**1,065**	942	1,083
Total	**31,561**	31,129	31,108

(1) *Includes satellite units at December 31, 2004, 2003 and 2002 as follows: U.S.–1,341, 1,307, 1,159; Europe–181, 150, 102; APMEA (primarily Japan)–1,819, 1,841, 1,923; Latin America–13, 20, 19; and Canada–378, 350, 330.*

In 2005, the Company expects to open about 550 traditional McDonald's restaurants and 150 satellite restaurants and close about 225 traditional restaurants and 125 satellite restaurants.

Approximately 60% of Company-operated restaurants and more than 85% of franchised restaurants were located in the major markets at the end of 2004. Franchisees and affiliates operated 73% of McDonald's restaurants at year-end 2004. Non-McDonald's brand restaurants are primarily Company-operated.

Capital expenditures increased $112 million or 9% in 2004 and decreased $697 million or 35% in 2003. The increase in capital expenditures in 2004 was consistent with the Company's strategy to increase investment in existing restaurants, primarily in the U.S. and Europe, partly offset by lower expenditures on restaurant openings. In addition, foreign currency translation increased capital expenditures by $48 million. The decrease in capital expenditures in 2003 was primarily due to lower restaurant openings, consistent with our shift in strategic focus, partly offset by stronger foreign currencies (foreign currency translation increased capital expenditures by $73 million). Capital expenditures for McDonald's restaurants in 2004, 2003 and 2002 reflected the leasing of a higher proportion of new sites.

Capital expenditures invested in major markets excluding Japan represented between 65% and 70% of the total in 2004, 2003 and 2002. Japan is accounted for under the equity method, and accordingly its capital expenditures are not included in consolidated amounts.

Capital expenditures

IN MILLIONS	2004	2003	2002
New restaurants	**$ 500**	$ 617	$ 1,161
Existing restaurants	**774**	564	659
Other properties (1)	**145**	126	184
Total	**$ 1,419**	$ 1,307	$ 2,004

Total assets	**$27,838**	$25,838	$24,194

(1) Primarily corporate-related equipment and furnishings for office buildings.

Capital expenditures for new restaurants decreased $117 million or 19% in 2004 and $544 million or 47% in 2003 because the Company opened fewer restaurants in both years, concentrating new restaurant investments in markets with acceptable returns or opportunities for long-term growth. Capital expenditures for existing restaurants increased in 2004 due to the Company's focus on growing sales at existing restaurants including reinvestment initiatives such as restaurant reimaging in several markets around the world, including the U.S.

Average development costs 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, are managed through the use of optimally sized restaurants, construction and design efficiencies, leveraging best practices and sourcing globally. In addition, foreign currency fluctuations affect average development costs. In 2005, the Company is targeting 11 consolidated markets, including the U.S., for opening ten or more restaurants. Although the Company is not responsible for all costs on every restaurant opened, in 2004 total development costs (consisting of land, buildings and equipment) for new traditional McDonald's restaurants averaged approximately $1.8 million in the U.S. and approximately $1.7 million in the 10 markets outside the U.S.

The Company and its affiliates owned about 37% of the land and 59% of the buildings for its restaurants at year-end 2004. In 2003, the Company and its affiliates owned about 37% of the land and 60% of the buildings for its restaurants at year end.

Share repurchases and dividends

During 2004, the Company acquired 22.2 million shares of McDonald's stock for approximately $605 million under a $5.0 billion share repurchase program authorized in 2001. Through 2004, 61.2 million shares for $1.6 billion have been repurchased under this program.

The Company has paid dividends on its common stock for 29 consecutive years and has increased the dividend amount every year. In 2004, the Company declared a 38% increase in the annual dividend to $0.55 per share or $695 million, reflecting the Company's confidence in the ongoing strength and reliability of its cash flow and positive results from its revitalization efforts. As in the past, future dividends will be considered after reviewing returns to shareholders, profitability expectations and financing needs and will be declared at the discretion of the Board of Directors. Cash dividends are declared and paid on an annual basis.

Financial position and capital resources

Total assets and returns

Total assets grew by $2.0 billion or 8% in 2004 and $1.6 billion or 7% in 2003. Changes in foreign currency exchange rates increased total assets by approximately $1.0 billion in 2004 and $1.9 billion in 2003. At year-end 2004 and 2003, nearly 70% of consolidated assets were located in the major markets. Net property and equipment rose $778.4 million in 2004 and represented 74% of total assets at year end.

Operating income is used to compute return on average assets, while income before the cumulative effect of accounting changes 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

	2004	**2003**	**2002**
Return on average assets	**13.4%**	11.4%	9.2%
Return on average common equity	**17.8**	13.3	9.8

Impairment and other charges reduced return on average assets by 0.9 percentage points in 2004, 1.4 percentage points in 2003 and 3.6 percentage points in 2002. In addition, these charges reduced return on average common equity by 1.3 percentage points in 2004, 2.8 percentage points in 2003 and 7.0 percentage points in 2002. In 2004, return on average assets and return on average common equity both increased due to strong operating results in the U.S. and improved results in Europe. In 2003, return on average assets and return on average common equity both began to stabilize due to strong operating results in the U.S., partly offset by weak operating results in most markets in APMEA and Latin America. During 2005, the Company will continue to concentrate McDonald's restaurant openings and new capital invested in markets with acceptable returns or opportunities for long-term growth, such as China.

Financing and market risk

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2004 totaled $9.2 billion, compared with $9.7 billion at December 31, 2003. The net decrease in 2004 was due to net payments ($815 million) and SFAS No.133 noncash fair value adjustments ($19 million), partly offset by the impact of changes in exchange rates on foreign currency denominated debt ($323 million).

Debt highlights (1)

	2004	**2003**	**2002**
Fixed-rate debt as a percent of total debt (2,3)	**59%**	62%	62%
Weighted-average annual interest rate of total debt	**3.9**	4.1	4.1
Foreign currency-denominated debt as a percent of total debt (2,3)	**72**	71	64
Total debt as a percent of total capitalization (total debt and total shareholders' equity) (2)	**39**	44	48
Cash provided by operations as a percent of total debt (2)	**44**	35	30

(1) All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year.
(2) Based on debt obligations before the effect of SFAS No.133 fair value adjustments. This effect is excluded, as these adjustments ultimately have no impact on the obligation at maturity. See Debt financing note to the consolidated financial statements.
(3) Includes the effect of interest rate and foreign currency exchange agreements.

Moody's, Standard & Poor's and Fitch currently rate the Company's commercial paper P-1, A-1 and F1, respectively; and its long-term debt A2, A and A, respectively. Historically, the Company has not experienced difficulty in obtaining financing or refinancing existing debt. The Company's key metrics for monitoring its credit structure are shown in the preceding table. While the Company targets these metrics for ease of focus, it also looks at similar credit ratios that incorporate capitalized operating leases to estimate total adjusted debt. Total adjusted debt is a term that is commonly used by the rating agencies referred to above, which includes debt outstanding on the Company's balance sheet plus an adjustment to capitalize operating leases. Two of the three agencies use a multiple of eight times rent expense. The Company also uses this methodology in combination with certain other adjustments to more accurately reflect its total net lease commitments. These adjustments include: excluding percent rents in excess of minimum rents; excluding certain Company-operated restaurant lease agreements outside the U.S. that are cancelable with minimal penalties (representing approximately 20% of Company-operated restaurant leases outside the U.S., based on the Company's estimate); capitalizing non-restaurant leases using a multiple of three times rent expense; and reducing total rent expense by approximately half of the annual minimum rent payments due to the Company from franchisees operating on leased sites. Based on this calculation, for credit analysis purposes approximately $4 billion of future operating lease payments would be capitalized.

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. The Company has $1.3 billion available under a committed line of credit agreement (see Debt financing note to the consolidated financial statements) as well as approximately $1.4 billion under a U.S. shelf registration and $607 million under a Euro Medium-Term Notes program for future debt issuance.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements and reduce interest expense. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating exchange agreements and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes. All exchange agreements are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate exchange agreements and finances in the currencies in which assets are denominated. All derivatives were recorded at fair value in the Company's Consolidated balance sheet at December 31, 2004 and 2003 as follows: miscellaneous other assets–$102 million and $102 million; other long-term liabilities (excluding accrued interest)–$218 million and $136 million; and accrued payroll and other liabilities $17 million and $29 million. See Summary of significant accounting policies note to the consolidated financial statements related to financial instruments for additional information regarding their use and the impact of SFAS No.133 regarding derivatives.

The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency denominated debt, including the effects of foreign currency exchange agreements, was $6.6 billion and $6.8 billion for the years ended 2004 and 2003, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2004 and 2003, the Company was required to post collateral of $46 million and $12 million, respectively.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

IN MILLIONS OF U.S. DOLLARS	**2004**	**2003**
Euro	**$2,453**	$1,922
Canadian Dollars	**1,382**	1,086
British Pounds Sterling	**1,086**	741
Australian Dollars	**880**	781
Brazilian Reais	**372**	365

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 relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on sales levels, 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 2004 levels nor a 10% adverse change in foreign currency rates from 2004 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

Contractual obligations and commitments

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2004. (See discussions of Cash flows and Financial position and capital resources

as well as the Notes to the consolidated financial statements for further details.)

IN MILLIONS	Contractual cash outflows: Operating leases	Contractual cash outflows: Debt obligations (1)	Contractual cash Inflows: Minimum rent under franchise arrangements
2005	$ 1,062	$ 862	$ 1,875
2006	1,000	1,262	1,829
2007	929	776	1,779
2008	865	831	1,724
2009	807	420	1,656
Thereafter	6,780	4,766	12,773
Total	$11,443	$ 8,917	$ 21,636

(1) The maturities reflect reclassifications of short-term obligations to long-term obligations of $1.3 billion, as they are supported by a long-term line of credit agreement expiring in 2010. Debt obligations do not include $303 million of SFAS No.133 noncash fair value adjustments. This effect is excluded as these adjustments ultimately have no impact on the obligation at maturity.

The Company maintains a nonqualified, unfunded Supplemental Plan that allows participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the Profit Sharing and Savings Plan because of Internal Revenue Service limitations. The investment alternatives and returns in the Supplemental Plan are based on certain market-rate investment alternatives under the Profit Sharing and Savings Plan. Total liabilities under the Supplemental Plan were $350 million at December 31, 2004 and $329 million at December 31, 2003, and were included in other long-term liabilities in the Consolidated balance sheet.

In addition to long-term obligations, the Company had guaranteed certain affiliate and other loans totaling $70 million at December 31, 2004.

Other matters

Critical accounting policies and estimates

Management's discussion and analysis of financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgements based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under various assumptions or conditions.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to ensure that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgement and/or complexity.

- *Property and Equipment*

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods.

- *Long-Lived Assets*

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company's long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. The biggest assumption impacting estimated future cash flows is the estimated change in comparable sales. Estimates of future cash flows are highly subjective judgements based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges.

- *Restructuring and Litigation Accruals*

The Company has recorded charges related to restructuring markets, closing restaurants, eliminating positions and other strategic changes. The accruals recorded included estimates pertaining to employee termination costs, number of restaurants to be closed and remaining lease obligations for closed facilities. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates.

From time to time, the Company is subject to proceedings, lawsuits and other claims related to competitors, customers, employees, franchisees, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgements or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter will have a material adverse effect on its financial condition or results of operations.

- *Income Taxes*

The Company records a valuation allowance to reduce its deferred tax assets if it is more likely than not that some portion or all of the deferred assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The Company expects to settle the audits of its 2000 through 2002 U.S. tax returns in the first half of 2005.

Deferred U.S. income taxes have not been recorded for basis differences totaling $5.5 billion related to investments in certain foreign subsidiaries and corporate joint ventures. The basis differences consist primarily of undistributed earnings and other than the potential repatriation of earnings under the new tax law, as described below, these earnings are considered permanently invested in the businesses. If management's intentions change in the future, deferred taxes may need to be provided.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As such, we have not yet decided on whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. Based on our analysis to date, however, it is reasonably possible that we may repatriate between $0 and $3.2 billion, with the respective tax liability ranging from $0 to $100 million. We expect to finalize our assessment once clarifying guidance is issued.

New accounting standards

In December 2004, the FASB issued Statement No.123(R), *Share-Based Payment*, effective third quarter 2005 for the Company, which is a revision of FASB Statement No.123, *Accounting for Stock-Based Compensation.* Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using the intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have an impact on our results of operations.

The Company expects to adopt Statement 123(R) during the first quarter 2005 using the modified-retrospective method restating prior periods. Had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the pro forma disclosures in the Summary of significant accounting policies note to the consolidated financial statements.

Partly in anticipation of these new accounting rules, the Company modified its compensation plans to limit eligibility to receive share-based compensation and shifted a portion of share-based compensation primarily to cash-based incentive compensation. We expect the 2005 impact of the adoption of Statement 123(R) combined with the modifications to the Company's compensation plans to be about $0.10 per share of expense.

Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current rules. This requirement will reduce net operating cash flow and increase net financing cash flow.

Effects of changing–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, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

Forward-looking statements

This report includes forward-looking statements about our operating plans and future performance, including those under Outlook for 2005. These statements use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. They reflect management's current expectations about future events and speak only as of the date of this report. We undertake no obligation to publicly update or revise them. Management's expectations may change or not be realized and, in any event, they are subject to risks, uncertainties and changes in circumstances that are difficult to predict and often beyond our control. For these reasons, you should not place undue reliance on forward-looking statements. The following are some of the considerations and factors that could change our expectations (or the underlying assumptions) or affect our ability to realize them:

- Our ability to anticipate and respond to changing trends in the informal eating out market, such as spending patterns, demographic changes and consumer food preferences, as well as expected increases in expenditures on initiatives to address these trends and other competitive pressures;

- The success of our product plans for 2005 to roll-out new products and product line extensions, and our ability to continue robust product development and manage the complexity of our restaurant operations;
- Our ability to achieve an overall product mix that differentiates the McDonald's experience and balances consumer value with margin expansion, including in markets where cost or pricing pressures may be significant;
- The impact of pricing, marketing and promotional plans on product sales and margins and on our ability to target these efforts effectively to maintain or expand market share;
- The success of initiatives to support menu choice, physical activity and consumer education;
- Our ability to continue to drive service improvements, recruit qualified restaurant personnel and motivate our employees to achieve sustained high service levels throughout the McDonald's System;
- Whether restaurant remodeling and rebuilding efforts will foster sustained increases in comparable sales for the affected restaurants and yield our desired return on our capital investment;
- Our ability to leverage promotional or operating successes in local markets into additional markets in a timely and cost-effective way;
- Our ability to develop effective initiatives in challenging markets, such as the U.K., which is experiencing a contracting informal eating out market, or Germany and South Korea, which are experiencing prolonged adverse economic conditions and low consumer confidence levels;
- Decisions by management to curtail or cease investment in underperforming markets or assets, which can result in material impairment charges that reduce our earnings;
- Unexpected disruptions in our supply chain or adverse consumer perceptions about the reliability of our supply chain and the safety of the commodities we use, particularly beef and chicken;
- The success of our strategy for growth in China and our ability to manage the costs of our development plans in that market, where competitive pressures and other operating conditions may limit pricing flexibility;
- Information security risks, as well as other costs or exposures associated with information security and the use of cashless payments, such as increased investment in technology, costs of compliance with privacy, consumer protection and other laws and consumer credit fraud;
- Our ability to manage the impact on our business of fluctuations in global and local economic conditions, including commodity prices, interest and foreign exchange rates and the effects of governmental initiatives to manage national economic conditions such as consumer spending and inflation rates;
- Changes in accounting principles or practices (or related legal or regulatory interpretations or our critical accounting estimates);
- Adverse results of pending or future litigation challenging our products or the appropriateness or accuracy of our advertising;
- Trends in litigation, such as class actions involving consumers and shareholders and litigation involving labor and employment matters or landlord liability, the relative level of defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings and the possibility of settlements or judgements;
- The risks of operating in markets, such as Brazil and China, in which there are significant uncertainties about the application of legal requirements and the enforceability of laws and contractual obligations;
- The costs and other effects of operating in an increasingly regulated environment worldwide, including the costs of compliance with often conflicting regulations in multiple national markets and the impact of new or changing regulation that affects or restricts elements of our business, such as possible changes in regulations relating to advertising to children; and
- Our ability to manage the impact on our business of disruptions such as regional political instability, war, terrorist activities, severe or prolonged adverse weather conditions and health epidemics or pandemics.

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Item 7A. Quantitative and qualitative disclosures about market risk

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 22 of this Form 10-K.

Ite m 8. Financial statements and supplementary data

Consolidated statement of income

IN MILLIONS, EXCEPT PER SHARE DATA	Years ended December 31, 2004	2003	2002
REVENUES			
Sales by Company-operated restaurants	**$14,223.8**	$12,795.4	$11,499.6
Revenues from franchised and affiliated restaurants	**4,840.9**	4,345.1	3,906.1
Total revenues	**19,064.7**	17,140.5	15,405.7
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**4,852.7**	4,314.8	3,917.4
Payroll & employee benefits	**3,726.3**	3,411.4	3,078.2
Occupancy & other operating expenses	**3,520.8**	3,279.8	2,911.0
Franchised restaurants–occupancy expenses	**1,003.2**	937.7	840.1
Selling, general & administrative expenses	**1,980.0**	1,833.0	1,712.8
Other operating expense, net	**441.2**	531.6	833.3
Total operating costs and expenses	**15,524.2**	14,308.3	13,292.8
Operating income	**3,540.5**	2,832.2	2,112.9
Interest expense–net of capitalized interest of $4.1, $7.8 and $ 14.3	**358.4**	388.0	374.1
Nonoperating (income) expense, net	**(20.3)**	97.8	76.7
Income before provision for income taxes and cumulative effect of accounting changes	**3,202.4**	2,346.4	1,662.1
Provision for income taxes	**923.9**	838.2	670.0
Income before cumulative effect of accounting changes	**2,278.5**	1,508.2	992.1
Cumulative effect of accounting changes, net of tax benefits of $9.4 and $ 17.6		(36.8)	(98.6)
Net income	**$ 2,278.5**	$ 1,471.4	$ 893.5
Per common share–basic:			
Income before cumulative effect of accounting changes	**$ 1.81**	$ 1.19	$ .78
Cumulative effect of accounting changes		(.03)	(.08)
Net income	**$ 1.81**	$ 1.16	$ .70
Per common share–diluted:			
Income before cumulative effect of accounting changes	**$ 1.79**	$ 1.18	$ .77
Cumulative effect of accounting changes		(.03)	(.07)
Net income	**$ 1.79**	$ 1.15	$ .70
Dividends per common share	**$ .55**	$ .40	$ .24
Weighted-average shares outstanding–basic	**1,259.7**	1,269.8	1,273.1
Weighted-average shares outstanding–diluted	**1,273.7**	1,276.5	1,281.5

See Notes to consolidated financial statements.

Consolidated balance sheet

IN MILLIONS, EXCEPT PER SHARE DATA	December 31, 2004	2003
ASSETS		
Current assets		
Cash and equivalents	**$ 1,379.8**	$ 492.8
Accounts and notes receivable	**745.5**	734.5
Inventories, at cost, not in excess of market	**147.5**	129.4
Prepaid expenses and other current assets	**585.0**	528.7
Total current assets	**2,857.8**	1,885.4
Other assets		
Investments in and advances to affiliates	**1,109.9**	1,089.6
Goodwill, net	**1,828.3**	1,665.1
Miscellaneous	**1,338.4**	1,273.2
Total other assets	**4,276.6**	4,027.9
Property and equipment		
Property and equipment, at cost	**30,507.8**	28,740.2
Accumulated depreciation and amortization	**(9,804.7)**	(8,815.5)
Net property and equipment	**20,703.1**	19,924.7
Total assets	**$27,837.5**	$25,838.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 714.3**	$ 577.4
Income taxes	**331.3**	334.2
Other taxes	**245.1**	222.0
Accrued interest	**179.4**	193.1
Accrued restructuring and restaurant closing costs	**71.5**	115.7
Accrued payroll and other liabilities	**1,116.7**	918.1
Current maturities of long-term debt	**862.2**	388.0
Total current liabilities	**3,520.5**	2,748.5
Long-term debt	**8,357.3**	9,342.5
Other long-term liabilities	**976.7**	699.8
Deferred income taxes	**781.5**	1,065.3
Shareholders' equity		
Preferred stock, no par value; authorized–165.0 million shares; issued–none		
Common stock, $.01 par value; authorized–3.5 billion shares; issued–1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**2,186.0**	1,837.5
Unearned ESOP compensation	**(82.8)**	(90.5)
Retained earnings	**21,755.8**	20,172.3
Accumulated other comprehensive income (loss)	**(96.0)**	(635.5)
Common stock in treasury, at cost; 390.7 and 398.7 million shares	**(9,578.1)**	(9,318.5)
Total shareholders' equity	**14,201.5**	11,981.9
Total liabilities and shareholders' equity	**$27,837.5**	$25,838.0

See Notes to consolidated financial statements.

Consolidated statement of cash flows

IN MILLIONS	Years ended December 31, 2004	2003	2002
Operating activities			
Net income	**$ 2,278.5**	$ 1,471.4	$ 893.5
Adjustments to reconcile to cash provided by operations			
Cumulative effect of accounting changes		36.8	98.6
Depreciation and amortization	**1,201.0**	1,148.2	1,050.8
Deferred income taxes	**(171.9)**	181.4	(44.6)
Changes in working capital items			
Accounts receivable	**(35.9)**	64.0	1.6
Inventories, prepaid expenses and other current assets	**(14.9)**	(30.2)	(38.1)
Accounts payable	**86.7**	(77.6)	(11.2)
Income taxes	**84.2**	23.5	139.0
Other accrued liabilities	**70.2**	(170.7)	309.0
Other (including noncash portion of impairment and other charges)	**405.7**	622.0	491.5
Cash provided by operations	**3,903.6**	3,268.8	2,890.1
Investing activities			
Property and equipment expenditures	**(1,419.3)**	(1,307.4)	(2,003.8)
Purchases of restaurant businesses	**(149.7)**	(375.8)	(548.4)
Sales of restaurant businesses and property	**306.3**	390.6	369.5
Other	**(120.4)**	(77.0)	(283.9)
Cash used for investing activities	**(1,383.1)**	(1,369.6)	(2,466.6)
Financing activities			
Net short-term borrowings (repayments)	**35.9**	(533.5)	(606.8)
Long-term financing issuances	**225.6**	398.1	1,502.6
Long-term financing repayments	**(1,077.0)**	(756.2)	(750.3)
Treasury stock purchases	**(621.0)**	(391.0)	(670.2)
Common stock dividends	**(695.0)**	(503.5)	(297.4)
Proceeds from stock option exercises	**580.5**	171.2	195.0
Other	**(82.5)**	(121.9)	115.9
Cash used for financing activities	**(1,633.5)**	(1,736.8)	(511.2)
Cash and equivalents increase (decrease)	**887.0**	162.4	(87.7)
Cash and equivalents at beginning of year	**492.8**	330.4	418.1
Cash and equivalents at end of year	**$ 1,379.8**	$ 492.8	$ 330.4
Supplemental cash flow disclosures			
Interest paid	**$ 370.2**	$ 426.9	$ 359.7
Income taxes paid	**1,017.6**	608.5	572.2

See Notes to consolidated financial statements.

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Consolidated statement of shareholders' equity

IN MILLIONS, EXCEPT PER SHARE DATA	Common stock Issued: Shares	Common stock Issued: Amount	Additional paid-in capital	Unearned ESOP compensation	Retained earnings	Accumulated other comprehensive income (loss): Deferred hedging adjustment	Accumulated other comprehensive income (loss): Foreign currency translation	Common stock in treasury: Shares	Common stock in treasury: Amount	Total shareholders' equity
Balance at December 31, 2001	1,660.6	$ 16.6	$1,591.2	$ (106.7)	$18,608.3	$ (9.3)	$ (1,699.5)	(379.9)	$(8,912.2)	$ 9,488.4
Net income					893.5					893.5
Translation adjustments (including tax benefits of $150.5)							106.7			106.7
Fair value adjustments–cash flow hedges (including tax benefits of $3.5)						0.8				0.8
Comprehensive income										1,001.0
Common stock cash dividends ($.24 per share)					(297.4)					(297.4)
ESOP loan payment				7.4						7.4
Treasury stock purchases								(25.6)	(686.9)	(686.9)
Common equity put option expirations and forward contracts settled									500.8	500.8
Stock option exercises and other (including tax benefits of $61.3)			156.1	0.9				13.1	110.6	267.6
Balance at December 31, 2002	1,660.6	16.6	1,747.3	(98.4)	19,204.4	(8.5)	(1,592.8)	(392.4)	(8,987.7)	10,280.9
Net income					1,471.4					1,471.4
Translation adjustments (including tax benefits of $203.2)							957.8			957.8
Fair value adjustments–cash flow hedges (including taxes of $1.6)						8.0				8.0
Comprehensive income										2,437.2
Common stock cash dividends ($.40 per share)					(503.5)					(503.5)
ESOP loan payment				7.2						7.2
Treasury stock purchases								(18.9)	(438.7)	(438.7)
Stock option exercises and other (including tax benefits of $20.5)			90.2	0.7				12.6	107.9	198.8
Balance at December 31, 2003	1,660.6	16.6	1,837.5	(90.5)	20,172.3	(0.5)	(635.0)	(398.7)	(9,318.5)	11,981.9
Net income					**2,278.5**					**2,278.5**
Translation adjustments (including tax benefits of $106.3)							**554.7**			**554.7**
Fair value adjustments–cash flow hedges (including tax benefits of $3.3)						**(15.2)**				**(15.2)**
Comprehensive income										**2,818.0**
Common stock cash dividends ($.55 per share)					**(695.0)**					**(695.0)**
ESOP loan payment				**7.9**						**7.9**
Treasury stock purchases								**(22.2)**	**(605.3)**	**(605.3)**
Stock option exercises and other (including tax										

benefits of $87.3)			**348.5**	**(0.2)**				**30.2**	**345.7**	**694.0**
Balance at December 31, 2004	**1,660.6**	**$ 16.6**	**$2,186.0**	**$ (82.8)**	**$21,755.8**	**$ (15.7)**	**$ (80.3)**	**(390.7)**	**$(9,578.1)**	**$ 14,201.5**

See Notes to consolidated financial statements.

Notes to consolidated financial statements

Summary of significant accounting policies

Nature of business

The Company primarily operates and franchises McDonald's restaurants in the food service industry. The Company also operates Boston Market and Chipotle Mexican Grill in the U.S. and has a minority ownership in U.K.-based Pret A Manger. In December 2003, the Company sold its Donatos Pizzeria business.

All restaurants are operated either by the Company, by independent entrepreneurs under the terms of franchise arrangements (franchisees), or by affiliates operating under license agreements.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less (primarily McDonald's Japan) 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.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. Sales by Company-operated restaurants are recognized on a cash basis. Fees from franchised and affiliated restaurants include continuing rent and service fees, initial fees and royalties received from foreign affiliates and developmental licensees. Continuing fees and royalties are recognized in the period earned. Initial fees are recognized upon opening of a restaurant, which is when the Company has performed substantially all initial services required by the franchise arrangement.

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

Advertising costs included in costs of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2004–$619.5; 2003–$596.7; 2002–$532.3. Production costs for radio and television advertising, primarily in the U.S., are expensed when the commercials are initially aired. These production costs as well as other marketing-related expenses included in selling, general & administrative expenses were (in millions): 2004–$103.1; 2003–$113.1; 2002–$115.3. In addition, significant advertising costs are incurred by franchisees through advertising cooperatives in individual markets.

Stock-based compensation

The Company accounts for all stock-based compensation as prescribed by Accounting Principles Board Opinion No. 25. The Company discloses pro forma net income and net income per common share, as provided by Statement of Financial Accounting Standards (SFAS) No.123, as amended by SFAS No.148, *Accounting for Stock-Based Compensation.*

The pro forma information was determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No.123. The fair value of these options was estimated at the date of grant using an option pricing model. For pro forma disclosures, the options' estimated fair value was amortized over their vesting period. The following tables present the pro forma disclosures and the weighted-average assumptions used to estimate the fair value of these options.

Pro forma disclosures

IN MILLIONS, EXCEPT PER SHARE DATA	**2004**	**2003**	**2002**
As reported–net income	**$2,278.5**	$1,471.4	$ 893.5
Add: Total stock-based employee compensation included in reported net income, net of related tax effects	**6.8**	4.4	—
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	**(156.3)**	(224.1)	(251.7)
Pro forma–net income	**$2,129.0**	$1,251.7	$ 641.8

Net income per share:			
As reported–basic	**$ 1.81**	$ 1.16	$ .70
Pro forma–basic	**$ 1.69**	$ .99	$ .50
As reported–diluted	**$ 1.79**	$ 1.15	$ .70
Pro forma–diluted	**$ 1.68**	$ .98	$ .50

Weighted-average assumptions

	2004	**2003**	**2002**
Expected dividend yield	**1.51%**	.75%	.75%
Expected stock price volatility	**28.6%**	28.1%	27.5%
Risk-free interest rate	**3.93%**	3.46%	5.25%
Expected life of options *IN YEARS*	**7**	7	7
Fair value per option granted	**$ 8.44**	$ 5.09	$ 10.88

In December 2004, the FASB issued Statement No. 123(R), *Share-Based Payment*, effective third quarter 2005 for the Company, which is a revision of FASB Statement No.123, *Accounting for Stock-Based Compensation.* Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

As permitted by Statement 123, the Company currently accounts for share-based payments to employees using the intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)'s fair value method will have an impact on our results of operations.

The Company expects to adopt Statement 123(R) during the first quarter 2005 using the modified-retrospective method restating prior periods. Had the Company adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the table above.

Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current rules. This requirement will reduce net operating cash flow and increase net financing cash flow.

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 which generally include option periods; and equipment–three to 12 years.

Goodwill

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurant businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in international subsidiaries or affiliates.

In 2001, the FASB issued SFAS No.141, *Business Combinations*, and No.142, *Goodwill and Other Intangible Assets*. SFAS No.141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations. SFAS No. 142, effective January 1, 2002, eliminates the amortization of goodwill (and intangible assets deemed to have indefinite lives) and instead subjects it to annual impairment tests. Other intangible assets continue to be amortized over their useful lives.

Under SFAS No.142, goodwill is generally assigned to the reporting units expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the portion of the reporting unit (defined as each individual country for McDonald's restaurant business as well as each individual non-McDonald's brand) that will be retained.

The annual goodwill impairment test in the fourth quarter compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the fair value of the reporting unit's goodwill and the carrying amount of goodwill.

The Company performed the initial required goodwill impairment test as of January 1, 2002 and recorded a non-cash charge of $98.6 million after tax ($0.07 per diluted share) for the cumulative effect of this accounting change. The impaired goodwill resulted primarily from businesses in Argentina, Uruguay and other markets in Latin America and the Middle East, where economies had weakened significantly.

The following table presents the 2004 activity in goodwill by segment.

IN MILLIONS	**U.S**	**Europe**	**APMEA (1)**	**Latin America**	**Canada**	**Other (2)**	**Consolidated**
Balance at December 31, 2003	$733.0	$510.7	$ 211.6	$ 62.3	$ 96.6	$ 50.9	$ 1,665.1
Net restaurant purchases	59.6	17.5	4.6	22.4	10.1	—	114.2
Ownership increases in subsidiaries/affiliates	—	—	15.6	4.1	—	2.6	22.3
Impairment charges	—	(2.4)	(25.9)	—	—	—	(28.3)
Currency Translation	—	39.8	8.2	(1.3)	8.3	—	55.0
Balance at December 31, 2004	**$792.6**	**$565.6**	**$ 214.1**	**$ 87.5**	**$115.0**	**$ 53.5**	**$ 1,828.3**

(1) APMEA represents Asia/Pacific, Middle East and Africa.
(2) Other represents non-McDonald's brands.

Long-lived assets

In accordance with SFAS No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald's restaurant assets for potential impairment, assets are initially grouped together at a television market level in the U.S. and at a country level for each of the international markets. If an indicator of impairment (e.g., negative operating cash flows for the most recent trailing 24-month period) exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an asset is determined to be impaired, the loss is measured by the excess of the carrying amount of the asset over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management has approved and committed to a plan to dispose of the assets, and the assets are available for disposal. Generally, such losses relate to either restaurants that have closed and ceased operations or businesses or restaurants that are available for sale.

Financial instruments

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to manage the impact of these changes. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes.

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 did not have significant exposure to any individual counterparty at December 31, 2004 and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2004 and 2003, the Company was required to post collateral of $45.6 million and $11.6 million, respectively.

SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires companies to recognize all derivatives as either assets or liabilities in the balance sheet at fair value. SFAS No.133 also requires companies to designate all derivatives that qualify as hedging instruments as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. This designation is based upon the exposure being hedged.

All derivatives, primarily interest rate exchange agreements and foreign currency exchange agreements, were classified in the Consolidated balance sheet at December 31, 2004 and 2003 respectively, as follows: miscellaneous other assets–$101.6 and $102.4 million; other long-term liabilities (excluding accrued interest)–$218.1 and $135.5 million; and accrued payroll and other liabilities–$16.7 and $29.2 million.

There was no significant impact to the Company's earnings related to the ineffective portion of any hedging instruments for the three years ended December 31, 2004.

- *Fair value hedges*

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain assets or liabilities. The types of fair value hedges the Company enters into include: (1) interest rate exchange agreements to convert a portion of its fixed-rate debt to floating-rate debt and (2) foreign currency exchange agreements for the exchange of various currencies and interest rates. The foreign currency exchange agreements are entered into to hedge the currency risk associated with debt and intercompany loans denominated in foreign currencies, and essentially result in floating-rate assets or liabilities denominated in U.S. Dollars or appropriate functional currencies.

For fair value hedges, the gains or losses on derivatives as well as the offsetting gains or losses on the related hedged items are recognized in current earnings.

- *Cash flow hedges*

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. The types of cash flow hedges the Company enters into include: (1) interest rate exchange agreements that effectively convert a portion of floating-rate debt to fixed-rate debt and are designed to reduce the impact of interest rate changes on future interest expense, (2) forward foreign exchange contracts and foreign currency options that are designed to protect against the reduction in value of forecasted foreign currency cash flows such as royalties and other payments denominated in foreign currencies, and (3) foreign currency exchange agreements for the exchange of various currencies and interest rates. The foreign currency exchange agreements hedge the currency risk associated with debt and intercompany loans denominated in foreign currencies, and essentially result in fixed-rate assets or liabilities denominated in U.S. Dollars or appropriate functional currencies.

For cash flow hedges, the effective portion of the gains or losses on derivatives is reported in the deferred hedging adjustment component of accumulated other comprehensive income in shareholders' equity and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in earnings during the period of change.

The Company recorded after tax adjustments related to cash flow hedges to the deferred hedging adjustment component of accumulated other comprehensive income in shareholders' equity. The Company recorded a net decrease of $15.2 million for the year ended December 31, 2004 and net increases of $8.0 million and $0.8 million for the years ended December 31, 2003 and 2002, respectively. Based on interest rates and foreign currency exchange rates at December 31, 2004, no significant amount of deferred hedging adjustments, after tax, included in accumulated other comprehensive income in shareholders' equity at December 31, 2004, will be recognized in earnings in 2005 as the underlying hedged transactions are realized. The maximum maturity date of any cash flow hedge of forecasted transactions at December 31, 2004 was 15 months, excluding instruments hedging forecasted payments of variable interest on existing financial instruments that have various maturity dates through 2015.

- *Hedges of net investments in foreign operations*

The Company uses forward foreign exchange contracts and foreign currency denominated debt to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in accumulated other comprehensive income.

During the year ended December 31, 2004, the Company recorded a decrease in translation adjustments in accumulated other comprehensive income of $190.7 million after tax (included in the net increase of $554.7 million of translation adjustments in the Consolidated statement of shareholders' equity), related primarily to foreign currency denominated debt designated as hedges of net investments. During the years ended December 31, 2003 and 2002, the Company recorded a decrease in translation adjustments in accumulated other comprehensive income of $378.1 million and $312.0 million, respectively, after tax, related to hedges of net investments.

Asset retirement obligations

The FASB SFAS No.143, *Accounting for Asset Retirement Obligations,* became effective January 1, 2003 and requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, the cost is capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. In first quarter 2003, the Company recorded a noncash charge of $36.8 million after tax ($0.03 per diluted share) related to lease obligations in certain international markets to reflect the cumulative effect of this accounting change. There is not a material effect to the Company's ongoing results of operations or financial position related to SFAS No.143.

Common equity put options and forward contracts

During 2001, the Company sold 12.2 million common equity put options in connection with its share repurchase program. Premiums received of $31.8 million were recorded in shareholders' equity as a reduction of the cost of treasury stock purchased. In 2002, 10.1 million common equity put options were exercised and 2.1 million options expired unexercised, while 21.0 million options were exercised in 2001. The total amount paid to acquire these shares as a result of the options being exercised was $286 million in 2002 and $700 million in 2001. No common equity put options were sold in 2004, 2003 or 2002; therefore, at December 31, 2004, 2003 and 2002, there were no common equity put options outstanding.

During 2001, the Company also entered into equity forward contracts in connection with its share repurchase program. The forward contracts for 5.5 million shares settled in March 2002. No additional equity forward contracts were entered into subsequent to March 2002.

Sales of stock by subsidiaries and affiliates

As permitted by Staff Accounting Bulletin No.51 issued by the Securities and Exchange Commission, when a subsidiary or affiliate sells unissued shares in a public offering, the Company records an adjustment to reflect an increase or decrease in the carrying value of its investment and a resulting nonoperating gain or loss.

Income tax contingencies

The Company like other multi-national companies is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax reserves have been recorded when in management's judgement it is not probable that the Company's tax position will ultimately be sustained. While predicting the outcome of the audits involves uncertainty and requires estimates and informed judgements, we believe that the recorded tax liabilities are adequate and appropriate. The judgements and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretation of regulations. Income tax expense is adjusted in the period in which these events occur or when the statute of limitations for a specific exposure item has expired.

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 weighted-average shares outstanding plus the dilutive effect of primarily stock-based employee compensation calculated using the treasury stock method. The dilutive effect of stock options was (in millions of shares): 2004–14.0; 2003–6.7; 2002–8.4. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2004–85.5; 2003–159.1; 2002–148.0.

Statement of cash flows

The Company considers short-term, highly liquid investments with a maturity of 90 days or less to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Other operating (income) expense, net

IN MILLIONS	2004	2003	2002
Gains on sales of restaurant businesses	**$ (45.0)**	$ (54.5)	$(113.6)
Equity in earnings of unconsolidated affiliates	**(60.0)**	(36.9)	(24.1)
Other expense	**255.8**	215.4	117.8
Impairment and other charges:			
Restaurant closings/impairment	**130.5**	135.5	402.4
Restructuring	**—**	272.1	266.9
Current year's lease accounting correction	**20.8**	—	—
Prior years' lease accounting correction	**139.1**	—	—
Other	**—**	—	183.9
Total impairment and other charges	**290.4**	407.6	853.2
Other operating expense, net	**$441.2**	$531.6	$ 833.3

Other expense

Other expense primarily consists of gains or losses on excess property and other asset dispositions and provisions for uncollectible receivables. Other expense for 2004 also includes certain costs incurred to acquire restaurants operated by litigating franchisees in Brazil and provisions for certain contingencies.

Restaurant closings/impairment

In 2004, the Company recorded $130.5 million of pretax charges for asset and goodwill impairment, primarily in South Korea driven by its significant decline in performance over the past few years.

In 2003, the $135.5 million of net charges consisted of: $147.7 million primarily related to asset/goodwill impairment in Latin America; $29.6 million for about 50 restaurant closings associated with strategic actions in Latin America; and a $41.8 million favorable adjustment to the 2002 charge for restaurant closings, primarily due to about 85 fewer closings than originally anticipated.

In 2002, the $402.4 million of charges consisted of: $302.3 million related to management's decision to close about 750 underperforming restaurants primarily in the U.S. and Japan; and $100.1 million primarily related to the impairment of assets for certain existing restaurants in Europe and Latin America.

Restructuring

In 2003, the $272.1 million of charges consisted of: $237.0 million related to the loss on the sale of Donatos Pizzeria, the closing of Donatos and Boston Market restaurants outside the U.S. and the exit of a domestic joint venture with Fazoli's; and $35.1 million related to the revitalization plan actions of McDonald's Japan, including headcount reductions, the closing of Pret A Manger stores in Japan and the early termination of a long-term management services agreement.

In 2002, the $266.9 million of net charges consisted of: $201.4 million related to the anticipated transfer of ownership in five countries in the Middle East and Latin America to developmental licensees and ceasing operations in two countries in Latin America; $80.5 million primarily related to eliminating approximately 600 positions (about half of which were in the U.S. and half of which were in international markets), reallocating resources and consolidating certain home office facilities to control costs; and a $15.0 million favorable adjustment to the 2001 restructuring charge due to lower employee-related costs than originally anticipated.

Lease accounting correction

Like other companies in the restaurant and retail industries, McDonald's recently reviewed its accounting practices and policies with respect to leasing transactions. Following this review and in consultation with its external auditors, McDonald's has corrected an error in its prior practices to conform the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property. The result of the correction is primarily to accelerate the recognition of rent expense under certain leases that include fixed-rent escalations by revising the computation of straight-line rent expense to include these escalations for certain option periods. As the correction relates solely to accounting treatment, it does not affect McDonald's historical or future cash flows or the timing of payments under the related leases and its effect on the Company's current or prior years' earnings per share, cash from operations and shareholders' equity is immaterial. These adjustments primarily impact the U.S., China, Boston Market and Chipotle. Other markets were less significantly impacted, as many of the leases outside of the U.S. do not contain fixed-rent escalations.

Other

In 2002, the $183.9 million of charges consisted of $170.0 million primarily related to the write-off of software development costs as a result of management's decision to terminate a long-term technology project; and $13.9 million primarily related to the write-off of receivables and inventory in Venezuela as a result of the temporary closure of all McDonald's restaurants due to a national strike.

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The following table presents the activity included in accrued restructuring and restaurant closing costs in the Consolidated balance sheet.

IN MILLIONS	Liability at Dec 31, 2002	2003 activity Provision	Cash	Noncash	Liability at Dec 31, 2003	2004 activity Provision	Cash	Noncash	Liability at Dec 31, 2004
Restaurant closings/impairment:									
Asset write-offs	—	$ 144.4		$(144.4)	—	**$ 130.5**		**$(130.5)**	—
Lease termination and other	$ 128.4	(8.9)	$ (85.8)		$ 33.7		**$(16.5)**		**$ 17.2**
	128.4	135.5	(85.8)	(144.4)	33.7	**130.5**	**(16.5)**	**(130.5)**	**17.2**
Restructuring:									
Asset write-offs	—	249.5		(249.5)	—				—
Employee-related costs	72.3		(34.0)		38.3		**(12.0)**		**26.3**
Lease termination and other	103.3	22.6	(47.1)	(35.1)	43.7		**(15.7)**		**28.0**
	175.6	272.1	(81.1)	(284.6)	82.0		**(27.7)**		**54.3**
Other:									
Asset write-offs	—				—				—
Other	24.5		(24.5)		—				—
	24.5		(24.5)		—				—
Total accrued restructuring and restaurant closing costs	$ 328.5	$ 407.6	$(191.4)	$(429.0)	$ 115.7	**$ 130.5**	**$(44.2)**	**$(130.5)**	**$ 71.5**

Employee severance is generally paid in installments over a period of up to one year after termination, and the remaining lease payments for closed facilities will be paid over the next several years.

Franchise arrangements

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and service fees to the Company based upon a percent of sales with minimum rent payments that parallel the Company's underlying leases and escalations (on properties that are leased). McDonald's franchisees are granted the right to operate a restaurant using the McDonald's System and, in most 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. In addition, franchisees outside the U.S. generally pay a refundable, noninterest-bearing security deposit. Foreign affiliates and developmental licensees 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.

Revenues from franchised and affiliated restaurants consisted of:

IN MILLIONS	2004	2003	2002
Rents and service fees	**$4,804.8**	$4,302.1	$3,855.0
Initial fees	**36.1**	43.0	51.1
Revenues from franchised and affiliated restaurants	**$4,840.9**	$4,345.1	$3,906.1

Future minimum rent payments due to the Company under existing franchise arrangements are:

IN MILLIONS	Owned sites	Leased sites	Total
2005	$ 1,063.4	$ 811.7	$ 1,875.1
2006	1,038.9	790.3	1,829.2
2007	1,006.7	772.1	1,778.8
2008	972.2	751.3	1,723.5
2009	933.0	722.9	1,655.9
Thereafter	7,241.7	5,531.7	12,773.4

Total minimum payments	$12,255.9	$ 9,380.0	$21,635.9

At December 31, 2004, net property and equipment under franchise arrangements totaled $10.4 billion (including land of $3.0 billion) after deducting accumulated depreciation and amortization of $4.8 billion.

Leasing arrangements

At December 31, 2004, the Company was the lessee at 15,235 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalation terms vary by geographic segment with examples including fixed-rent escalations, escalations based on an inflation index, and fair-value market adjustments. The timing of these escalations generally ranges from annually to every five years. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. However, for franchised sites, the Company requires the franchisees to pay these costs. In addition, the Company is the lessee under noncancelable leases covering certain offices and vehicles.

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

IN MILLIONS	Restaurant	Other	Total
2005	$ 996.0	$ 65.7	$ 1,061.7
2006	945.2	54.5	999.7
2007	885.2	43.9	929.1
2008	828.7	36.3	865.0
2009	773.5	33.1	806.6
Thereafter	6,590.6	189.9	6,780.5
Total minimum payments	$11,019.2	$423.4	$11,442.6

The following table provides detail of rent expense:

IN MILLIONS	2004	2003	2002
Company-operated restaurants:			
U.S.	**$ 136.8**	$ 136.9	$ 124.0
Outside the U.S.	**446.0**	398.4	358.4
Total	**582.8**	535.3	482.4
Franchised restaurants:			
U.S.	**296.0**	279.6	254.4
Outside the U.S.	**280.2**	250.7	210.9
Total	**576.2**	530.3	465.3
Other	**94.5**	87.3	84.8
Total rent expense	**$1,253.5**	$1,152.9	$1,032.5

Rent expense included percent rents in excess of minimum rents (in millions) as follows—Company-operated restaurants: 2004–$84.4; 2003–$73.2; 2002–$64.1. Franchised restaurants: 2004–$97.3; 2003–$80.3; 2002–$67.2.

The 2004 rent expense above excludes a correction of $159.9 million ($20.8 million for the current year and $139.1 million for prior years) in the Company’s lease accounting practices made in 2004. See Other operating expense, net note to the consolidated financial statements for further discussion.

Income taxes

Income before provision for income taxes and cumulative effect of accounting changes, classified by source of income, was as follows:

IN MILLIONS	2004	2003	2002
U.S.	**$1,575.2**	$1,150.8	$ 876.3
Outside the U.S.	**1,627.2**	1,195.6	785.8
Income before provision for income taxes and cumulative effect of accounting changes	**$3,202.4**	$2,346.4	$1,662.1

The provision for income taxes, classified by the timing and location of payment, was as follows:

IN MILLIONS	2004	2003	2002
U.S. federal	**$ 557.9**	$177.9	$307.0
U.S. state	**56.4**	58.8	54.6
Outside the U.S.	**481.5**	420.1	353.0
Current tax provision	**$1,095.8**	656.8	714.6

U.S. federal	**(178.6)**	180.1	(47.4)
U.S. state	**10.9**	12.6	(7.6)
Outside the U.S.	**(4.2)**	(11.3)	10.4
Deferred tax provision (benefit)	**(171.9)**	181.4	(44.6)
Provision for income taxes	**$ 923.9**	$838.2	$670.0

Net deferred tax liabilities consisted of:

IN MILLIONS	December 31, 2004	2003
Property and equipment	**$ 1,407.9**	$ 1,447.5
Other	**211.0**	161.5
Total deferred tax liabilities	**1,618.9**	1,609.0
Intangible assets	**(301.5)**	(236.2)
Operating loss carryforwards	**(269.9)**	(228.1)
Employee benefit plans	**(134.1)**	(123.2)
Property and equipment	**(184.4)**	(132.5)
Capital loss carryforwards	**(182.7)**	(197.0)
Unrealized foreign exchange losses	**(383.7)**	(280.6)
Foreign tax credit carryforwards	**(32.2)**	(86.9)
Other	**(361.8)**	(230.5)
Total deferred tax assets before valuation allowance	**(1,850.3)**	(1,515.0)
Valuation allowance	**531.7**	483.2
Net deferred tax liabilities	**$ 300.3**	$ 577.2
Balance sheet presentation:		
Deferred income taxes	**$ 781.5**	$ 1,065.3
Other assets–miscellaneous	**(380.1)**	(312.9)
Current assets–prepaid expenses and other current assets	**(101.1)**	(175.2)
Net deferred tax liabilities	**$ 300.3**	$ 577.2

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

	2004	2003	2002
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of related federal income tax benefit	**1.4**	2.3	2.2
Benefits and taxes related to foreign operations	**(7.6)**	(2.7)	(6.3)
Impairment and other charges, net [(1)]	**.5**	2.5	8.7
Other, net	**(.4)**	(1.4)	.7
Effective income tax rates	**28.9%**	35.7%	40.3%

(1) Certain of these items were not tax effected.

Deferred U.S. income taxes have not been recorded for basis differences related to investments in certain foreign subsidiaries and corporate joint ventures. These basis differences were approximately $5.5 billion at December 31, 2004 and consisted primarily of undistributed earnings. Other than the potential repatriation of earnings under the new tax law, as described below, these earnings are considered permanently invested in the businesses. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As such, we have not decided whether, and to what extent, we might repatriate foreign earnings that have not yet been remitted to the U.S. Based on our analysis to date, however, it is reasonably possible that we may repatriate between $0 and $3.2 billion, with the respective tax liability ranging from $0 to $100 million. We expect to finalize our assessment once clarifying guidance is issued.

Segment and geographic information

The Company operates in the food service industry. Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. Fees from franchised and affiliated restaurants include continuing rent and service fees, initial fees, and royalties received from foreign affiliates and developmental licensees. 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 U.S. affiliates, which are reported before income taxes. Royalties and other payments from subsidiaries outside the U.S. were (in millions): 2004–$781.1, 2003–$684.5; 2002–$644.1.

Corporate general & administrative expenses are included in the corporate segment of operating income and consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, supply chain management and training. Corporate assets include corporate cash and equivalents, asset portions of financing instruments and home office facilities.

IN MILLIONS	2004	2003	2002
U.S.	**$ 6,525.6**	$ 6,039.3	$ 5,422.7
Europe	**6,736.3**	5,874.9	5,136.0
APMEA	**2,721.3**	2,447.6	2,367.7
Latin America	**1,007.9**	858.8	813.9
Canada	**898.1**	777.9	633.6
Other	**1,175.5**	1,142.0	1,031.8
Total revenues	**$19,064.7**	$17,140.5	$15,405.7
U.S.	**$ 2,181.4**	$ 1,982.1	$ 1,673.3
Europe	**1,471.1**	1,339.1	1,021.8
APMEA	**200.4**	226.3	64.3
Latin America	**(19.6)**	(170.9)	(133.4)
Canada	**178.0**	163.2	125.4
Other	**(16.4)**	(295.1)	(66.8)
Corporate	**(454.4)**	(412.5)	(571.7)
Total operating income	**$ 3,540.5**[1]	$ 2,832.2[2]	$ 2,112.9[3]
U.S.	**$ 8,551.5**	$ 8,549.2	$ 8,687.4
Europe	**10,389.5**	9,462.2	8,333.2
APMEA	**3,853.0**	3,773.3	3,465.0
Latin America	**1,496.6**	1,412.4	1,425.5
Canada	**1,162.4**	1,007.0	770.6
Other	**653.7**	574.8	780.4
Corporate	**1,730.8**	1,059.1	731.6
Total assets	**$27,837.5**	$25,838.0	$24,193.7
U.S.	**$ 486.7**	$ 482.4	$ 752.7
Europe	**445.0**	404.8	579.4
APMEA	**157.8**	122.1	230.4
Latin America	**62.6**	78.4	119.9
Canada	**87.5**	63.9	111.6
Other	**115.4**	132.8	190.4

Corporate	**64.3**	23.0	19.4
Total capital expenditures	**$ 1,419.3**	$ 1,307.4	$ 2,003.8
U.S.	**$ 394.6**	$ 395.1	$ 383.4
Europe	**422.6**	382.4	334.9
APMEA	**165.6**	156.5	141.7
Latin America	**66.3**	64.3	59.6
Canada	**51.9**	46.7	35.6
Other	**51.0**	53.1	40.3
Corporate	**49.0**	50.1	55.3
Total depreciation and amortization	**$ 1,201.0**	$ 1,148.2	$ 1,050.8

See Other operating expense, net note for further discussion of the following items:

(1) Includes $290.4 million of charges (U.S.–$79.8; Europe–$27.0; APMEA–$138.7; Latin America–$2.1; Canada–$3.8; and Other–$39.0) related to a correction in the Company's lease accounting practices and policies and asset/goodwill impairment.

(2) Includes $407.6 million of charges (adjustments) [U.S.–($11.4); Europe–($20.0); APMEA–$54.9; Latin America–$108.9; Canada–($1.2); Other–$266.1; and Corporate–$10.3] primarily related to the disposition of certain non-McDonald's brands and asset/goodwill impairment.

(3) Includes $853.2 million of charges (U.S.–$99.2; Europe–$147.8; APMEA–$222.3; Latin America–$142.3; Canada–$9.7; Other–$34.0; and Corporate–$197.9) primarily related to restructuring markets and eliminating positions, restaurant closings/asset impairment and the write-off of technology costs.

Total long-lived assets, primarily property and equipment, were (in millions)—Consolidated: 2004–$24,390.8; 2003–$23,405.9; 2002–$21,976.6. U.S. based: 2004–$9,219.0; 2003–$9,067.2; 2002–$9,241.2.

Debt financing

Line of credit agreements

At December 31, 2004, the Company had several line of credit agreements with various banks totaling $1.3 billion, all of which remained unused. Subsequent to year end, the Company renegotiated the agreements into a single $1.3 billion line of credit agreement expiring in 2010 with fees based on current credit ratings of 0.08% per annum on the total commitment. Fees and interest rates on this line are based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling $690.0 million at December 31, 2004; 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 was 4.4% at December 31, 2004 (based on $397.2 million of foreign currency bank line borrowings) and 4.3% at December 31, 2003 (based on $341.1 million of foreign currency bank line borrowings).

Fair values

At December 31, 2004, the fair value of the Company's debt obligations was estimated at $9.7 billion, compared to a carrying amount of $9.2 billion. This fair value was 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.

The carrying amounts for both cash and equivalents and notes receivable approximate fair value. Foreign currency and interest rate exchange agreements, foreign currency options and forward foreign exchange contracts were recorded in the Consolidated balance sheet at fair value estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. No fair value was estimated for noninterest-bearing security deposits by franchisees, because these deposits are an integral part of the overall franchise arrangements.

Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the 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 the Company's debt obligations. (Interest rates reflected in the table include the effects of interest rate and foreign currency exchange agreements.)

		Interest rates [(1)] December 31		Amounts outstanding December 31	
IN MILLIONS OF U.S. DOLLARS	**Maturity dates**	**2004**	**2003**	**2004**	**2003**
Fixed-original issue [(2)]		**4.9%**	5.0%	**$ 3,338.1**	$ 3,615.5
Fixed-converted via exchange agreements [(3)]		**3.9**	4.6	**(1,694.9)**	(1,503.6)
Floating		**2.6**	.8	**916.1**	643.2
Total U.S. Dollars	2005-2028			**2,559.3**	2,755.1
Fixed		**4.2**	4.3	**1,024.7**	895.5
Floating		**2.4**	2.0	**1,867.2**	2,217.4
Total Euro	2005-2013			**2,891.9**	3,112.9
Total British Pounds Sterling-fixed	2005-2032	**6.0**	6.0	**1,147.0**	1,258.7
Fixed		**7.1**	6.1	**99.1**	131.6
Floating		**1.1**	.8	**275.4**	250.1
Total other European currencies [(4)]	2005-2007			**374.5**	381.7
Total Japanese Yen-fixed	2005-2030	**1.9**	1.9	**1,076.4**	1,028.1
Fixed		**5.6**	6.4	**195.1**	383.4
Floating		**4.3**	4.2	**672.7**	489.4

Total other currencies [5]	2005-2016	**867.8**	872.8
Debt obligations before fair value adjustments [6]		**8,916.9**	9,409.3
Fair value adjustments [7]		**302.6**	321.2
Total debt obligations [8]		**$ 9,219.5**	$ 9,730.5

(1) *Weighted-average effective rate, computed on a semiannual basis.*

(2) *Includes $150 million of debentures that mature in 2027, which are subordinated to senior debt and provide for the ability to defer interest payments up to five years under certain conditions.*

(3) *A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the net effects of these and other exchange agreements.*

(4) *Primarily consists of Swiss Francs, Swedish Kronor and Danish Kroner.*

(5) *Primarily consists of Korean Won, Chinese Renminbi, Australian Dollars, Hong Kong Dollars, and Singapore Dollars.*

(6) *Aggregate maturities for 2004 debt balances, before fair value adjustments, were as follows (in millions): 2005–$862.2; 2006–$1,262.1; 2007–$775.6; 2008–$830.5; 2009–$420.0; thereafter–$4,766.5. These amounts include a reclassification of short-term obligations totaling $1.3 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in 2010.*

(7) *SFAS No.133 requires that the underlying items in fair value hedges, in this case debt obligations, be recorded at fair value. The related hedging instrument is also recorded at fair value in either miscellaneous other assets or other long-term liabilities. A portion ($106.4 million) of the adjustments at December 31, 2004 related to interest rate exchange agreements that were terminated in December 2002 and will amortize as a reduction of interest expense over the remaining life of the debt.*

(8) *Includes current maturities of long-term debt and long-term debt included in the Consolidated balance sheet. The decrease in debt obligations from December 31, 2003 to December 31, 2004 was due to net repayments ($815.5 million) and SFAS No.133 non-cash fair value adjustments ($18.6 million), partly offset by the impact of changes in exchange rates on foreign currency denominated debt ($323.1 million).*

ESOP loans and other guarantees

At December 31, 2004, the Company has guaranteed and included in total debt $7.5 million of Notes issued by the Leveraged Employee Stock Ownership Plan (ESOP) with payments through 2006. Borrowings related to the ESOP at December 31, 2004, which include $85.9 million of loans from the Company to the ESOP and the $7.5 million of Notes guaranteed by the Company, are reflected as long-term debt with a corresponding reduction of shareholders' equity (unearned ESOP compensation). The ESOP 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 and other loans totaling $69.9 million at December 31, 2004. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of certain U.S. partnerships and franchisees, and certain affiliates. The terms of the guarantees vary and are equal to the remaining term of the related debt. At December 31, 2004, there was no carrying value for obligations under these guarantees in the Consolidated balance sheet.

Employee benefit plans

The Company's Profit Sharing and Savings Plan 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 pretax contributions that are partly matched from shares released under the ESOP. McDonald's executives, staff and restaurant managers participate in any 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.

Effective March 31, 2003, all contributions and related earnings can be invested in McDonald's common stock or among several other investment alternatives in accordance with each participant's elections. Prior to March 31, 2003, ESOP allocations and earnings were generally invested in McDonald's common stock and all other contributions and related earnings could be among several investment alternatives, including McDonald's common stock.

In addition, the Company maintains a nonqualified, unfunded Supplemental Plan that allows participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the Profit Sharing and Savings Plan because of Internal Revenue Service limitations. The investment alternatives and returns in the Supplemental Plan are based on certain market-rate investment alternatives under the Profit Sharing and Savings Plan. Total liabilities under the Supplemental Plan were $350.2 million at December 31, 2004 and $329.3 million at December 31, 2003 and were included in other long-term liabilities in the Consolidated balance sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the Supplemental Plan liabilities. At December 31, 2004, derivatives with a fair value of $66.8 million indexed to the Company's stock and $54.7 million indexed to certain market indices were included in miscellaneous other assets in the Consolidated balance sheet. All changes in Plan liabilities and in the fair value of the derivatives are recorded in selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company's stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the Profit Sharing and Savings Plan, including nonqualified benefits and related hedging activities, were (in millions): 2004–$58.5; 2003–$60.3; 2002–$50.1.

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): 2004–$47.8; 2003–$43.9; 2002–$36.8.

Other postretirement benefits and postemployment benefits, excluding severance benefits related to the 2002 restructuring charge, were immaterial.

Property and equipment

Net property and equipment consisted of:

	December 31,	
IN MILLIONS	2004	2003
Land	**$ 4,661.1**	$ 4,483.0
Buildings and improvements on owned land	**10,260.3**	9,693.4
Buildings and improvements on leased land	**10,520.7**	9,792.1
Equipment, signs and seating	**4,426.1**	4,090.5
Other	**639.6**	681.2
	30,507.8	28,740.2
Accumulated depreciation and amortization	**(9,804.7)**	(8,815.5)
Net property and equipment	**$20,703.1**	$19,924.7

Depreciation and amortization expense was (in millions): 2004–$1,138.3; 2003–$1,113.3; 2002–$971.1.

Stock-based compensation

At December 31, 2004, the Company had stock-based compensation plans for employees and nonemployee directors which authorized the granting of various equity-based incentives including stock options, restricted stock and restricted stock units. The number of shares of common stock reserved for issuance under the plans was 224.1 million at December 31, 2004, including 57.2 million available for future grants.

Stock options

Options to purchase common stock are granted at the fair market value of the stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date. Approximately 44 million options granted between May 1, 1999 and December 31, 2000 expire 13 years from the date of grant.

In 2001, the Board of Directors approved a special grant of 11.9 million options at a price of $28.90 as an incentive to meet an operating income performance goal for calendar year 2003. The options vested on January 31, 2004 and substantially all expired on June 30, 2004 because the Company did not meet the performance goal.

A summary of the status of the Company’s stock option grants as of December 31, 2004, 2003 and 2002, and changes during the years then ended, is presented in the following table.

	2004		2003		2002	
Options	**Shares** *IN MILLIONS*	**Weighted-average exercise price**	**Shares** *IN MILLIONS*	**Weighted-average exercise price**	**Shares** *IN MILLIONS*	**Weighted-average exercise price**
Outstanding at beginning of year	**194.2**	**$ 26.90**	198.9	$ 27.57	192.9	$ 26.65
Granted	**20.1**	**26.10**	23.6	14.96	26.3	28.26
Exercised	**(30.0)**	**20.16**	(12.6)	15.19	(13.1)	14.91
Forfeited/expired	**(17.4)**	**28.99**	(15.7)	27.07	(7.2)	29.22
Outstanding at end of year	**166.9**	**$ 27.80**	194.2	$ 26.90	198.9	$ 27.57
Exercisable at end of year	**114.7**		122.9		110.9	

Options granted each year were 1.6%, 1.9% and 2.1% of weighted-average common shares outstanding for 2004, 2003 and 2002, respectively, representing grants to approximately 13,000, 14,300, and 13,900 employees in those three years.

The following table presents information related to options outstanding and options exercisable at December 31, 2004, based on ranges of exercise prices.

	Options outstanding			Options exercisable	
Range of exercise prices	**Number of options** *IN MILLIONS*	**Weighted-average remaining contractual life** *IN YEARS*	**Weighted-average exercise price**	**Number of options** *IN MILLIONS*	**Weighted-average exercise price**
$14 to 24	48.2	4.1	$ 19.77	32.6	$ 21.98
25 to 27	38.0	6.0	26.11	15.5	26.24
28 to 34	41.3	6.4	29.18	27.2	29.24
35 to 46	39.4	7.4	37.80	39.4	37.80
$14 to 46	166.9	5.9	$ 27.80	114.7	$ 29.71

Restricted stock/restricted stock units

The Company granted 0.2 million restricted stock units (RSUs) in 2004, a majority of which have performance conditions, and 1.8 million in 2003. The RSUs generally vest 100% at the end of three years and are payable in either shares of common stock or cash, at the Company’s option. At December 31, 2004, 1.7 million remained outstanding. Compensation expense related to the RSUs is amortized over the vesting period in selling, general & administrative expenses in the Consolidated statement of income.

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Quarterly results (unaudited)

IN MILLIONS, EXCEPT PER SHARE DATA	Quarters ended December 31 2004	Quarters ended December 31 2003	Quarters ended September 30 2004	Quarters ended September 30 2003	Quarters ended June 30 2004	Quarters ended June 30 2003	Quarters ended March 31 2004	Quarters ended March 31 2003
Revenues								
Sales by Company-operated restaurants	**$3,764.1**	$3,398.4	**$3,664.8**	$3,351.2	**$3,511.9**	$3,189.7	**$3,283.0**	$2,856.1
Revenues from franchised and affiliated restaurants	**1,246.2**	1,157.0	**1,260.9**	1,153.4	**1,217.1**	1,091.1	**1,116.7**	943.6
Total revenues	**5,010.3**	4,555.4	**4,925.7**	4,504.6	**4,729.0**	4,280.8	**4,399.7**	3,799.7
Company-operated margin	**563.5**	486.4	**578.5**	510.6	**526.4**	445.7	**455.6**	346.7
Franchised margin	**988.0**	909.6	**1,008.0**	917.4	**971.4**	860.1	**870.3**	720.3
Operating income	**617.3**(1)	367.5(3)	**1,098.9**	963.9	**965.9**	826.2	**858.4**	674.6
Income before cumulative effect of accounting change	**$ 397.9**(2)	$ 125.7(3)	**$ 778.4**(4)	$ 547.4	**$ 590.7**	$ 470.9	**$ 511.5**	$ 364.2
Cumulative effect of accounting change, net of tax								(36.8)
Net income	**$ 397.9**(2)	$ 125.7(3)	**$ 778.4**(4)	$ 547.4	**$ 590.7**	$ 470.9	**$ 511.5**	$ 327.4
Per common share–basic:								
Income before cumulative effect of accounting change	**$ .31**(2)	$ .10(3)	**$ .62**(4)	$ .43	**$ .47**	$ .37	**$ .41**	$ .29
Cumulative effect of accounting change								(.03)
Net income	**$ .31**(2)	$ .10(3)	**$ .62**(4)	$ .43	**$ .47**	$ .37	**$ .41**	$ .26
Per common share–diluted:								
Income before cumulative effect of accounting change	**$ .31**(2)	$ .10(3)	**$ .61**(4)	$ .43	**$ .47**	$ .37	**$ .40**	$ .29
Cumulative effect of accounting change								(.03)
Net income	**$ .31**(2)	$ .10(3)	**$ .61**(4)	$ .43	**$ .47**	$ .37	**$ .40**	$ .26
Dividends declared per common share	**$ —**	$ —	**$ .55**	$ .40	**$ —**	$ —	**$ —**	$ —
Weighted-average shares–basic	**1,264.3**	1,266.2	**1,256.7**	1,271.5	**1,256.0**	1,272.5	**1,261.7**	1,269.6
Weighted-average shares–diluted	**1,280.9**	1,277.9	**1,268.4**	1,281.0	**1,268.0**	1,277.5	**1,275.5**	1,270.3
Market price per common share:								
High	**$ 32.96**	$ 27.01	**$ 28.25**	$ 24.37	**$ 29.43**	$ 22.95	**$ 29.98**	$ 17.38
Low	**27.31**	23.01	**25.64**	20.40	**25.05**	13.88	**24.54**	12.12
Close	**32.06**	24.83	**28.03**	23.54	**26.00**	22.06	**28.57**	14.46

(1) Includes the following pretax charges totaling $0.08 per share:
- *> $159.9 million ($104.5 million after tax) related to a correction in the Company's lease accounting practices and policies.*
- *> $ 117.2 million ($107.6 million after tax) related to asset/goodwill impairment primarily in South Korea.*

(2) Includes net pretax charges of $227.8 million ($180.1 million after tax or $0.14 per share) consisting of the $277.1 million pretax charges discussed in note 1 above and a $49.3 million nonoperating gain related to the sale of the Company's interest in a U.S. real estate partnership.

(3) Includes the following net charges totaling $0.25 per share:
- *> $ 272.1 million ($183.2 million after tax) related to the disposition of certain non-McDonald's brands and the revitalization plan actions of our Japanese affiliate.*
- *> $ 135.5 million ($140.0 million after tax) primarily related to asset/goodwill impairment mainly in Latin America, restaurant closings associated with strategic actions in Latin America and a favorable adjustment to the 2002 charge for restaurant closings, primarily due to about 85 fewer closings than originally anticipated.*

(4) The effective income tax rate for the third quarter of 2004 benefited from an international transaction and the utilization of certain previously unrealized capital loss carryforwards (the Company was able to reverse a valuation allowance related to the carryforwards due to the gain discussed in note 2 above).

Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Notes to the consolidated financial statements. The financial statements were prepared in accordance with the accounting principles generally accepted in the U.S. and include certain amounts based on management's judgement and best estimates. Other financial information presented is consistent with the financial statements.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed under the supervision of the Company's principal executive and financial officers in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2004.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report appears on page 46 of this Report and expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting.

McDonald's Corporation

February 22, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
McDonald's Corporation

We have audited the accompanying Consolidated balance sheets of McDonald's Corporation as of December 31, 2004 and 2003, and the related Consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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. 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, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in the Notes to the consolidated financial statements, effective January 1, 2003, the Company changed its method for accounting for asset retirement obligations to conform with SFAS No.143, *Accounting for Asset Retirement Obligations.* Effective January 1, 2002, the Company changed its method for accounting for goodwill to conform with SFAS No.142, *Goodwill and Other Intangible Assets.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of McDonald's Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 22, 2005

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

We have audited management's assessment, included in the accompanying Management's Report, that McDonald's Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Standards Board (United States), the Consolidated balance sheets of McDonald's Corporation as of December 31, 2004 and 2003, and the related Consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004 and our report dated February 22, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois
February 22, 2005

Item 9 . Changes in and disagreements with accountants on accounting and financial disclosure

None.

Item 9A . Controls and procedures

Disclosure controls

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2004. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Internal control over financial reporting

The Company's management, including the CEO and CFO confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report

Management's report and the Report of independent registered public accounting firm on internal control over financial reporting are set forth in Part II, Item 8 of the Annual Report on Form 10-K.

- **Part III**

Item 10 . Directors and Executive Officers of the registrant

Information regarding directors and the Company's Code of Conduct for the Board of Directors, its Code of Ethics for the Chief Executive Officer and the Financial Officers and its Standards of Business Conduct are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2004. We will post any amendments to or any waivers for directors and executive officers from provisions of the Codes on our website at www.governance.mcdonalds.com.

Information regarding all of the Company's executive officers is included in Part I, page 7 of this Form 10-K.

Item 11 . Executive compensation

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2004.

Item 12 . Security ownership of certain beneficial owners and management and related shareholder matters

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2004.

Item 13 . Certain relationships and related transactions

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2004.

Item 14 . Principal accountant fees and services

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2004.

- **Part IV**

Item 15 . Exhibits, financial statement schedules and reports on Form 8-K

(a) 1. All Financial statements

Consolidated financial statements filed as part of this report are listed under Part II, Item 8, pages 28 through 42 of this Form 10-K.

2. Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(b) Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

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McDonald's Corporation Exhibit Index ***(Item 15)***

Exhibit number/description

(3) (a) Restated Certificate of Incorporation, effective as of March 24, 1998, incorporated herein by reference from Form 8-K, dated April 17, 1998.

(b) By-Laws, effective as of May 19, 2004, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2004.

(4) Instruments defining the rights of security holders, including Indentures: **

(a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141).

(i) 6 3/8% Debentures due January 8, 2028. Supplemental Indenture No. 1, dated as of January 8, 1998, incorporated herein by reference from Exhibit (4)(a) of Form 8-K, dated January 5, 1998.

(ii) Medium-Term Notes, Series F, due from one Year to 60 Years from the Date of Issue. Supplemental Indenture No. 4, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-59145), dated July 15, 1998.

(iii) Medium-Term Notes, Series G, due from one Year to 60 Years from Date of Issue. Supplemental Indenture No. 6, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-60170), dated May 3, 2001.

(iv) Medium-Term Notes, Series H, due from one Year to 60 Years from Date of Issue. Supplemental Indenture No. 7, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-92212), dated July 10, 2002.

(b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(a) of Form 8-K, dated October 18, 1996.

(i) 7.31% Subordinated Deferrable Interest Debentures due 2027. Supplemental Indenture No. 3, dated September 24, 1997, incorporated herein by reference from Exhibit (4)(b) of Form 8-K, dated September 19, 1997.

(c) Debt Securities Indenture, dated as of March 1, 1987, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 33-12364).

(i) 8 7/8% Debentures, due 2011. Supplemental Indenture No. 17, incorporated herein by reference from Exhibit (4) of Form 8-K, dated April 22, 1991.

(ii) Medium-Term Notes, Series D, due from nine months (U.S. Issue)/184 days (Euro Issue) to 60 years from Date of Issue. Supplemental Indenture No. 18, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 33-42642), dated September 10, 1991.

(iii) Medium-Term Notes, Series E, due from nine months (U.S. Issue)/184 days (Euro Issue) to 60 years from the Date of Issue. Supplemental Indenture No. 22, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 33-60939), dated July 13, 1995.

(iv) 7.05% Debentures, due 2025. Form of Supplemental Indenture No. 24, incorporated herein by reference from Exhibit (4)(a) of Form 8-K, dated November 13, 1995.

(d) McDonald's Corporation 2002 QSC Rewards Program, effective as of February 13, 2002, incorporated herein by reference from Exhibit (4) of Form S-3A Registration Statement (File No. 333-82920), dated March 14, 2002.

(i) Prospectus dated March 15, 2002, incorporated by reference from Form 424(b)(4) (File No. 333-82920), filed March 20, 2002.

(ii) Prospectus Supplement (to Prospectus dated March 15, 2002) dated March 4, 2003, incorporated by reference from Form 424(b)(3) (File No. 333-82920).

(iii) Prospectus Supplement (to Prospectus dated March 15, 2002, and to Prospectus Supplement dated March 4, 2003) dated September 25, 2003, incorporated by reference from Form 424(b)(3) (File No. 333-82920).

(10) Material Contracts

(a) Directors' Stock Plan, as amended and restated December 2, 2004, filed herewith.*

(b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2005, filed herewith.*

(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.*

(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Form 10-K, for the year ended December 31, 2002.*

(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, filed herewith.*

(d) 1975 Stock Ownership Option Plan, as amended and restated July 30, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2001.*

(e) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2001.*

(f) 1999 Non-Employee Director Stock Option Plan, as amended and restated September 12, 2000, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2000.*

(g) Executive Retention Plan, as amended and restated December 1, 2004, filed herewith.*

(h) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended and restated March 18, 2004, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2004.*

(i) Form of McDonald's Corporation Tier I Change of Control Employment Agreement, as amended, authorized by the Board of Directors, on December 3, 2003, incorporated herein by reference from Form 10-K, for the year ended December 31, 2003.*

(i) First Amendment to Tier I Change of Control Employment Agreement, effective January 25, 2005, filed herewith.*

(j) McDonald's Corporation 2004 Cash Incentive Plan, effective as of January 1, 2004, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2004.*

(k) Senior Director Letter Agreement between Donald G. Lubin and the Company, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2004.*

(l) Arrangement between M. Lawrence Light and McDonald's Corporation, filed herewith.*

(12) Computation of ratio of earnings to fixed charges

(21) Subsidiaries of the registrant

(23) Consent of independent registered public accounting firm

(31.1) Rule 13a–14(a) Certification of Chief Executive Officer

(31.2) Rule 13a–14(a) Certification of Chief Financial Officer

(32.1) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(99) One-year return on incremental invested capital (ROIIC)

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* Denotes compensatory plan.

** Other instruments defining the rights of holders of long-term debt of the registrant and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

/S/ Matthew H. Paull

By Matthew H. Paull
Corporate Senior Executive Vice President and Chief Financial Officer

March 4, 2005

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 4th day of March, 2005:

Signature, Title

/S/ Hall Adams, Jr.

By Hall Adams, Jr.
Director

/S/ Edward A. Brennan

By Edward A. Brennan
Director

/S/ Robert A. Eckert

By Robert A. Eckert
Director

/S/ Enrique Hernandez, Jr.

By Enrique Hernandez, Jr.
Director

/S/ Jeanne P. Jackson

By Jeanne P. Jackson
Director

/S/ Walter E. Massey

By Walter E. Massey
Director

/S/ Andrew J. McKenna

By Andrew J. McKenna
Chairman of the Board and Director

/S/ Cary D. McMillan

By Cary D. McMillan
Director

/S/ Matthew H. Paull

By Matthew H. Paull
Corporate Senior Executive Vice President and Chief Financial Officer

/S/ David M. Pojman

By David M. Pojman
Corporate Senior Vice President–Controller

/S/ Michael J. Roberts

By Michael J. Roberts
President and Chief Operating Officer and Director

/S/ John W. Rogers

By John W. Rogers
Director

/S/ James A. Skinner

By James A. Skinner
Vice Chairman, Chief Executive Officer and Director

/S/ Anne-Marie Slaughter

By Anne-Marie Slaughter
Director

/S/ Roger W. Stone

By Roger W. Stone
Director

***Exhibit 10(a).* McDonald's Corporation Directors' Stock Plan**

Section 1. Introduction

1.1 *The Plan.* McDonald's Corporation (the "Company") first established the McDonald's Directors' Deferred Compensation Plan (the "Plan") for the members of its Board of Directors who are not officers or employees of the Company ("Outside Director" or "Outside Directors") on July 1, 1984. Effective January 19, 1995, in order to reflect the Plan's focus on creating an identity of interest between the Company's Outside Directors and its shareholders, the Plan was renamed the "Directors' Stock Plan." The Plan was later amended and restated effective September 19, 1996, July 15, 1997, May 17, 2001, and December 3, 2003. Effective December 2, 2004, the Plan is further amended and restated so as to bring it into compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") as to the Nongrandfathered Accounts (as defined in Section 2.4 below).

1.2 *Purpose.* The purposes of the Plan are: to advance the Company's interests by attracting and retaining well-qualified Outside Directors and Senior Directors (together, "Directors"); to provide such individuals with incentives to put forth maximum efforts for the long term success of the Company's business; and to provide a vehicle to increase the identity of interest between Directors and shareholders.

Section 2. Benefits

2.1 *Elected Deferred Benefits.* Each Director may elect in accordance with Section 3.1 to defer all or any part of the fees to be received by such Director for service on the Board of Directors of the Company (including annual and committee retainers and Board and committee meeting fees, to the extent applicable)("Elected Deferred Benefits"). Elected Deferred Benefits shall be credited to an account for each Director (an "Account") on a quarterly basis at such a time and in such a manner as is reasonably determined by the Controller of the Company. Each Director's Account may be further divided into amounts deferred pursuant to a particular year's deferral election.

2.2 *Stock Equivalent Benefit.*

(a) In addition to any Elected Deferred Benefits, each Director shall receive a stock equivalent benefit, which shall be determined in the manner described in this Section 2.2 ("Stock Equivalent Benefit") and credited to his or her Account.

(b) On January 19, 1995, an amount equal to $17,500 multiplied by the number of an Outside Director's full years of service (up to a maximum of ten years) shall be accrued for such Outside Director's Stock Equivalent Benefit. After January 19, 1995, and before January 1, 2004, for each Director, an amount equal to $17,500 shall be accrued for such Director's Stock Equivalent Benefit at the end of each full year of service (up to a maximum of ten years), with an additional accrual as of December 31, 2003, for each Director who has not completed ten full years of service before that date, in an amount equal to (x) $17,500 times (y) a fraction, the numerator of which is the number of days from the day after end of the Director's most recently completed full year of service through December 31, 2003 (or, if the Director has not yet completed a full year of service, from the date he or she became a member of the Board), and the denominator of which is 365. In measuring full years of service for purposes of this Section 2.2(b), Board service shall commence as of the first Board meeting or committee meeting for which the Director received compensation and end with the last Board meeting or committee meeting for which the Director received compensation.

(c) As of December 31 of each calendar year beginning with 2004, there shall be accrued for each individual who was a Director for all or any portion of that calendar year a Stock Equivalent Benefit equal to $30,000 times, in the case of an individual who was not a Director for the entire calendar year, a fraction, the numerator of which is the number of days during that calendar year on which such individual was a Director, and the denominator of which is the total number of days in that calendar year.

2.3 *Adjustment of Accounts.* Each Director’s Account shall be adjusted periodically (but no less than once each year), at such time or times and in such manner as is reasonably determined by the Controller of the Company and as of the date of any payment from the Account, in order to treat such Account as though all amounts credited to it had been invested in shares of McDonald’s Stock by reflecting income, gains and losses in the amounts and at the times as such would have occurred if an amount equal to each credit to such Account were invested in shares (including fractional shares) of McDonald’s Stock at a per-share price equal to the market value of a share of McDonald’s Stock on the date such credit was made (determined in accordance with Section 5.7).

2.4 *Grandfathered and Nongrandfathered Accounts.* The Account of each Director shall be subdivided into a portion representing compensation that is not subject to Section 409A because it was deferred on or before December 31, 2004, and the earnings thereon (the “Grandfathered Account”) and a portion representing all other compensation (the “Nongrandfathered Account”).

Section 3. Deferrals; Deferral Elections

3.1 *Deferral Elections.* A person who becomes a Director during a calendar year may elect by a written notice delivered to McDonald’s Corporation within 30 days after becoming a Director to receive Elected Deferred Benefits as provided in Section 2.1 with respect to fees for services performed following the delivery of such notice to McDonald’s Corporation. Each other Director may elect by filing a written election with McDonald’s Corporation on or before December 31 of a given calendar year to receive Elected Deferred Benefits as provided in Section 2.1 for the following calendar year. Any election made pursuant to this Section 3.1 shall be irrevocable.

3.2 *Specified Payment Dates.* A Director electing to defer Elected Deferred Benefits pursuant to an election filed after July 15, 1997, may make an irrevocable election to have those Elected Deferred Benefits paid promptly following, or beginning promptly following, a Specified Payment Date (as defined below). Notwithstanding any such election, if the Director’s Termination or death occurs on a day before the Specified Payment Date, the Special Payment Date election shall not apply, and such Elected Deferred Benefits shall be paid in accordance with Section 3.3 below. A “Specified Payment Date” means a date specified by the Director at the time he or she elects to defer the Elected Deferred Benefits in question, which date must be March 31, June 30 or September 30 of a specified year in the future, but no earlier than the March 31st of the calendar year following the year in which the deferred amounts would have been paid (if they had not been deferred). “Termination” means (1) in the case of an Outside Director, his or her ceasing to be a member of the Board of Directors for any reason other than his or her death, unless he or she becomes a Senior Director at that time, and (2) in the case of a Senior Director, his or her ceasing to be a Senior Director for any reason other than his or her death; provided, that with respect to a Director’s Nongrandfathered Account, the term “Termination” shall be interpreted in a manner consistent with the definition of “separation from service as determined by the Secretary” within the meaning of Section 409A(a)(2)(A)(i).

3.3 *General Payment Date.* The balance in a Director’s Account, other than any portion to which a Specified Payment Date applies under Section 3.2, shall be paid, or begin to be paid, in April of the calendar year following the year of the Director’s Termination or death, whichever occurs first (the “General Payment Date” and, together with any Specified Payment Dates, the “Payment Dates”).

Section 4. Payment of Benefits

4.1 *Time and Method of Payment.* A Director’s Account shall automatically be paid in a single lump sum promptly following the applicable Payment Date(s), unless and to the extent a valid written installment distribution election has been filed in accordance with this Section 4.1 and Section 4. Subject to Section 4.4(b) if applicable, an installment distribution election may apply to all or any portion of the Account for which payment is to be made, and shall specify the period of years (up to a maximum of 15 years) over which installment payments are to be made. Installment payments shall be made annually in substantially equal installments over the installment period specified, beginning at or promptly following the applicable Payment Date. Each installment payment shall be computed by dividing the balance of the Account that is to be paid in installments by the number of payments remaining in the installment period.

4.2 *Form of Payment.* All payments shall be made in cash, in an amount equal to the market value of a share of McDonald’s Stock (determined in accordance with Section 5.7) on the day before the date of payment, times the number of shares and fractions thereof for which payment is being made.

4.3 *Beneficiaries.* Each Director shall have the right to name a beneficiary or beneficiaries who shall receive the benefits hereunder in the event of the Director’s death prior to the payment of his or her entire Account. If the Director fails to designate beneficiaries or if all such beneficiaries predecease the Director, benefits shall be paid to the Director’s surviving spouse, and if none, then to the Director’s estate. To be effective, any beneficiary designation shall be filed in writing with McDonald’s. A Director may revoke an existing beneficiary designation by filing another written beneficiary designation with McDonald’s. The latest beneficiary designation received by McDonald’s shall be controlling.

4.4 *Installment Elections.*

(a) This Section 4.4(a) shall apply to the Grandfathered Accounts only. An installment election must be made on or before December 31 of the calendar year preceding the calendar year in which the applicable Payment Date occurs. Installment distribution elections with respect to a Director’s Account may be made during the

Director's lifetime only by the Director. Except as provided below in this Section 4.4, an installment election is irrevocable once made, and payments will be made in accordance with it notwithstanding the subsequent Termination or death of the Director. If a Director's Termination occurs before a Specified Payment Date for any portion of his or her Account, the Director may, on or before December 31 of the calendar year in which the Termination occurs, revoke or change an installment election the Director had made with respect to that portion of his or her Account before the Termination. If a Director dies before his or her Termination, any installment elections with respect to any portions of his or her Account to which a Specified Payment Date before the date of death applied shall continue to govern the payout of those portions of his or her Account, but any other installment elections made by such Director before his or her death shall automatically be considered revoked, the person(s) entitled to receive payment of the remainder of his or her Account under Section 4.3 shall be entitled to make an irrevocable installment election at any time on or before December 31 of the calendar year in which the Director's death occurs, and the remainder of the Director's Account shall be paid to such person(s) in accordance with Section 4.1, taking into account any such installment elections.

(b) This Section 4.4(b) shall apply to the Nongrandfathered Accounts only. A Director may make an installment election for each calendar year's Stock Equivalent Benefit and Elected Deferred Benefit (if any). Such an installment election must be made at the time the Director elects to defer the Elected Deferred Benefit for the year in question or, if no Elected Deferred Benefit is elected for that year, not later than the latest time at which such an election would be permitted. An installment election is irrevocable once made, and payments of both the Stock Equivalent Benefit and any Elected Deferred Benefit for the applicable calendar year will be made in accordance with it notwithstanding the subsequent Termination or death of the Director, except to the extent that the Committee determines, in its sole discretion, to establish procedures under which installment elections may be revoked or changed in compliance with Section 409A of the Code.

4.5 *Funding.* Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund or otherwise segregate assets to be used for payment of benefits under the Plan. While the Company may cause investments in shares of McDonald's Stock to be made through open market purchases in amounts equal or unequal to amounts payable hereunder, the Company shall not be under any obligation to make such investments and any such investment shall remain subject to the claims of its general creditors and the amounts payable to any Directors under the Plan shall not be affected by any such investment. Notwithstanding the foregoing, the Company, in its discretion, may maintain one or more trusts to hold assets to be used for payment of benefits under the Plan; provided that the assets of such trust shall be subject to the creditors of the Company in the event that the Company becomes insolvent or is subject to bankruptcy or insolvency proceedings. Any payments by such a trust of benefits provided hereunder shall be considered payment by the Company and shall discharge the Company of any further liability for the payments made by such trust.

Section 5. General Provisions

5.1 *Plan Administration.* The Plan shall be administered by a committee appointed from time to time by the Board of Directors (the "Committee"). The Committee shall have discretionary authority to interpret and administer the Plan, to correct errors in administration, and otherwise to implement the Plan, in each case consistent with its purposes and intent. The Committee shall also have the power to take such other actions as are necessary so that transactions pursuant to the Plan do not result in liability under Section 16(b) of the Securities Exchange Act of 1934. All actions of the Committee with respect to the Plan shall be final and binding on all persons.

5.2 *Retention Rights.* Establishment of the Plan shall not be construed to give an Outside Director or Senior Director the right to be retained on the Board of Directors or to any benefits not specifically provided by the Plan.

5.3 *Interests Not Transferable.* Except as to withholding of any tax required under the laws of the United States or any state or locality and except with respect to designation of a beneficiary to receive benefits in the event of the death of a Director, no benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal process, or encumbrance of any kind. Any attempt by a Director to alienate, sell, transfer, assign, pledge or otherwise encumber any such benefits whether current or thereafter payable, shall be void. No benefit shall, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge or otherwise encumber his or her benefits under the Plan, or if by any reason of his or her bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Company in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them to or for the benefit of such person entitled thereto under the Plan or his or her spouse, children or other dependents, or any of them, in such manner as the Company may deem proper.

5.4 *Amendment and Termination.* The Board intends the Plan to be permanent, but reserves the right at any time to modify, amend or terminate the Plan, provided, however, that benefits credited as provided herein shall constitute an irrevocable obligation of the Company.

5.5 *Controlling Law.* The law of Illinois, except its law with respect to choice of law, shall be controlling in all manners relating to the Plan.

5.6 *Number.* Words in the plural shall include the singular and the singular shall include the plural.

5.7 *Value of McDonald's Stock.* The market value of McDonald's Stock for purposes hereof on a given day shall be the closing price, at the close of normal trading hours, of McDonald's Stock on the New York Stock Exchange Composite Tape on that day (or, if quotations for McDonald's Stock are not reported on the New York Stock Exchange Composite Tape on that day, such closing price of McDonald's Stock on the New York Stock Exchange Composite Tape on the first day preceding such day on which such quotations are so reported).

5.8 *Compliance with Section 409A.* This Plan, as amended and restated as of December 2, 2004, is intended to comply with the requirements of Section 409A of the Code with respect to the Nongrandfathered Accounts, and shall be interpreted accordingly. Notwithstanding any other provision of this Plan, no acceleration of payment of Nongrand-fathered Accounts that is not permitted by Section 409A of the Code shall be permitted, and no amendment or termination of the Plan shall be effective to the extent that it would cause Grandfathered Accounts to be subject to Section 409A of the Code.

Executed with effect as of
the 2nd day of December 2004.

McDonald's Corporation

/S/ Gloria Santona

By Gloria Santona
Corporate Executive Vice President,
General Counsel and Secretary

Exhibit 10(b). **McDonald's Excess Benefit and Deferred Bonus Plan**

Section 1. Introduction

1.1 *The Plan.* McDonald's Corporation (the "Company") has adopted the McDonald's Excess Benefit and Deferred Bonus Plan (the "Plan"), as set forth herein, as a successor plan to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan (the "Supplemental Plan"). The Supplemental Plan was amended in response to the enactment of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") to suspend deferrals into that plan for years after 2004. The Plan is effective as of January 1, 2005.

1.2 *Purposes and Features of Plan.*

(a) The purposes of the Plan are (i) to provide a select group of employees with the opportunity to elect to defer compensation under the "Deferred Bonus Feature" of the Plan, and (ii) to provide a select group of employees who participate in the McDonald's Corporation Profit Sharing and Savings Plan or the McDonald's Ventures 401(k) Plan (each, a "Profit Sharing Plan") with deferred compensation under the "Excess 401(k) Contributions Feature" of the Plan in excess of the maximum amount of 401(k) contributions and matching employer contributions that may be contributed on their behalf under the applicable Profit Sharing Plan, absent the Limits described in Section 3.2(b) below.

(b) The "Participants" in each feature of the Plan will be a select group of management or highly compensated employees of the Company or an Adopting Subsidiary. The Participants in the Deferred Bonus Feature are described in Section 2 below. The "Participants" in the Excess 401(k) Contributions Feature are described in Section 3 below.

1.3 *Administration.* The Plan shall be administered by a committee of three officers of the Company (the "Committee"), the members of which shall be appointed from time to time by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"). The Committee shall have the powers set forth in the Plan and the power to interpret its provisions. Any decisions of the Committee shall be final and binding on all persons with regard to the Plan.

1.4 *Compliance with Section 409A.* The Plan is intended to comply with the requirements of Section 409A of the Code and regulations, rulings and other guidance issued thereunder (collectively, "Section 409A"), and shall be interpreted and administered accordingly. Notwithstanding any other provision of this Plan, no acceleration of payment of Accounts that is not permitted by Section 409A shall be permitted, and no action, amendment or termination of the Plan shall be effective to the extent that it would cause the Plan to violate the requirements of Section 409A.

1.5 *Defined Terms.* Capitalized terms used in this Plan that are not defined herein have the same meaning as the same term in the applicable Profit Sharing Plan. An index of terms defined in the Plan is attached as Exhibit A to the Plan.

Section 2. Deferred Bonus Feature: Participation and Deferral Elections

2.1 *Eligibility and Participation.* Subject to the conditions and limitations of the Plan, an individual shall be eligible to participate in the Deferred Bonus Feature of the Plan for a calendar year (a "Deferred Bonus Eligible Employee") if, on the Election Due Date for such year, the individual is an employee of the Company who is in the Senior Direction Compensation Band of the Company or above (or an employee of an Adopting Subsidiary who is in a comparable compensation band). Any Deferred Bonus Eligible Employee who makes a Bonus Deferral Election as described in Section 2.2 below and in accordance with the requirements of Sections 2.3 and 4 below shall become a Participant, and shall remain a Participant until the entire balance of the Participant's Account is distributed.

2.2 *Deferral Elections.* Subject to Sections 2.3 and 4 below:

(a) Any Deferred Bonus Eligible Employee may make an election (a "Bonus Deferral Election") to defer receipt of all or any portion (in 1% increments) of the compensation that he or she may receive in a particular year under the McDonald’s Target Incentive Plan, any successor annual bonus plan of the Company, or any annual bonus plan of an Adopting Subsidiary, in which the Deferred Bonus Eligible Employee participates (collectively, the “Annual Bonus Plan”) to the extent permitted by Section 2.3 below.

(b) No other forms of compensation, including, but not limited to exit bonuses, severance bonuses or pro-rated annual bonuses paid under the Executive Retention Plan may be deferred under the Deferred Bonus Feature of the Plan.

2.3 *Rules for Bonus Deferral Elections.* Bonus Deferral Elections shall be made in accordance with Section 4 below. The first Bonus Deferral Elections permitted under this Plan shall be with respect to bonuses under the Annual Bonus Plan that are earned in 2004 and to be paid in the first quarter of 2005; *provided*, that such Bonus Deferral Elections shall be void to the extent they are do not comply with the requirements of Code Section 409A, unless the Company amends or modifies the Plan and/or Participants' Bonus Deferral Elections in a manner that causes the Plan and Participants' Bonus Deferral Elections to comply with the requirements of Code Section 409A pursuant to Section 9.1 below.

Section 3. Excess 401(k) Contributions Feature of Plan: Participation and Deferral Elections

3.1 *Eligibility and Participation.* Subject to the conditions and limitations of the Plan, an individual shall be eligible to participate in the Excess 401(k) Contributions Feature of the Plan (an "Excess 401(k) Contributions Eligible Employee") for a calendar year (the "Specified Year") if:

(a) the individual is an active participant in one of the Profit Sharing Plans as of the first day of the Specified Date;

(b) on the Election Due Date for such Specified Year, the individual is either (i) an employee of the Company in the Direction Compensation Band of the Company or above (or an employee of an Adopting Subsidiary in a comparable compensation band); and

(c) the individual has annualized compensation determined as of a date within the calendar year preceding the Specified Year as determined by the Committee (the "Compensation Determination Date") in an amount that exceeds the applicable dollar amount in effect under Code Section 414(q)(1)(B)(i) for the year preceding the Specified Year. An employee's annualized compensation shall equal the sum of the employee's annual base salary as of the Compensation Determination Date plus the employee's annual bonus received under an Annual Bonus Plan in the year that includes the Compensation Determination Date (in each case determined without regard to the employee's elective deferrals under this Plan, a Profit Sharing Plan or otherwise).

Any Excess 401(k) Contributions Eligible Employee who makes an Excess 401(k) Contributions Deferral Election in accordance with the requirements of Sections 3.3 and 4 below and who is thereafter credited with amounts pursuant to Section 3.2 below, shall become a Participant, and shall remain a Participant until the entire balance of the Participant's Account is distributed.

3.2 *Benefits.*

(a) Each Excess 401(k) Contributions Eligible Employee who makes an Excess 401(k) Contributions Deferral Election for a Specified Year shall receive as credits to his or her Account, as provided in Section 5.1 below, an amount equal to the excess of (i) to the amount of 401(k) contributions and the associated matching employer contributions that would be allocated to his or her accounts under the applicable Profit Sharing Plan for the Specified Year if the Limits (as defined in Section 3.2(b) below) did not apply, over (ii) the amount of 401(k) contributions and the associated matching employer contributions actually allocated to his or her accounts under the applicable Profit Sharing Plan for the Specified Year.

If an Excess 401(k) Contributions Eligible Employee has made a Bonus Deferral Election under Section 2 for a Specified Year, (i) for purposes of determining the amount of 401(k) contributions that would have been allocated to his or her accounts under the applicable Profit Sharing Plan for the Specified Year if the Limits did not apply, his or compensation will not include the portion of any bonus for the Specified Year that was deferred pursuant to his or her Bonus Deferral Election for such Specified Year; and (ii) for purposes of determining the amount of matching employer contributions that would have been allocated to his or her accounts under the applicable Profit Sharing Plan for the Specified Year if the Limits did not apply, his or her compensation will be determined without regard to his or her Bonus Deferral Election for such Specified Year.

(b) For purposes of this Plan, the "Limits" means the limitations imposed on the maximum amount of elective contributions and matching contributions that may be contributed on behalf of the Excess 401(k) Contributions Eligible Employee under the applicable Profit Sharing Plan in which he or she participates as a result of the application of the maximum aggregate contributions imposed under Code Section 415, the maximum amount of compensation that may be taken into account under Code Section 401(a)(17) and the maximum amount of elective deferrals imposed under Code Section 402(g).

3.3 *Rules for Excess 401(k) Contributions Deferral Election.* An Excess 401(k) Contributions Deferral Eligible Employee shall receive the benefits provided for in Section 3.2 for a Specified Year only if he or she makes an election (an "Excess 401(k) Contributions Deferral Election") in accordance with Section 4 below to participate in the Excess 401(k) Feature of the Plan and to make 401(k) contributions under the applicable Profit Sharing Plan for the Specified Year. The first Specified Year under this Plan shall be the 2005 calendar year.

Section 4. Rules for Deferral Elections

4.1 *Timing for Deferral Elections.* All Bonus Deferral Elections and Excess 401(k) Contributions Deferral Elections (collectively the "Deferral Elections") must be returned to the Committee no later than the date specified for such year by the Committee (the "Election Due Date"), but in no event later than the latest date permitted by Section 409A. Each Deferral Election shall apply only to the year with respect to which it is made, and shall be irrevocable by the Participant and the Company as to that year, except as specifically provided in this Plan.

4.2 *Tax Withholding and Other Special Rules.* Notwithstanding any other provision of the Plan, an individual's Deferral Election may not cause an individual's cash compensation, payable after taking into account the Deferral Election and all other applicable deductions and withholdings, to be less than zero dollars. If an individual's Deferral Election, after giving effect to all other applicable deductions and withholdings (including the tax withholding required pursuant to Section 6.4), would cause the amount of cash compensation payable to such individual to be less than zero dollars, the Committee shall reduce the amount of compensation deferred pursuant to the individual's Deferral Election to the extent necessary to ensure that his or her cash compensation for each payroll period is not reduced below zero dollars.

Section 5. Accounts

5.1 Accounts.

(a) A bookkeeping account shall be established in each Participant's name (an "Account"). The Account of each individual who is a Participant in both the Deferred Bonus Feature and the Excess 401(k) Contributions Feature of the Plan shall be divided into two subaccounts, one representing the amounts credited to the Participant's Account pursuant to Section 2 above of the Plan, and the other representing the amounts credited to the Participant's Account pursuant to Section 3 above, in each case, as adjusted pursuant to Section 5.2 below and as a result of distributions from the Account.

(b) The Participants' Accounts may be further subdivided as the Committee may from time to time determine to be necessary or appropriate, including without limitation to reflect different sources of credits to the Accounts and different deemed investments thereof.

(c) Amounts deferred pursuant to a Deferral Election shall be credited to the applicable Account as of the date the Participant would otherwise have received the deferred amounts in the absence of a Deferral Election. Any amount credited under the Excess 401(k) Contributions Feature of the Plan shall be credited to the applicable Account as of the date the amount would have been allocated under the applicable Profit Sharing Plan if the Limits had not applied. Adjustments of a Participant's various subaccounts to reflect investment experience and distributions shall in all cases be done on a pro-rata basis, and such subaccounts shall be treated in the same manner for all other purposes of the Plan, except as specifically provided in Section 9.2 below.

5.2 Investment Elections and Earnings Credits.

(a) Each Participant in the Plan shall be permitted from time to time to make an investment election regarding the manner in which his or her Account shall be deemed invested. Subject to the following, the Committee shall establish and communicate to Participants the investment choices that will be available to Participants and the procedures for making and changing investment elections, as it may from time to time determine to be appropriate. Unless otherwise determined by the Committee, a Participant's investment election may be split among the available choices in increments of 1%, totaling 100%.

(b) As of January 1, 2005, the available investment choices under the Plan are:

(i) a rate of return based upon the McDonald's Common Stock Fund under the Profit Sharing Plan, after adjustment for expenses under the Plan (the "Excess McDonald's Common Stock Return");

(ii) a rate of return based upon the Stable Value Fund under the Profit Sharing Plan, after adjustment for expenses under the Plan (the "Excess Stable Value Return"); and

(iii) a rate of return based upon the S&P 500 Index Fund under the Profit Sharing Plan, after adjustment for expenses under the Plan (the "Excess S&P 500 Index Return").

(c) For any period during which a Participant has failed to make an investment election, the Participant's Account shall be credited with the Excess Stable Value Return. A Participant's investment election will continue in effect until the Participant files a new investment election.

5.3 *Vesting.* A Participant shall be fully vested at all times in the balance of his or her Account.

Section 6. Payment of Benefits

6.1 *Time and Method of Payment.* The balance in a Participant's Account shall be paid to the Participant in a single lump sum payment on the first business day that is at least six months after the Participant's "separation from service" within the meaning of Section 409A; provided, that to the extent permitted by Section 409A, if the Participant dies before such payment is made, the balance in his or her Account shall be paid to his or her beneficiary or beneficiaries in a single lump sum payment as soon as administratively feasible after the Participant's death.

6.2 *Small Balance Rule.* Notwithstanding any other provision of the Plan, to the extent permitted by Section 409A, if the balance in a Participant's Account as of the end of the month during which the Participant's employment terminates is less than $50,000, then such Participant's Account shall be paid in a single lump sum as soon as administratively feasible after the end of such month.

6.3 *Form of Payment.* All payments shall be made in cash.

6.4 *Withholding of Taxes.* The Company shall withhold any applicable Federal, state or local income tax from payments due under the Plan in accordance with such procedures as the Company may establish. Generally, any Social Security taxes, including the Medicare portion of such taxes, shall be withheld from other compensation payable to the Participant in question, or paid by the Participant in question to the Company, at the time amounts are credited to the Participant's Account. The Company shall also withhold any other employment or other taxes as necessary to comply with applicable laws.

6.5 Beneficiary.

(a) A Participant shall have the right to name a beneficiary or beneficiaries who shall receive the balance of a Participant's Account in the event of the Participant's death prior to the payment of his or her entire Account (a "Beneficiary Designation"). A beneficiary may be an individual, a trust or an entity that is tax-exempt under Code Section 501(c)(3). If no beneficiary is named by a Participant or if the Participant survives all of the named beneficiaries, the Participant's Account shall be paid to the Participant's estate. A Participant may change or revoke an existing Beneficiary Designation by filing another Beneficiary Designation with the Committee. The latest Beneficiary Designation received by the Committee shall be controlling.

(b) Notwithstanding any other provision of the Plan or the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, a Participant who is also a participant in the McDonald's Corporation Supplemental Profit Sharing and Savings Plan must designate the same beneficiary or beneficiaries under both such plans, and accordingly, the latest Beneficiary Designation received by the Committee under either such plan shall be controlling under both such plans.

(c) A beneficiary designated by a Participant or another beneficiary who has not yet received payment of the entire benefit payable to him or her under the Plan shall have the right to name a beneficiary or beneficiaries to receive the balance of such benefit in the event of the beneficiary's death prior to the payment of the entire amount of such benefit, in accordance with Section 6.5(a) above, as if the beneficiary were a Participant (regardless of whether the Participant or such other beneficiary is still alive).

(d) In addition, after the death of a Participant or a beneficiary thereof, any beneficiary designated by the Participant or such deceased beneficiary, as applicable, who has not yet received payment of the entire benefit payable to him or her under the Plan shall be treated for purposes of Section 5 of the Plan in the same manner as the Participant with respect to the Account or portion thereof of which such person is the beneficiary.

Section 7. Miscellaneous

7.1 *Funding.* Benefits payable under the Plan to any Participant shall be paid directly by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of benefits under the Plan. While the Company may, in the discretion of the Committee, make investments (a) in shares of McDonald's Common Stock through open market purchases or (b) in other investments in amounts equal or unequal to amounts payable hereunder, the Company shall not be under any obligation to make such investments and any such investment shall remain an asset of the Company subject to the claims of its general creditors.

7.2 *Account Statements.* The Company shall provide Participants with statements of the balances of their Accounts under the Plan at least annually.

7.3 *Employment Rights.* Establishment of the Plan shall not be construed to give any employee or Participant the right to be retained in the Company's service or that of its subsidiaries and affiliates, or to any benefits not specifically provided by the Plan.

7.4 *Interests Not Transferable.* Except as to withholding of any tax under the laws of the United States or any state or locality and the provisions of Section 6.5 above, no benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal process, or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge or otherwise encumber any such benefits, whether currently or thereafter payable, shall be void. No person shall, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge or otherwise encumber benefits under the Plan, or if by any reason of the Participant's bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Company, in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them to or for the benefit of such person entitled thereto under the Plan or such individual's spouse, children or other dependents, or any of them, in such manner as the Company may deem proper.

7.5 *Forfeitures and Unclaimed Amounts.* Unclaimed amounts shall consist of the amount of the Account of a Participant that cannot be distributed because of the Committee's inability, after a reasonable search, to locate a Participant or the Participant's beneficiary, as applicable, within a period of two years after the Payment Date upon which the payment of benefits become due. Unclaimed amounts shall be forfeited at the end of such two-year period. These forfeitures will reduce the obligations of the Company under the Plan. After an unclaimed amount has been forfeited, the Participant or beneficiary, as applicable, shall have no further right to the Participant's Account.

7.6 *Controlling Law.* The law of Illinois, except its law with respect to choice of law, shall be controlling in all matters relating to the Plan to the extent not preempted by the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

7.7 *Action by the Company.* Except as otherwise specifically provided in the Plan, any action required of or permitted by the Company under the Plan shall be by resolution of the Board of Directors of the Company or by action of any member of the Committee or person(s) authorized by resolution of the Board of Directors of the Company.

7.8 *Section 16.* Notwithstanding any other provision of the Plan, the Compensation Committee may impose such restrictions, rules and regulations on the terms and conditions of participation in the Plan by any Participant who has been deemed by the Board of Directors of the Company to be subject to Section 16 of the Securities Exchange Act of 1934, as amended, as the Compensation Committee may determine to be necessary or appropriate. Any transaction that would result in liability or potential liability under said Section 16 shall be void *ab initio.*

Section 8. Subsidiary Participation

8.1 *Adoption of Plan.* Any entity in which the Company directly or through intervening subsidiaries owns 25% or more of the total combined voting power or value of all classes of stock, or, in the case of an unincorporated entity, a 25% or more interest in the capital and profits (a "Subsidiary") may, with the approval of the Compensation Committee and under such terms and conditions as the Compensation Committee may prescribe, adopt the corresponding portions of the Plan by resolution of its board of directors and thereby become an "Adopting Subsidiary" The Compensation Committee may amend the Plan as necessary or desirable to reflect the adoption of the Plan by an Adopting Subsidiary, *provided, however,* that an Adopting Subsidiary shall not have the authority to amend or terminate the Plan under Section 9 below. Exhibit B identifies the Adopting Subsidiaries as of January 1, 2005. The Committee may amend Exhibit B from time to time to reflect changes in the Adopting Subsidiaries.

8.2 *Withdrawal from the Plan by Subsidiary.* Any Adopting Subsidiary shall have the right, at any time, upon the approval of and under such conditions as may be provided by the Compensation Committee, to withdraw from the Plan by delivering to the Compensation Committee written notice of its election so to withdraw, upon which it shall be considered a "Withdrawing Subsidiary." Upon receipt of such notice, the Adopting Subsidiary shall assume full responsibility for funding the payment of the portion of the Accounts of Participants and beneficiaries attributable to credits made while the Participants were employees of such Withdrawing Subsidiary, plus any net earnings, gains and losses on such credits, and the Company shall have no further obligations to such Participants or any of their beneficiaries under the Plan with respect to the portion of the Accounts attributable to credits made while the Participants were employees of such Withdrawing Subsidiary.

8.3 *Special Rule for Sales or Other Dispositions of Subsidiaries.* Notwithstanding any other provision of the Plan, to the extent permitted by Section 409A: (a) if an Adopting Subsidiary ceases to be a Subsidiary (thereby becoming a "Disaffiliated Subsidiary") as a result of a sale, spinoff, public offering or other transaction involving the Disaffiliated Subsidiary, or if one or more businesses conducted by an Adopting Subsidiary are sold to another entity (a "Buyer"), any Participant who as a result of such transaction ceases to be employed by the Company or one of its remaining Subsidiaries shall be considered to have experienced a termination of employment for purposes of the Plan, unless clause (b) applies; and (b) if in connection with such a transaction, a Participant remains an employee of the Disaffiliated Subsidiary or becomes an employee of the Buyer or one of its subsidiaries or affiliates, as applicable, and the Disaffiliated Subsidiary or the Buyer, as applicable, assumes all liabilities to the Participant under this Plan, then the Participant shall not be considered to have experienced a termination of employment for purposes of the Plan, but the Company and its remaining Subsidiaries and affiliates shall have no further obligations to the Participant or any of his or her beneficiaries under the Plan.

Section 9. Amendment and Termination; ERISA Issues

9.1 *Amendment and Termination.* The Company reserves the right at any time by action of its Board of Directors of the Company or the Compensation Committee to modify, amend or terminate the Plan; *provided, however,* that no such amendment or termination of the Plan shall result in a reduction or elimination of a Participant's Account except to the extent required to comply with Section 409A; and *provided, further,* that no such amendment or termination shall result in any acceleration of the payment of any Account except to the extent permitted by Section 409A. The Compensation Committee shall provide notice of amendments adopted by the Compensation Committee to the Board of Directors of the Company on a timely basis.

Notwithstanding the foregoing, the Company's Corporate Executive Vice President–Human Resources and its Corporate Executive Vice President, General Counsel and Secretary may amend or modify the terms of the Plan and may amend, modify or terminate any Deferral Election made hereunder to the extent necessary or advisable to comply with the requirements of Section 409A.

9.2 *ERISA Issues.* It is the intention of the Company that the Plan be a nonqualified deferred compensation plan described in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA covering a select group of management or highly compensated employees of the Company or an Adopting Subsidiary (a "Top Hat Plan"). Without limiting the generality of the foregoing provisions of this Section 9, to the extent permitted by Section 409A, the Company reserves the right to terminate one or more Participants' participation in the Plan and to distribute such Participants' Account balances to the Participants (or their beneficiaries), if it is determined by the U.S. Department of Labor or any court of competent jurisdiction, or by the Company with the advice of legal counsel, that the Plan does not qualify as a Top Hat Plan.

Section 10. Committee Actions and Electronic Elections

10.1 *Actions of Committees.* Any actions by the Committee or the Compensation Committee shall be taken upon the approval of a majority of the members thereof at any in-person or telephonic meeting or in writing.

10.2 *Electronic Elections.* Anything in the Plan to the contrary notwithstanding, the Committee may in its discretion make disclosure or give information to Participants and beneficiaries and permit Participants or their beneficiaries to make electronic elections in lieu of written disclosure, information or elections provided in the Plan. In making such a determination, the Committee shall consider the availability of electronic disclosure of information and elections to Participants and beneficiaries, the protection of the rights of Participants and their beneficiaries, the appropriateness of the standards for authentication of identity and other security considerations involved in the electronic election system and any guidance issued by any relevant governmental authorities.

Section 11. Special Provisions for Rehired Employees

11.1 *Deferral Elections of Rehired Participants.* If a Participant's employment is terminated while he or she has a Deferral Election (including an election not to defer any compensation under the Plan) in effect and the Participant is rehired in a position making him or her an Excess 401(k) Contributions Eligible Employee and/or a Deferred Bonus Eligible Employee, then (a) if the Participant resumes employment with the Company or an Adopting Subsidiary during the calendar year of such termination or in the next following calendar year, such Deferral Election shall remain in effect with respect to compensation of the Participant from and after the date of rehire, to the extent it is applicable thereto by its terms, and (b) in all other cases, such Deferral Election until shall have no application and such Participant will not be eligible to defer any compensation under the Plan in the year the Participant resumes employment with the Company or an Adopting Subsidiary. Such reemployed Participant shall be eligible to file a new Deferral Election for any subsequent year in accordance with the terms of the Plan then in effect.

11.2 *Payments to Rehired Participants.* If a Participant whose employment has terminated is thereafter rehired prior to the distribution of his or her entire Account balance, then any remaining payments hereunder required to be made to such Participant as a result of the Participant's prior termination of employment shall be suspended until such Participant again becomes eligible to receive a distribution of his Account hereunder as a result of his subsequent death, termination of employment or other event that results in the distribution hereunder.

Section 12. Claims Procedures

12.1 *Filing a Claim.* A Participant or beneficiary of a Participant who believes that he or she is eligible for a benefit under this Plan that has not been provided may submit a written claim for benefits to the Committee. The Committee shall evaluate each properly filed claim and notify the claimant of the approval or denial of the claim within 90 days after the Committee receives the claim, unless special circumstances require an extension of time for processing the claim. If an extension of time for processing the claim is required, the Committee shall provide the claimant with written notice of the extension before the expiration of the initial 90-day period, specifying the circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 180 days after the date on which the Committee received the claim). If a claim is denied in whole or in part, the Committee shall provide the claimant with a written notice setting forth (a) the specific reasons for the denial, (b) references to pertinent Plan provisions upon which the denial is based, (c) a description of any additional material or information needed and an explanation of why such material or information is necessary, and (d) the claimant's right to seek review of the denial pursuant to Section 12.2 below.

12.2 *Review of Claim Denial.* If a claim is denied, in whole or in part, the claimant shall have the right to (a) request that the Committee review the denial, (b) review pertinent documents, and (c) submit issues and comments in writing, provided that the claimant files a written request for review with the Committee within 60 days after the date on which the claimant received written notice from the Committee of the denial. Within 60 days after the Committee receives a properly filed request for review, the Committee shall conduct such review and advise the claimant in writing of its decision on review, unless special circumstances require an extension of time for conducting the review. If an extension of time for conducting the review is required, the Committee shall provide the claimant with written notice of the extension before the expiration of the initial 60-day period, specifying the circumstances requiring an extension and the date by which such review shall be completed (which date shall not be later than 120 days after the date on which the Committee received the request for review). The Committee shall inform the claimant of its decision on review in a written notice, setting forth the specific reason(s) for the decision and reference to Plan provisions upon which the decision is based. A decision on review shall be final and binding on all persons for all purposes.

Executed in multiple originals this 1st day of December 2004.

McDonald's Corporation

/S/ Richard Floersch

By Richard Floersch
Executive Vice President–
Human Resources

Exhibit A. Index of Defined Terms

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Exhibit B. **Adopting Subsidiaries**

McDonald's USA, LLC

McDonald's Ventures, LLC

McDonald's Latin America, LLC

McDonald's AMEA, LLC

McDonald's International, LLC

McDonald's Europe, Inc.

Boston Market Corporation

Chipotle Mexican Grill, Inc.

Exhibit 10(c)(ii). **Second Amendment to the McDonald's Corporation Supplemental Profit Sharing And Savings Plan**

1. Section 1.1(a) of the McDonald's Corporation Supplemental Profit Sharing and Savings Plan (the "Plan"), is hereby amended by adding the following sentence at the end thereof:

   "Notwithstanding any other provision of this Plan, no Deferral Elections shall be permitted under this Plan with respect to compensation that would be paid to Participants (absent deferral) on or after January 1, 2005."

   Except as herein amended, the Plan shall remain in full force and effect.

   Executed in multiple originals this 1st day of December 2004.

McDonald's Corporation

/S/ Richard Floersch

By Richard Floersch
Executive Vice President–
Human Resources

Exhibit 10(g) **. Executive Retention Plan**

As amended and restated effective as of December 1, 2004

Introduction

McDonald's Corporation, a Delaware corporation (the "Company"), has established the Executive Retention Plan (this "Plan") effective as of October 1, 1998 (the "Effective Date"). This Plan was amended and restated on March 20, 2001, March 20, 2002, October 29, 2002, December 18, 2002, December 2, 2003, January 21, 2004 and December 1, 2004. The amendments made to this Plan by the amendment and restatement of October 29, 2002 are not applicable to any Executive (as defined in the Plan before October 29, 2002) whose termination of employment or Change-in-Status Date (as defined in the Plan before October 29, 2002) occurred before October 29, 2002, for whom the Plan provisions as in effect on the date of his or her termination of employment or Change-in-Status Date, as applicable, shall control.

Article 1 Purpose; Employment Periods Generally

1.01 ***Purpose.*** It is in the best interests of the Company and its shareholders to assure that the Company has the continued dedication of its key executives in a highly competitive global marketplace. This Plan is established to promote the retention of these key executives and provide the Company with a smooth succession process. This Plan is also intended to provide these key executives with incentives that are designed to focus their energy on contributing to the ultimate success of the Company.

1.02 ***Employment Periods.***

(a) *Definition of Employment Periods.* This Plan provides for the continued employment, subject to the terms and conditions of this Plan, of the individuals identified on Appendix A as "Tier I Executives," "Tier II Executives" and "Tier III Executives" (collectively, the "Executives") during three successive periods, each of which is defined below: the Retention Period; the Transition Period; and the Continued Employment Period (collectively referred to as the "Employment Periods").

(b) *Requirement of Execution of Agreement and Continued Employment.* In order to be eligible for continued employment during each successive Employment Period, with the pay and benefits set forth herein, an Executive must satisfy the requirements summarized in this Section 1.02(b) and more fully set forth below in the Plan. The Executive must properly execute the following agreements (each, an "Agreement") at the following times: (i) on or before the Executive's Change-in-Status Date, an Agreement substantially in the form set forth in Exhibit A (a "Transition Period Agreement"); (ii) on or before the first day of the Executive's Continued Employment Period, an Agreement substantially in the form set forth in Exhibit B (a "Continued Employment Period Agreement"); and (iii) upon a termination of the Executive's employment at the end of the Continued Employment Period or under circumstances described in Section 7.01 below, an Agreement substantially in the form set forth in Exhibit C (a "Termination Agreement"). In addition, the Executive must not revoke, and must comply with, such Agreements. Finally, the Executive must otherwise comply with the requirements of this Plan. An Executive may also be eligible in some cases for certain pay and benefits upon termination of his or her employment, as more fully set forth in Articles 6 and 7 below (the “Termination Benefits”). Exhibit B to each Agreement shall be completed by the Company at the time of the Agreement’s preparation by the insertion of a list of the “Specified Competitors,” consisting of twenty-five (25) competitors of McDonald’s determined by the Company in its sole discretion.

(c) *Violations by the Executive.* If an Executive commits a “Violation” (as defined below), the Company shall be entitled to cancel any and all future obligations of the Company to the Executive under this Plan and recoup the value of all Relevant Prior Benefits (as defined below), together with the Company’s costs and reasonable attorney’s fees. In addition, the Company shall be entitled to pursue any other remedy available to enforce the terms of the Executive’s Agreements. A “Violation” shall have occurred if an Executive (i) files a lawsuit, charge, complaint or other claim asserting any claim or demand within the scope of the releases given in any of his or her Agreements, (ii) fails properly to execute and deliver a required Agreement, or (iii) purports to revoke any of his or her Agreements. The “Relevant Prior Benefits” means (i) in the case of a Violation committed by an Executive during an Employment Period, all payments and benefits that have been provided to the Executive under this Plan during that Employment Period, and (ii) in the case of a Violation committed by an Executive after termination of the Executive’s employment, all Termination Benefits provided to the Executive under the Plan.

(d) *Status and Benefits Generally during Employment Periods.* During an Executive's continued employment during each of his or her Employment Periods, except as otherwise specifically provided in this Plan: (i) the Executive shall be entitled to participate in the Company's employee compensation plans, practices, policies and programs as in effect from time to time, including without limitation all equity compensation, bonus and other incentive compensation plans, policies and programs (collectively, the "Compensation Plans"), to the extent that the Executive is eligible under, and in accordance with, the applicable terms and conditions thereof as modified by this Plan; and (ii) the Executive shall be entitled to participate in the Company's employee benefit plans, practices, policies and programs as in effect from time to time (collectively, the "Employee Plans"), to the extent that the Executive is eligible under, and in accordance with, the applicable terms and conditions thereof. Without limiting the generality of the foregoing, except as specifically provided in Section 7.01(b) below, during an Executive's Employment Periods and upon and following the termination of his or her employment for any reason, the Executive's stock options shall continue to vest, be exercisable, expire and otherwise be subject to the express terms of the related stock option plan and the applicable Golden M Certificate (or other applicable award agreement).

(e) *Deferred Compensation Plans.* Without limiting the generality of Section 1.02(d) above, except as specifically provided in Section 4.02(b) below, amounts paid to an Executive during the Executive's Employment Periods shall be treated as "compensation" for purposes of the McDonald's Corporation Profit Sharing and Savings Plan, McDonald's Corporation Supplemental Profit Sharing and Savings Plan and any successor or other deferred compensation plans for which the Executive may be eligible (collectively, the "Deferred Compensation Plans") and all life insurance benefit plans sponsored by McDonald's Corporation, in each case to the extent permitted by the terms of such plans as in effect from time to time. No requirement that the Company make payments under this Plan to an Executive shall be considered violated by the Company's crediting all or any portion thereof to the Executive's account under any Deferred Compensation Plan in which the Executive is eligible to participate, to the extent that the Executive has elected to defer such payment under the terms of such Deferred Compensation Plan.

Article 2 Plan Administration

2.01 ***The Committee.*** The Compensation Committee of the Board of Directors of the Company (the "Board"), as such committee is constituted from time to time (the "Committee"), shall have overall responsibility for the establishment, amendment, administration and operation of this Plan. The Committee shall have the responsibilities and duties and powers under this Plan which are not specifically delegated to anyone else, including without limitation the following powers:

(i) subject to any limitations under this Plan or applicable law, to make and enforce such rules and regulations of this Plan and prescribe the use of such forms as it shall deem necessary for the efficient administration of this Plan;

(ii) to require any person to furnish such information as it may reasonably request as a condition to receiving any benefit under this Plan;

(iii) to decide on questions concerning this Plan;

(iv) to amend Appendix A hereto to add additional Executives, to delete Executives whose employment has terminated without the right to receive any additional benefits under this Plan or whose rights hereunder have been satisfied in full, and to reflect any changes that are agreed with the affected Executives;

(v) to compute or cause to be computed the amount of benefits which shall be payable to any person in accordance with the provisions of this Plan; and

(vi) to appoint and remove, as it deems advisable, the Plan Administrator.

2.02 ***The Plan Administrator.*** The Committee may appoint a Plan Administrator who may (but need not) be a member of the Committee, and in the absence of such appointment, the Committee shall be the Plan Administrator. The Plan Administrator shall perform the administrative responsibilities delegated to the Plan Administrator from time to time by the Committee.

2.03 ***Discretionary Power of the Committee.*** The Committee from time to time may establish rules for the administration of this Plan. The Committee shall have the sole discretion to make decisions and take any action with respect to questions arising in connection with this Plan, including without limitation the construction and interpretation of this Plan and the determination of eligibility for and the amount of benefits under this Plan. The decisions or actions of the Committee as to any questions arising in connection with this Plan, including without limitation the construction and interpretation of this Plan, shall be final and binding upon all Executives and their respective beneficiaries.

2.04 ***Action of the Committee.*** The Committee may act at a meeting, including without limitation a telephonic meeting, by the consent of a majority of the members of the Committee at the time in office, or without a meeting, by the unanimous written consent of the individual members of the Committee. An executed document signed by an individual member of the Committee and transmitted by facsimile shall be valid as the original signed document for all purposes. Any person dealing with the Committee shall be entitled to rely upon a certificate of any member of the Committee, or the Secretary or any Assistant Secretary of the Company, as to any act or determination of the Committee.

2.05 ***Advisors and Agents of the Committee.*** The Committee may, subject to periodic review, (a) authorize one or more of its members or an agent to execute or deliver any instrument, and make any payment on its behalf, and (b) utilize the services of associates and engage accountants, agents, legal counsel, record keepers, professional consultants (any of whom may also be serving the Company) or authorized Company personnel to assist in the administration of this Plan or to render advice with regard to any responsibility or issue arising under this Plan.

2.06 ***Records and Reports of the Committee.*** The Committee shall maintain records and accounts relating to the administration of this Plan. An Executive shall be entitled to review any records relating to his or her individual participation in this Plan and to make copies of such records upon written request to the Committee.

2.07 ***Liability of the Committee; Indemnification.*** The members of the Committee and the Plan Administrator shall have no liability with respect to any action or omission made by them in good faith nor from any action or omission made in reliance upon (a) the advice or opinion of any accountant, legal counsel, medical adviser or other professional consultant or (b) any resolutions of the Committee or the Board certified by the Secretary or Assistant Secretary of the Company. Each member of the Committee and the Plan Administrator shall be indemnified, defended and held harmless by the Company and its respective successors against all claims, liabilities, fines and penalties and all expenses (including without limitation reasonable attorneys' fees and disbursements and other professional costs incurred in enforcing this provision) reasonably incurred by or imposed upon such individual which arise as a result of his or her actions or failure to act in connection with the operation and administration of this Plan, to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty or expense is not paid for by liability insurance purchased by or paid for by the Company or an affiliate thereof. Notwithstanding the foregoing, the Company shall not indemnify any person for any such amount incurred through any settlement or compromise of any action unless the Company consents in writing to such settlement or compromise, which consent shall not be unreasonably withheld.

2.08 ***Plan Expenses.*** All expenses under or relating to this Plan shall be paid from the general assets of the Company. To the extent required by applicable law, the Company may require any member of the Committee to furnish a fidelity bond satisfactory to the Company.

2.09 ***Service in More than One Capacity.*** Any person or group of persons may serve this Plan in more than one capacity.

2.10 ***Named Fiduciary.*** The named fiduciary of this Plan shall be the Committee.

2.11 ***Delegation of Responsibility.*** The Committee shall have the authority to delegate from time to time, in writing, all or any part of its responsibilities under this Plan to one or more members of the Committee. The Committee may also delegate administrative functions to the Plan Administrator pursuant to Section 2.02 above. The Committee may in the same manner revise or revoke any such delegation of responsibility. Any action of the delegate in the exercise of such delegated responsibilities shall have the same force and effect for all purposes hereunder as if such action had been taken by the Committee. The Committee shall not be liable for any acts or omissions of any such delegate. The delegate shall periodically report to the Committee concerning the discharge of the delegated responsibilities.

2.12 ***Filing a Claim.***

(a) Each individual eligible for benefits under this Plan ("Claimant") may submit a claim for benefits ("Claim") to the Plan Administrator in writing on a form provided or approved by the Plan Administrator or, if no such form has been so provided or approved, in a written document that specifies, in reasonable detail, facts and circumstances and the applicable Plan provisions which the Claimant believes entitle him or her to compensation or benefits under this Plan. A Claimant shall have no right to seek review of a denial of benefits, or to bring any action in any court to enforce a Claim, prior to his or her filing a Claim and exhausting his or her rights to review under this Article 2.

(b) When a Claim has been filed properly, it shall be evaluated and the Claimant shall be notified of the approval or the denial of the Claim within 45 days after the receipt of such Claim unless special circumstances require an extension of time for processing the Claim. If such an extension is required, written notice of the extension shall be furnished to the Claimant prior to the end of the initial 45-day period, which notice shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 90 days after the date on which the Claim was filed). A Claimant shall be given a written notice in which the Claimant shall be advised as to whether the Claim is granted or denied, in whole or in part. If a Claim is denied, in whole or in part, the notice shall contain (i) the specific reasons for the denial, (ii) references to pertinent Plan provisions upon which the denial is based, (iii) a description of any additional material or information necessary to perfect the Claim and an explanation of why such material or information is necessary, and (iv) the Claimant's right to seek review of the denial.

(c) An election to become a Transition Officer pursuant to Section 4.01 shall not be considered a Claim and shall not be subject to this Section 2.12.

2.13 ***Review of Claim Denial.*** (a) If a Claim is denied, in whole or in part, the Claimant shall have the right to (i) request a review of the denial by the Committee or its delegate, (ii) review pertinent documents, (iii) submit issues and comments in writing to the Committee and (iv) appear before the Committee in person to present such issues and comments; provided that the Claimant files a written request for review with the Committee within 60 days after the Claimant's receipt of written notice of the denial. Within 60 days after the Committee receives a request for review, the review shall be made and the Claimant shall be advised in writing of the decision on review, unless special circumstances require an extension of time for such review, in which case the Claimant shall be given a written notice within such initial 60-day period specifying the reasons for the extension and when such review shall be completed; provided that such review shall be completed within 120 days after the filing of the request for review. The Committee's decision on review shall be sent to the Claimant in writing and shall include (i) specific reasons for the decision and (ii) references to Plan provisions upon which the decision is based. A decision on review shall be binding on all persons for all purposes.

If a Claimant shall fail to file a request for review in accordance with the procedures herein outlined, such Claimant shall have no right to obtain such a review or to bring an action in any court, and the denial of the Claim shall become final and binding on all persons for all purposes except upon a showing of good cause for such failure.

Article 3 Retention Period

During an Executive's Retention Period (as defined in the next sentence), the Executive shall remain employed by the Company as an officer, on an at-will basis. Each Executive's "Retention Period" shall mean the period commencing on the Executive's Plan Start Date and ending on the later of the Executive's End Date (as specified on Appendix A) or the day before the Executive's Change-in-Status Date (as determined pursuant to Section 4.01 below).

Article 4 Transition Period

4.01 ***Election to Become a Transition Officer*** .

(a) *Transition Officer.* Subject to the conditions set forth below, each Executive may elect to become a "Transition Officer" entitled to the benefits provided to Transition Officers hereunder (the "Transition Benefits"), effective on a date (hereinafter referred to as the Executive's "Change-in-Status Date") not earlier than the day after the Executive's End Date.

(b) *Conditions.* The conditions that must be satisfied in order for an Executive's election to become a Transition Officer to be effective are as follows: (i) the Executive must remain employed by the Company through the end of his or her Retention Period; (ii) the Executive must properly execute a Transition Period Agreement not later than the Change-in-Status Date; (iii) the Executive must not revoke such Transition Period Agreement; (iv) in the case of a Tier II Executive or a Tier III Executive whose Change-in-Status Date occurs before his or her 62nd birthday, a successor to the Executive must have been selected by the Company and approved by the Chief Executive Officer of the Company (the "CEO") in the CEO's sole discretion; and (v) in the case of an Executive whose Change-in-Status Date occurs before his or her 62nd birthday, the Committee or the CEO, as applicable, must consent to the Executive's becoming a Transition Officer, in accordance with Section 4.01(c) below.

(c) *Election.* An Executive shall make an election to become a Transition Officer by delivering to the Committee (in the case of an election by the CEO) or to the CEO (in the case of an election by any other Executive) a written notice indicating the proposed Change-in-Status Date, on such form as the Committee may from time to time prescribe. If the proposed Change-in-Status Date occurs before the Executive's 62nd birthday, the Committee or the CEO, as applicable, shall notify the Executive whether such election is accepted. If the proposed Change-in-Status Date occurs on or after the Executive's 62nd birthday, such election shall automatically be deemed accepted. If such election is accepted or deemed accepted, the Committee or the CEO, as applicable, shall also (1) notify the Executive whether the actual Change-in-Status Date will be the date proposed by the Executive or a later or earlier date reasonably selected by the Committee or the CEO, as applicable (but in no event earlier than the Executive's End Date), and (2) enclose with such notice the Transition Period Agreement for execution by the Executive.

(d) *Transition Period.* If an Executive properly executes and returns the Transition Period Agreement, does not revoke the Transition Period Agreement and satisfies the other conditions set forth above, his or her election to become a Transition Officer shall become effective upon the applicable Change-in-Status Date, and the Executive shall thereafter serve as a Transition Officer during a number of months (the "Transition Period") equal to the lesser of (i) the number of the Executive's Years of Service (as defined below), or (ii) 18 months, subject to the provisions of this Plan. An Executive's "Years of Service" shall equal the number of 12-month intervals during the period beginning on the earlier of the Executive's historical service date or company service date and ending on the Change-in-Status Date, rounded down to the nearest complete 12-month interval (e.g., a period of 128 months and 3 days shall equal 10 "Years of Service").

4.02 ***Transition Benefits*** .

(a) *Base Salary.* During an Executive's Transition Period, the Company shall pay the Executive a base salary at the annualized rate in effect on the day immediately preceding the Change-in-Status Date, but in no event lower than the highest base salary in effect at any time between the Executive's Plan Start Date and Change-in-Status Date, provided that the base salary payable under this Section 4.02(a) shall be reduced in accordance with any across-the-board reductions approved by the Committee prior to the Change-in-Status Date, which reductions affect Company officers generally. (The annualized amount of such base salary as in effect from time to time is referred to as the "Annual Base Salary.") In no event shall an Executive be eligible for merit increases in base salary during his or her Transition Period.

(b) *Annual Bonus.* In respect of each calendar year which ends during or on the last day of an Executive's Transition Period, the Company shall pay to the Executive an Annual Bonus (as defined below) in a lump sum on April 1st of the following year (or such other date on which bonuses for such year are paid to participants in the Company's Target Incentive Program or any successor plan ("TIP") generally). If the Transition Period ends on a date other than the last day of a calendar year, the Company shall pay to the Executive (in lieu of an Annual Bonus) a Prorated Annual Bonus (as defined below) in a lump sum in cash within 60 days after the end of the Transition Period. The Executive shall not be entitled to elect to defer any portion of the Prorated Annual Bonus under any Deferred Compensation Plan.

For purposes of this Plan,

(i) "Annual Bonus" shall mean an annual bonus equal to the product of the Annual Base Salary and the Full Target Percentage (as defined below);

(ii) "Full Target Percentage" shall mean the target percentage which the Executive was eligible to receive under TIP on the day immediately preceding the Change-in-Status Date without any adjustment, but in no event lower than the Executive's highest target percentage in effect at any time between the Executive's Plan Start Date and Change-in-Status Date, provided that the target percentage shall be reduced in accordance with any across-the-board reductions approved by the Committee prior to the Change-in-Status Date which reductions affect Company officers generally; and

(iii) "Prorated Annual Bonus" shall mean a bonus in an amount equal to the Annual Bonus multiplied by a fraction, the numerator of which is the number of days which have elapsed during the calendar year in question through the last day of the Transition Period, and the denominator of which is 365.

(c) *Three-Year Incentive Plan Awards.* During an Executive's Transition Period, any outstanding awards that the Executive has been granted under the Company's Three-Year Incentive Plan or any successor plan ("LTIP") shall continue to vest and become payable in accordance with the Company's policies as in effect from time to time; provided, that such LTIP awards ("LTIP Awards") granted before December 2, 2003 shall be computed by reference to 100% of the target percentage the Executive would have received pursuant to the terms of the original LTIP grant without any adjustment; and provided, further, that in the case of a Tier III Executive, such an LTIP Award granted before December 2, 2003 shall not be paid unless the minimum corporate performance thresholds for the applicable performance period are met. Notwithstanding the foregoing, in the case of an LTIP Award granted under the Company's Cash Performance Unit Program to an Executive whose Change in Status Date occurs before the end of the performance period for such LTIP Award, the amount of such LTIP Award that actually vests and becomes payable shall be the amount computed in accordance with the foregoing, multiplied by a fraction, the numerator of which is the number of days in the performance period for such LTIP Award that precede the Change in Status Date, and the denominator of which is the total number of days in the performance period for such LTIP Award.

(d) *Benefit Programs and Policies.* During an Executive's Transition Period, he or she shall participate in Employee Plans and Compensation Plans as provided in Section 1.02(d) above, except that: (i) the Executive shall not be eligible to participate in TIP except to the extent and on the terms provided for above in this Section 4.02; (ii) no new stock option grants shall be made to the Executive; (iii) no new awards shall be granted to the Executive under LTIP; (iv) no other new awards shall be granted to the Executive under any Compensation Plans; (v) the Executive shall not be entitled to participate in any other Compensation Plans; and (vi) the effect of the Executive's entering the Transition Period for any incentive awards that the Executive holds immediately before his or her Change in Status Date that are not specifically provided for above shall be as provided in the applicable plans and/or agreements.

(e) *Special Benefits for Tier I Executives.* Without limiting the generality of the foregoing, during his or her Transition Period, each Tier I Executive shall be provided by the Company with an office and secretarial services.

4.03 ***Duties During Transition Period.*** During an Executive's Transition Period, the Executive shall serve as an officer of the Company in a position that is less senior than his or her position during the Retention Period (and in any case not an executive officer position), and shall devote substantially all of his or her normal business time and efforts to the business of the Company, its subsidiaries and its affiliates, the amount of such time to be sufficient to permit him or her to diligently and faithfully serve and endeavor to further its interests to the best of his or her ability. Subject to the foregoing, and to the requirements of the Executive's Agreement(s) then in effect, the Executive may participate in various civic and philanthropic activities, may serve on boards of directors and committees of not-for-profit organizations of the Executive's choice, and, to the extent consistent with the policies of the Company, may serve as a non-employee director of one or more corporations (unless the Committee concludes that such service would be inappropriate or not in the best interests of the Company).

Article 5 Continued Employment Period

5.01 ***Employee Status.*** For the five-year period beginning immediately following the end of the Transition Period (the "Continued Employment Period"), the Executive shall serve as a staff employee of the Company, with the pay and benefits provided for in this Article 5, provided that the Executive: (a) remains an employee of the Company through the end of his or her Transition Period; (b) properly executes a Continued Employment Period Agreement not later than the last day of the Transition Period; (c) does not revoke such Continued Employment Period Agreement; and (d) complies with all Agreements that he or she is required under this Plan to execute.

5.02 ***Continued Employment Benefits*** .

(a) *Base Salary.* During an Executive's Continued Employment Period, the Company shall pay the Executive a base salary (the "Continued Employment Period Salary") at an annual rate equal to a percentage of his or her Annual Base Salary as in effect at the end of the Transition Period, which percentage is set forth opposite his or her name on Appendix A hereto. In no event shall an Executive be eligible for merit increases in base salary during his or her Continued Employment Period.

(b) *Three-Year Incentive Plan Awards.* During an Executive's Continued Employment Period, any outstanding awards under LTIP shall be treated as provided in Section 4.02(c) above.

(c) *Benefit Programs and Policies.* During an Executive's Continued Employment Period, he or she shall participate in Employee Plans and Compensation Plans as provided in Section 1.02(d) above, except that: (i) the Executive shall not be eligible to participate in TIP; (ii) no new stock option grants shall be made to the Executive; (iii) no new awards shall be granted to the Executive under LTIP; (iv) no other new awards shall be granted to the Executive under any Compensation Plans; (v) the Executive shall not be entitled to participate in any other Compensation Plans; and (vi) the effect of the Executive's entering the Continued Employment Period for any incentive awards that the Executive holds immediately before the beginning of his or her Continued Employment Period that are not specifically provided for above shall be as provided in the applicable plans and/or agreements.

(d) *Special Benefits for Tier I Executives.* Without limiting the generality of the foregoing, during the portion of his or her Continued Employment Period ending on the second anniversary of his or her Change-in-Status Date, each Tier I Executive shall be provided by the Company with an office and secretarial services.

5.03 ***Time Devoted to Duties During Continued Employment Period.*** During an Executive's Continued Employment Period, the Executive shall devote such time to the business of the Company as may be reasonably requested by the Company from time to time, which requests shall be appropriate taking into account the compensation the Executive is receiving hereunder and the Executive's outside activities, services and arrangements permitted by the next sentence; provided, that in any event the Executive may be required by the Company to devote sufficient time to qualify for "part-time benefits-eligible" status (which is 20 hours per week, as of December 2, 2003). During the

Continued Employment Period, the Executive may participate in various civic and philanthropic activities, may serve on boards of directors and committees of not-for-profit organizations of the Executive's choice, may serve as a member of one or more corporate boards of directors and may engage in a full-time employment arrangement with another organization of the Executive's choice, provided that such activities do not violate the Executive's obligations under the Executive's Agreement(s) then in effect.

5.04 ***No Offset.*** In the event that an Executive shall engage in any employment arrangement permitted by Section 5.03 above (including without limitation self-employment) during the Continued Employment Period, no amount paid to or earned by such Executive therefrom shall reduce any payments or other benefits due such Executive pursuant to this Plan.

Article 6 Termination of Employment

6.01 ***Death or Disability.*** An Executive's employment shall terminate automatically upon his or her death during any Employment Period. In the event that (a) the Committee determines in good faith that an Executive is suffering from a "Disability" (together with its various cognates, as defined below) and (b) the appropriate decisionmaker under any applicable Company plan or program providing long-term disability benefits to the Executive (a "Disability Plan") similarly determines that the Executive is eligible for such benefits by virtue of the Executive's disability (as defined for purposes of such plan or program), the Company may deliver to the Executive written notice (a "Disability Termination Notice") in accordance with Section 6.05 above of the Company's intention to terminate the Executive's employment. In such event, the Executive's employment shall terminate effective on the later of (y) the 30th day after receipt of such Disability Termination Notice by the Executive or (z) the first date on which the Executive becomes eligible for long-term disability benefits under the principal Disability Plan applicable to the Executive (the "Disability Effective Date"), provided, however, that (1) in the interim the Executive shall not have returned to full-time performance of the Executive's duties and/or (2) the Executive shall not have delivered to the Committee within 30 days of receipt of a Disability Termination Notice a written objection thereto (an "Objection"). In the event of a timely Objection, any termination of the Executive shall be suspended and the Executive shall be promptly examined by two physicians or other professionals skilled in the relevant field, one selected by the Executive and one by the Committee. Each of the two professionals shall issue a written opinion within 15 days following the completion of his or her examination as to whether the Executive is Disabled in accordance with the definition provided in this Plan. If the two professionals agree, each of the Executive and the Company shall be bound by their joint conclusion. If the two professionals disagree, they shall jointly agree on a third professional to conduct a similar examination. Each of the Executive and the Company shall be bound by the conclusion of such third professional. The Executive agrees to each such examination and to waive any confidentiality rights necessary to allow each of the professionals conducting such examinations to do so. The Company shall pay all fees and costs of all such examinations. In the event of a disagreement as to the determination of the Executive's disability for purposes of a Disability Plan, such disagreement shall be resolved as provided for in such Disability Plan. For purposes of this Plan, the term "Disability" shall mean the material inability of the Executive, due to injury, illness, disease or bodily, mental or emotional infirmity, to carry out the job responsibilities which such Executive held or the tasks to which such Executive was assigned at the time of the incurrence of such Disability, which inability is reasonably expected to be permanent or of indefinite duration exceeding one year.

6.02 ***Cause.*** The Company may terminate an Executive's employment at any time for Cause. For purposes of this Plan, "Cause" means: (i) the willful failure of an Executive to perform substantially all of the Executive's material duties with the Company (other than any failure resulting from incapacity resulting from physical or mental illness), after written demand for substantial performance is delivered to the Executive by the Committee or the CEO; or (ii) a willful violation of the Company's material rules and policies (including without limitation the Standards of Business Conduct) as in effect from time to time; or (iii) the Executive's commission of any act or acts involving dishonesty, breach of fiduciary obligation to the Company, fraud, illegality, malfeasance or moral turpitude; or (iv) the Executive commits a criminal or civil violation or other improper act involving fraud or dishonesty; or (v) the Executive is found liable for or guilty in a civil matter of engaging in discriminatory conduct in violation of any labor or employment laws or in violating or contributing to a violation of an employee's civil rights; or (vi) the Executive materially breaches the terms of the Plan by revoking any Agreement that the Executive is required to execute, or by failing properly to execute, or violating any one or more of the provisions of, any Agreement that the Executive is required to execute; or (vii) the Executive refuses to carry out clearly assigned material duties or is otherwise insubordinate. Any act or failure to act, on the part of an Executive, that is described in clause (i), (ii), (vi) or (vii) of the preceding sentence of which the Committee receives actual notice shall not be considered "Cause" unless the Committee, the Board or an executive officer of the Company notifies the Executive that such act or failure to act is or may be considered "Cause" within one year after the Committee first receives such actual notice.

For purposes of this provision, no act or failure to act, on the part of an Executive, shall be considered "willful," unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, on the part of an Executive, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the CEO or an officer of the Company senior in rank to the Executive to whom the Executive reports or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of an Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the Board at a meeting of the Board called and held upon appropriate notice (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in this paragraph, and specifying the particulars thereof in detail.

6.03 ***Good Reason.*** During a Tier I Executive's Retention Period and Transition Period, the Tier I Executive may terminate his or her employment at any time for Good Reason. For purposes of this Plan, "Good Reason" shall mean:

(a) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including without limitation status, offices, titles and reporting requirements), authority, duties or responsibilities as of the Executive's Plan Start Date, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose (1) an isolated, insubstantial and inadvertent action, and (2) any material change in status, duties and responsibilities that is expressly contemplated by this Plan; or

(b) the relocation of the Executive's principal place of employment to a location outside the greater Chicago metropolitan area.

Notwithstanding the foregoing: (A) a Tier I Executive's termination of his or her employment shall not be considered to be for Good Reason if he or she has consented in writing to the occurrence of the event that constitutes Good Reason; and (B) a Tier I Executive's termination of his or her employment shall not be considered to be for Good Reason unless the Executive shall have delivered a written notice to the Committee within 30 days of his or her first having actual knowledge of the occurrence of the event that constitutes Good Reason, stating that he or she intends to terminate his or her employment for Good Reason and specifying the factual basis for such termination, and such event is not cured within 30 days of the Committee's receipt of such notice.

6.04 ***Termination of Employment By the Company For Any Other Reason.*** During an Executive's Retention Period, the Company may also terminate the Executive's employment for any reason other than Cause by written notice to the Executive in accordance with Section 6.05 below of its intention to terminate the Executive's employment. During an Executive's Transition Period and Continued Employment Period, the Company may not terminate the Executive's employment other than for Cause or Disability.

6.05 ***Notice of Termination.*** Any termination of an Executive's employment by the Company or the Executive pursuant to this Article 6 shall be communicated by Notice of Termination to the other party hereto given in accordance with this Section 6.05. For purposes of this Plan, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Plan relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined in Section 6.06 below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

6.06 ***Date of Termination.*** "Date of Termination" means (i) if an Executive's employment is terminated other than as a result of the Executive's death or Disability, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated as a result of the Executive's death, the date of death, and (iii) if the Executive's employment is terminated as a result of the Executive's Disability, the Disability Effective Date.

Article 7 Obligations of the Company upon Termination

7.01 ***By an Executive for Good Reason; By the Company Other Than for Cause.*** This Section 7.01 sets forth the consequences of the following terminations of employment: (i) a termination of the employment of a Tier I, Tier II or Tier III Executive by the Company during his or her Retention Period other than for Cause; and (ii) a termination by a Tier I Executive of his or her employment for Good Reason during his or her Retention Period or Transition Period. In each such case, provided that the Executive properly executes a Termination Agreement, does not revoke such Termination Agreement, and complies with all Agreements that he or she is required under this Plan to execute:

(a) the Company shall pay the following amounts (collectively, the "Termination Payments") to the Executive in a lump sum in cash:

(i) the Accrued Obligations (as defined below),

(ii) the Earned Bonus (as defined below), if any,

(iii) the Severance Benefit (as defined below), and

(iv) the Welfare Benefit (as defined below); and

(b) the following categories of stock options shall vest as of the Executive's Date of Termination and remain exercisable until the first to occur of (x) the fifth anniversary (if the Executive is a Tier I Executive or a Tier II Executive) or the third anniversary (if the Executive is a Tier III Executive) of the Date of Termination or (y) the latest date on which such options would have expired, had the Executive's employment not terminated: (i) all options that are vested as of the Executive's Date of Termination; and (ii) all options that would have vested within five years (if the Executive is a Tier I Executive or a Tier II Executive) or within three years (if the Executive is a Tier III Executive) following the Executive's Date of Termination, if the Executive had remained employed by the Company.

The Termination Payments shall be paid not later than the latest of (1) the 60th day following the Date of Termination, (2) the first day on which the Executive has properly executed the Termination Agreement and the Termination Agreement has ceased to be revocable (and has not been revoked), and (3) in the case of any Earned Bonus for a year that ends during the Executive's Retention Period, the date on which bonuses under TIP for such year are paid to TIP participants generally.

For purposes of this Plan:

(A) "Accrued Obligations" shall mean the sum of (1) any unpaid base salary accrued through the Date of Termination and (2) any accrued vacation pay, in each case to the extent not previously paid;

(B) "Discount Rate" shall mean the interest rate equal to the Prime Rate as reported in The Wall Street Journal, Midwest Edition, as in effect on the Date of Termination;

(C) "Earned Bonus" means any annual bonus under TIP in respect of any calendar year ended before the Date of Termination to which the Executive would have been entitled under TIP (if the Date of Termination is during the Retention Period) and under this Plan (if the Date of Termination is during the Transition Period), if his or her employment had not terminated;

(D) "Severance Benefit" means a lump sum payment equal to the aggregate amounts of Annual Base Salary, Annual Bonuses (excluding Earned Bonuses) and/or Continued Employment Period Salary that would have been payable to the Executive if his or her employment had continued through the end of the Continued Employment Period, discounted from the scheduled payment dates to the Date of Termination by reference to the Discount Rate;

(E) "Target Percentage" shall mean the target percentage of the annual bonus that the Executive was eligible to receive under TIP on the day immediately preceding the Change-in-Status Date without any adjustment, but in no event lower than the Executive's highest target percentage in effect at any time between the Executive's Plan Start Date and Change-in-Status Date, provided that the target percentage shall be reduced to reflect any across-the-board reductions implemented by the Committee prior to the Change-in-Status Date, which reductions affect Company officers generally; and

(F) "Welfare Benefit" shall mean a lump sum payment in lieu of continued participation in those Benefit Plans that provide health, medical, dental and life insurance benefits an amount equal to the estimated cost that the Company would have incurred to provide benefits under such plans to the Executive through the end of the Continued Employment Period (as reasonably determined by the Committee in its sole discretion on the Date of Termination).

In determining the Severance Benefit and the Welfare Benefit, the following rules shall apply. If an Executive's employment has terminated during his or her Retention Period, such amounts shall be determined as if Date of Termination had been his or her Change-in-Status Date, and he or she had remained employed during the Transition

Period and a full five-year Continued Employment Period thereafter. If an Executive's employment has terminated during his or her Transition Period, such amounts shall be determined as if he or she shall had remained employed during the remainder of the Transition Period and for a full five-year Continued Employment Period thereafter.

7.02 ***Death; Disability.*** If, during any of an Executive's Employment Periods, the Executive dies or the Executive's employment is terminated by reason of Disability, the Company shall have no further obligations to the Executive or the Executive's legal representatives pursuant to this Plan, other than for:

(a) payment of the Accrued Obligations and any Earned Bonus for a year that ends after the Retention Period in a lump sum in cash within 60 days of the Date of Termination, and any Earned Bonus for a year that ends during the Retention Period at the same time as bonuses under TIP for that year are paid to TIP participants generally; and

(b) payment or provision of death benefits or disability benefits, as applicable, equal to the benefits provided by the Company to the estates and beneficiaries of other employees of the Company at the level in which the Executive was serving at the time of his or her death or termination for Disability, as applicable.

7.03 ***By the Company for Cause.*** If an Executive's employment is terminated during any of his or her Employment Periods by the Company for Cause, the Company shall have no further obligations to the Executive pursuant to this Plan other than to pay the Executive the Accrued Obligations in a lump sum in cash within 60 days after the Date of Termination.

7.04 ***By a Tier I Executive Without Good Reason or a Tier II or Tier III Executive for any Reason.*** If (a) a Tier I Executive terminates his or her employment during his or her Retention Period or Transition Period without Good Reason, or during his or her Continued Employment Period for any reason, or (b) a Tier II or Tier III Executive terminates his or her employment during any of his or her Employment Periods for any reason or no reason, the Company shall have no obligation to the Executive pursuant to this Plan other than to pay the Executive the Accrued Obligations and any Earned Bonus for a year that ends after the Retention Period in a lump sum in cash within 60 days of the Date of Termination, and any Earned Bonus for a year that ends during the Retention Period at the same time as bonuses for that year under TIP are paid to TIP participants generally.

7.05 ***Change of Control Employment Agreement.*** Notwithstanding any other provision of this Plan, in no event shall an Executive be entitled to receive Termination Benefits under this Plan in connection with a termination of employment for which the Executive is eligible to elect, and does elect, to receive severance benefits under a change of control employment agreement with the Company.

Article 8 Legal Fees and Other Expenses

8.01 ***Entitlement to Reimbursement.*** If an Executive incurs legal and other fees or other expenses in a good faith effort to obtain pay or benefits under this Plan, regardless of whether the Executive ultimately prevails, the Company shall reimburse the Executive on a monthly basis upon the written request for such fees and expenses to the extent not reimbursed under the Company's officers and directors liability insurance policy, if any. The existence of any controlling case or regulatory law which is directly inconsistent with the position taken by the Executive shall be evidence that the Executive did not act in good faith.

8.02 ***Method of Reimbursement.*** Reimbursement of legal fees and expenses under this Article 8 shall be made monthly upon the written submission of a request for reimbursement, together with evidence that such fees and expenses are due and payable or were paid by the Executive. If the Company shall have reimbursed the Executive for legal fees and expenses and it is later determined that the Executive was not acting in good faith, all amounts paid on behalf of, or reimbursed to, the Executive shall be promptly refunded to the Company.

Article 9 Amendment and Termination of this Plan

This Plan shall be effective on the Effective Date and shall remain in effect until the later of (i) October 24, 2007, or (ii) a date that is two years after the date on which the Company gives written notice to all Executives of its intention to terminate this Plan. The Company has the right to amend this Plan in whole or in part at any time; provided that no amendment of this Plan shall be effective as to any Executive who is or may reasonably be expected to be materially adversely affected thereby (an "Affected Executive") until the later of (i) October 1, 2004, or (ii) a date that is two years after the date on which the Company gives written notice to all Affected Executives of its intention to adopt such amendment, unless such Executive consents in writing. Notwithstanding the foregoing, no Plan termination or amendment shall become effective during the Transition Period or Continued Employment Period as to any Affected Executive unless such Executive consents in writing. Any purported Plan termination or amendment in violation of this Article 9 shall be void and of no effect.

Article 10 Miscellaneous Provisions

10.01 ***Successors.*** This Plan shall be binding upon the Company and its successors and assigns.

10.02 ***Executive Information.*** Each Executive shall notify the Committee of his or her mailing address and each change of mailing address to the extent that he or she has not previously informed the Company thereof. In addition, each Executive shall furnish the Committee with any other information and data that the Committee reasonably considers necessary for the proper administration of this Plan and the Executive's Agreements. The information provided by the Executive under this Section 10.02 shall be binding upon the Executive, his or her dependents and any beneficiaries for all purposes of this Plan and the Agreements. The Committee shall be entitled to rely on any representations regarding personal facts made by a Executive, his or her dependents or beneficiaries, unless it has knowledge that such representations are false.

10.03 ***Payments to Beneficiary.*** If an Executive dies before receiving amounts to which he or she is entitled under this Plan or any Agreement, such amounts shall be paid to the Beneficiary (as defined below) or if none, to the Executive's estate. If a Beneficiary dies before complete payment of any benefits attributable to a deceased Executive, the remaining benefits shall be paid the Beneficiary's estate. For purposes of this Plan, a "Beneficiary" shall mean any person, firm, corporation, partnership, venture or other entity of any kind, including without limitation any entity which is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, designated in writing by an Executive in accordance with procedures established by the Committee.

10.04 ***Notices.*** Any notice, request, election, or other official communication under this Plan or any Agreement shall be in writing and shall be delivered personally, by courier service, by registered or certified mail, return receipt requested or (in the case of the Company, the CEO or the HR Official (as defined in the Agreements)) by facsimile, and shall be effective upon actual receipt by the party to which such notice shall be directed, and shall be addressed as follows: (i) if to the Company, or McDonald's Corporation, One McDonald's Plaza, Oak Brook IL 60523, Attention: Corporate Secretary, facsimile: (630) 623-0497, (ii) if to the CEO or the HR Official, to such official at One McDonald's Plaza, Oak Brook, Illinois 60523, facsimile: (630) 623-7409, and (iii) if to an Executive, the last mailing address as specified by the Executive in accordance with Section 10.02 above.

10.05 ***Right to Amend Compensation Plans and Employee Plans.*** Nothing in this Plan or any Agreement shall be construed to limit the ability of the Company to amend or terminate any of the Compensation Plans and Employee Plans, and any such terminations or amendments shall be effective as to the Executives.

10.06 ***Non-Alienation.*** No Executive shall have the right to assign, transfer or anticipate an interest in any benefit under this Plan or any Agreement.

10.07 ***Severability.*** If any one or more articles, sections or other portions of this Plan or of any Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any article, section or other portion not so declared to be unlawful or invalid. Any article, section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such article, section or other portion to the fullest extent possible while remaining lawful and valid.

10.08 ***No Waiver.*** The Company's or an Executive's failure to insist upon strict compliance with any provision of this Plan or of any Agreement shall not be deemed a waiver of such provision or any other provision of this Plan or of any Agreement. The Company or an Executive may waive any or all of the provisions of this Plan or of any Agreement only by signing a document to that effect. A waiver of any provision of this Plan or of any Agreement shall not be deemed a waiver of any other provision, and any waiver of any default in any such provision shall not be deemed a waiver of any later default thereof or of any other provision.

10.09 ***Governing Law.*** This Plan is an "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). It is intended to constitute a "welfare plan" within the meaning of Section 3(1) of ERISA, but to the extent it is held to be a "pension plan" within the meaning of Section 3(2) of ERISA, it constitutes an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. To the extent not preempted by federal law, this Plan and all Agreements shall be interpreted and construed in accordance with the laws of the State of Illinois, without regard to any otherwise applicable conflicts of law or choice of law principles.

10.10 ***Captions.*** The captions of the Sections and Articles of this Plan are not a part of the provisions hereof and shall have no force or effect.

10.11 ***No Mitigation or Offset.*** In no event shall any Executive or the Company be obligated to take any action by way of mitigation of any damages caused by the breach by the Company or any Executive, as applicable, of its, his or her obligations under this Plan. No Executive's Termination Benefits shall be reduced by any compensation that the Executive earns after his or her Date of Termination from employment or self-employment, provided that such employment or self-employment does not violate the Executive's obligations under his or her Agreements.

10.12 ***Company Subsidiaries and Successors.*** References in this Plan to employment by "the Company" shall be deemed to include employment by (1) any entity in which the Company directly or through intervening subsidiaries owns 100% of the total combined voting power or value of all classes of stock, or in the case of an unincorporated entity, 100% interest in the capital and profits and (2) any successor or assign of the Company pursuant to Section 10.01, and any obligation of the Company hereunder shall be deemed satisfied if and to the extent an entity described in clause (1) or (2) of this sentence performs such obligation.

Date: January 31, 2005

McDonald's Corporation

/S/ Richard Floersch

By Richard Floersch
Corporate Executive Vice President–
Human Resources

Appendix A.

Tier	*Name*	*Plan start date*	*End date*	*Percentage for salary during continued employment period*
I	Jack M. Greenberg	April 29, 1998	April 29, 2003	50%
I	James R. Cantalupo	April 29, 1998	April 29, 2001	50%
I	James A. Skinner	October 1, 1998	October 1, 2001	50%
II	Claire H. Babrowski	October 1, 1998	October 1, 2001	35%
II	Stanley R. Stein	October 1, 1998	October 1, 2001	35%
III	Charles Bell	October 29, 2002	October 29, 2005	35%
III	Michael J. Roberts	October 29, 2002	October 29, 2005	35%
III	Gloria Santona	October 29, 2002	October 29, 2005	35%
III	Jack Daly	October 29, 2002	October 29, 2005	35%
III	Eduardo Sanchez	October 29, 2002	October 29, 2005	35%
III	Matthew H. Paull	October 29, 2002	October 29, 2005	35%
III	Lynn Crump-Caine	October 29, 2002	October 29, 2005	35%
III	Russell P. Smyth	October 29, 2002	October 29, 2005	35%

Appendix B. **Index of Defined Terms**

***Exhibit A.* Transition Period Agreement**

THIS TRANSITION PERIOD AGREEMENT (this “Agreement”) is entered into as of this __day of __________, ____, by and between McDonald’s Corporation, a Delaware corporation (the “Company”) and __________(the “Executive”), pursuant to the Company’s Executive Retention Plan (the “Plan”), a copy of which is attached hereto as Exhibit A.

WITNESSETH:

WHEREAS, the Executive is a Tier ______Executive under the Plan; and

WHEREAS, if the Executive complies with his/her obligations under the Plan, he/she will hereafter be entitled to substantial compensation and benefits under the Plan to which he/she would not otherwise be entitled; and

WHEREAS, the Executive is required under the Plan to execute this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. ***Definitions.*** Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan. The following terms shall have the meanings set forth below:

Agreement: defined in the first paragraph above.

Company: defined in the first paragraph above.

Company Property: all records, documents, materials, papers, computer records or print-outs belonging to McDonald’s, including without limitation those containing Confidential Information and Trade Secrets.

Competing Business: any Person (and any branches, offices or operations thereof) that is a material and direct competitor of McDonald’s in any country in the world or in any state of the United States by virtue of selling, manufacturing, processing or promoting any product that is substantially similar to, competes with, or is intended to compete with, replace, or duplicate in the market any product that was sold or under development by McDonald’s during the five years (or shorter period of the Executive’s employment with the Company) preceding the date of execution of this Agreement or with respect to which the Executive has had specific knowledge and involvement.

Confidential Information and Trade Secrets: all valuable and unique tangible and intangible information and techniques acquired, developed or used by McDonald’s relating to its business, operations, employees and customers, which gives McDonald’s a competitive advantage in the businesses in which McDonald’s is engaged, including without limitation processes, methods, techniques, systems, computer data, formulae, patents, models, devices, compilations, customer lists, supplier lists or any information of whatever nature that gives McDonald’s an opportunity to obtain an advantage over competitors who do not know or use such data or information.

Executive: defined in the first paragraph above.

HR Official: the Company’s Senior Executive Vice President of Human Resources (or any successor position).

McDonald’s: the Company and its subsidiaries, divisions, affiliates and related companies.

McDonald’s-Related Person: any director, officer, employee or franchisee of the Company or any of its subsidiaries, divisions, affiliates and related companies.

Other Separation Benefits: defined in Section 9(c) below.

Person: a person, firm, corporation, partnership, venture or other entity of any kind.

Plan: defined in the first paragraph above.

Recovery Period: defined in Section 10(c)(iii) below.

Release Date: the Executive’s Change-in-Status Date.

Released Persons: defined in Section 9(a) below.

Specified Competitors: the entities listed on Exhibit B hereto and their respective subsidiaries and affiliates, as required by Section 1.02(b) of the Plan.

Stock Option Gains: defined in Section 10(c)(iv) below.

Violation: defined in Section 8(a) below.

2. ***Relationship of Agreement to Plan.*** The Executive hereby agrees to be bound by the terms of the Plan, and to fulfill all of his/her obligations under the Plan, including without limitation to render services as set forth in the Plan and to execute additional Agreement(s) as and when required by the Plan. The provisions of the Plan, including without limitation the provision regarding administration in Article 2 of the Plan, are applicable to this Agreement and to the obligations of the Company and the Executive hereunder, and are hereby incorporated by reference into this Agreement. However, any amendments made to the Plan after the date of this Agreement will not apply to the Executive.

3. ***Circumstances Requiring Agreement.*** The Executive has given notice pursuant to Section 4.01 of the Plan of his/her election to become a Transition Officer[, and the [CEO] *(1)* [Committee] *(2)* has consented to such election] *(3)* . Accordingly, the Executive's Change-in-Status Date shall be __________, ______and the Executive's Transition Period shall be the period from __________, ______to __________, ______. This Agreement constitutes the Executive's Transition Period Agreement.

4. ***Compensation and Benefits.*** During the Executive's Transition Period, the Executive shall receive the compensation and benefits provided for in Article 4 of the Plan, subject to the Executive's compliance with the requirements of the Plan and this Agreement. In addition, if the Executive remains employed through the end of the Transition Period and otherwise complies with the requirements of the Plan and this Agreement, including without limitation executing and not revoking a Continued Employment Period Agreement, the Executive shall receive the compensation and benefits provided for in Article 5 of the Plan during his/her Continued Employment Period. Finally, upon the termination of the Executive's employment, he/she shall receive the compensation and benefits (if any) provided for in such circumstances under Article 7 of the Plan.

5. ***Company Property and Confidentiality.***

   (a) *Acknowledgements.* The Executive acknowledges that (i) it is the policy of McDonald's to maintain as secret and confidential all Confidential Information and Trade Secrets; (ii) all Confidential Information and Trade Secrets are the sole and exclusive property of McDonald's; and (iii) disclosure of Confidential Information and Trade Secrets would cause significant damage to McDonald's.

   (b) *Company Property.* The Executive agrees to turn all Company Property over to the CEO or the CEO's designee, at or as promptly as practicable following the execution of this Agreement, except for Company Property that is necessary to perform his or her assigned functions during the Transition Period or the Continued Employment Period. The Executive also agrees to turn any Company Property that the Executive retains after the date of this Agreement pursuant to the preceding sentence over to the CEO or the CEO's designee as soon as it is no longer necessary for the Executive to retain such Company Property in order to perform such assigned functions, and in any event not later than the last day of the Executive's employment with the Company.

   (c) *Confidentiality.* The Executive shall not, without obtaining the Company's consent pursuant to Section 7 below, use, disclose, furnish or make accessible to any Person any Confidential Information and Trade Secrets obtained during the Executive's employment with the Company at any time (including, without limitation, during or after the Retention Period, the Transition Period or the Continued Employment Period) for so long as such information remains confidential or secret, except as required by the duties of the Executive's employment with the Company.

6. ***Other Covenants.***

   (a) *Acknowledgements.* The Executive acknowledges that McDonald's is engaged in a highly competitive, global business that requires the preservation of Confidential Information and Trade Secrets. The Executive further acknowledges that McDonald's has near-permanent relationships with vendors, affiliates, customers, suppliers, manufacturers, alliance partners, employees and service organizations, which McDonald's has a legitimate interest in protecting. Finally, the Executive acknowledges that the covenants set forth in this Section 6 are reasonable under the circumstances, that he or she has the skill and ability to find alternative commensurate work not in violation of such covenants and the Executive has the wherewithal to support himself/herself and his/her family without violating such covenants, including without limitation the covenant not to compete provided for in Section 6(b) below.

   (b) *Noncompetition.* The Executive agrees to not work for or provide services to a Competing Business or to the Specified Competitors during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for two years following any termination of the Executive's employment.

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(1) For Agreements other than with the CEO.
(2) For Agreements with the CEO.

(3) Include only if the Change-in-Status Date is before the Executive's 62nd birthday.

(c) *Other Covenants.* In addition, the Executive shall not, at any time during the Executive's employment with the Company:

(i) Promote, sell or create any product sold by a Competing Business or a Specified Competitor;

(ii) Provide marketing services, consultation or services to enhance the sales of a Competing Business or a Specified Competitor; or

(iii) Use the McDonald's name or any other brand name of McDonald's, or the fact of the Executive's affiliation or former affiliation with McDonald's, in any manner that aids or benefits, or is intended to aid or benefit, a Competing Business or a Specified Competitor.

(d) *Exceptions.* It shall not be considered a violation of this Section 6 for the Executive to engage in any of the following:

(i) The performance of services for and on behalf of an investment banking or commercial banking, auditing or consulting firm during the Continued Employment Period or at any time after the termination of the Executive's employment, so long as the Executive is not personally engaged in rendering services to or soliciting business of a Competing Business or any of the Specified Competitors; and

(ii) Being the record or beneficial owner of up to one (1) percent of the outstanding voting securities of any publicly traded entity, provided that such investment does not create a conflict of interest between the Executive's duties hereunder and the Executive's interest in such investment or otherwise violate the Company's rules and policies (including without limitation the Standards of Business Conduct).

(e) *No Solicitation or Hiring of Employees.* The Executive shall not, during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for two years following any termination of the Executive's employment, solicit or attempt to solicit any employee (other than the Executive's administrative assistant), consultant, franchisee, supplier or independent contractor of McDonald's to terminate, alter, or lessen that party's affiliation with McDonald's or to interfere with or violate the terms of any agreement or understanding between such entity, employee or person and McDonald's.

(f) *No Disparagement.* The Executive shall not, during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for three years following any termination of the Executive's employment, (i) make any public disclosures or publish any articles or books about McDonald's, its business or any McDonald's-Related Person, or grant an interview to any representative of the public media, without the prior written consent of the CEO, or (ii) intentionally publish any statement or make any disclosure about McDonald's, its business or any McDonald's-Related Person that is disparaging, derogatory or otherwise casts a bad light on McDonald's, its business or any McDonald's-Related Person.

7. ***Consent Procedure.***

(a) *Seeking Consent.* The Executive may seek the Company's consent to engage in any of the activities prohibited by Section 6 above, by providing written notice thereof to the Company addressed to the HR Official [or to the CEO], *(4)* including a full and complete disclosure in writing to the Company of all the relevant facts, including without limitation the services to be rendered or activities to be engaged in, places of employment, performance of services or activities, compensation to be paid, expertise to be provided, amount to be invested, stock or debt to be received, and business plan or plans to be executed by such entity or person. The Company thereafter shall have fourteen (14) calendar days to consider the Executive's contemplated activities as disclosed and shall in writing, either consent or object to such activities. It is agreed that consent shall not be unreasonably withheld.

(b) *Binding Decisions.* All decisions of the Company under this Section 7 shall be final and binding upon the Executive, and the Executive shall not engage in any such activities if the Company shall object.

8. ***Legal Compulsion.***

(a) *Notice.* If the Executive reasonably and in good faith believes that he or she is or may be compelled by law or by a court or governmental agency by a proper proceeding to disclose Confidential Information and Trade Secrets, or to make a statement or take other action that would, absent this Section 8, violate Section 6(f) above (each such disclosure, statement or action, a "Violation"), then the Executive shall give the Company written notice thereof as far in advance of such Violation as is lawful and practicable, shall cooperate (at the Company's sole expense) with the Company in its efforts to prevent such Violation from being compelled, and shall limit his or her Violation to the minimum compelled by law or court order, except to the extent the Company agrees otherwise in writing.

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(4) Do not include in an Agreement signed by the CEO.

(b) *No Violation.* If the Executive complies with the foregoing procedure to the greatest extent possible without violating applicable law, then the Executive shall not be deemed to have breached Section 5(c) or 6(f) above, as applicable, as a result of the Violation.

9. ***Release Provisions.*** For the entire period of the Executive's employment by the Company, including his Retention Period, up to the Release Date:

(a) *Release.* The Executive understands, intends and agrees that this Section 9 constitutes full, complete and final satisfaction of all claims, demands, lawsuits or actions of any kind, whether known or unknown, against McDonald's and/or their respective directors, officers or employees (with McDonald's, collectively, the "Released Persons"), arising at any time up to and including the Release Date, and the Executive hereby forever releases each Released Person from all such matters. This includes, but is not limited to, a release of claims, demands, lawsuits and actions of any kind relating to any employment or application for employment or franchise, claims relating to resignation and/or cessation of employment, claims alleging breach of contract of any tort, claims for wrongful termination, defamation, intentional infliction of emotional distress, personal injury, violation of public policy and/or negligence related to employment or resignation, claims under Title VII of the Civil Rights Act of 1964, as amended, Section 1981 of the Civil Rights Act of 1866, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, as amended, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act of 1993, the Illinois Human Rights Act, or any other state, Federal or local law prohibiting discrimination, and claims based on any other law, regulation, or common law, whether before any Federal, state or local agency, in any court of law or before any other forum. Notwithstanding the foregoing, the Executive's release shall not extend to any claims (i) for benefits under Employee Plans that are qualified under Section 401(a) of the Internal Revenue Code, (ii) for compensation or benefits to which the Executive is entitled under the Plan as provided in Section 4 above, (iii) for compensation or benefits under any Employee Plan or Compensation Plan to which the Executive is entitled by the terms thereof, except as provided otherwise in Section 9(c) below and except to the extent such entitlements are specifically amended or eliminated by the Plan, or (iv) for indemnification under the Company's policy on indemnification of officers and directors and coverage under any related insurance policies.

(b) *Advice, Time to Consider and Revocation.* [The Executive is hereby advised to consult with an attorney prior to executing this Agreement. The Executive is further advised that he/she has a period of 21 days within which to consider the terms of this Agreement and whether or not to execute it. In addition, for a period of 7 days following the Executive's execution of this Agreement, he/she has the right to revoke this Agreement, and no portion of this Agreement shall become effective or enforceable until such revocation period has expired.] (5)

(c) *Other Benefits.* The Executive acknowledges and agrees that the payments and benefits provided to the Executive under the Plan are in lieu of any payments, benefits or arrangements to which the Executive might otherwise be entitled to under any Employee Plan or other plan or arrangement which provides for severance or separation ("Other Separation Benefits"), and the Executive hereby waives any and all rights and claims that he or she may now or hereafter have to any Other Separation Benefits; provided, that the foregoing waiver shall not apply to any right the Executive may have to any gross-up payments related to the excise tax on excess parachute payments imposed by Section 4999 of the Internal Revenue Code under any change of control employment agreement with the Company. The foregoing shall not be construed as affecting in any manner the Executive's benefits and entitlements (if any) under any Employee Plan that provides pension or retiree medical or life insurance benefits.

(d) *Acknowledgments.* The Executive acknowledges having read and understood the provisions of this Section 9 as well as the other provisions of this Agreement, and represents that his/her execution of this Agreement constitutes his/her knowing and voluntary act, made without coercion or intimidation. The Executive acknowledges and agrees that the release set forth in this Section 9 is being given only in exchange for consideration in addition to anything of value to which the Executive already is entitled. The Executive finally agrees not to file any lawsuits against the Company or any of the released entities or persons with respect to claims covered by the release given in this Section 9.

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(5) This language may be deleted or modified by the Company, depending upon individual circumstances and/or changes in law relating to age discrimination or otherwise.

10. ***Remedies*** .

(a) *Acknowledgments.* In recognition of the confidential nature of the Confidential Information and Trade Secrets, and in recognition of the necessity of the limited restrictions imposed by the Agreement, the Executive acknowledges it would be impossible to measure solely in money the damages which McDonald's would suffer if the Executive were to breach any of his/her obligations under Sections 5 and 6 above. The Executive also acknowledges that his/her breach of any such obligations would irreparably injure the Company.

(b) *Entitlement to Injunctive Relief.* If the Executive breaches any of his/her obligations under Sections 5 and 6 above, McDonald's shall be entitled, in addition to any other remedies to which McDonald's may be entitled under the Agreement or otherwise, to an injunction issued by a court of competent jurisdiction, to restrain any breach or threatened breach, of such provisions, and the Executive waives any right to assert any claim or defense that McDonald's has an adequate remedy at law for any such breach and any right to require, or request a court to require, that McDonald's post a bond in connection therewith.

(c) *Effect on Other Benefits.* In the event of a breach by the Executive of any of his/her obligations under this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action, the Company shall be entitled to:

(i) discontinue any and all payments and other benefits to which the Executive or his/her beneficiaries would otherwise be entitled pursuant to this Agreement and/or the Plan;

(ii) terminate any and all unexercised stock options then held by the Executive or by any transferee of the Executive;

(iii) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to repay to the Company the aggregate amount of cash payments received by the Executive from the Company pursuant to this Agreement and/or the Plan during the period commencing on the Executive's Change-in-Status Date and ending on the date on which the Company requests such repayment (the "Recovery Period"); and

(iv) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to pay to the Company any Stock Option Gains (as defined in the next two sentences). "Stock Option Gains" with respect to the Executive's stock options that were not vested as of his or her Change-in-Status Date means the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period. "Stock Option Gains" with respect to the Executive's stock options that were vested as of his or her Change-in-Status Date means the excess, if any, of (A) the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period, over (B) the amount of gain that would have been recognized, had such exercises instead occurred on the Executive's Change-in-Status Date.

11. ***Successors.*** This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective heirs, representatives and successors.

12. ***Jurisdiction and Venue.*** Any action arising under this Agreement or between the Company and the Executive shall be instituted and brought exclusively under the jurisdiction and venue of the appropriate state or federal courts for the City of Oak Brook, Illinois, County of DuPage. The Executive hereby consents to the exclusive jurisdiction of said courts regardless of where the Executive may be domiciled at the time such suit is brought. It is further agreed that in the event the Company shall be required to institute any proceedings to enforce the terms of this Agreement, then the Company shall be entitled to recover its attorney fees and attendant expenses as part of any recovery.

13. ***Captions.*** The captions of the Sections of and Exhibits to this Agreement are not a part of the provisions hereof and shall have no force or effect.

14. ***Entire Agreement.*** This Agreement, together with the Plan, contain the entire agreement between the parties, and supersede any and all previous agreements, written or oral, between the Executive and the Company relating to the subject matter hereof. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by each of the parties hereto.

15. ***Counterparts.*** This Agreement may be executed in counterparts, each of which shall be deemed an original.

16. ***Severability.*** If any one or more Sections or other portions of this Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Section or other portion not so declared to be unlawful or invalid. Any Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Section or other portion to the fullest extent possible while remaining lawful and valid.

17. ***Governing Law.*** To the extent not preempted by federal law, this Agreement shall be interpreted and construed in accordance with the laws of the State of Illinois, without regard to any otherwise applicable conflicts of law or choice of law principles.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

McDonald's Corporation

By

Title

Name

Exhibit A . Executive Retention Plan

[Attach]

Exhibit B . Specified Competitors

[List of 25 to be inserted upon preparation of specific Agreement]

Exhibit B . Continued Employment Period Agreement

THIS CONTINUED EMPLOYMENT PERIOD AGREEMENT (this "Agreement") is entered into as of this __day of __________, __, by and between McDonald's Corporation, a Delaware corporation (the "Company") and __________(the "Executive"), pursuant to the Company's Executive Retention Plan (the "Plan"), a copy of which is attached hereto as Exhibit A.

WITNESSETH:

WHEREAS, the Executive is a Tier _____Executive under the Plan; and

WHEREAS, if the Executive complies with his/her obligations under the Plan, he/she will hereafter be entitled to substantial compensation and benefits under the Plan to which he/she would not otherwise be entitled; and

WHEREAS, during the Executive's Transition Period, the Executive has received substantial compensation and benefits under the Plan to which he/she would not otherwise have been entitled; and

WHEREAS, the Executive is required under the Plan to execute this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. ***Definitions.*** Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan. The following terms shall have the meanings set forth below:

Agreement: defined in the first paragraph above.

Company: defined in the first paragraph above.

Company Property: all records, documents, materials, papers, computer records or print-outs belonging to McDonald's, including without limitation those containing Confidential Information and Trade Secrets.

Competing Business: any Person (and any branches, offices or operations thereof) that is a material and direct competitor of McDonald's in any country in the world or in any state of the United States by virtue of selling, manufacturing, processing or promoting any product that is substantially similar to, competes with, or is intended to compete with, replace, or duplicate in the market any product that was sold or under development by McDonald's during the five years (or shorter period of the Executive's employment with the Company) preceding the date of execution of this Agreement or with respect to which the Executive has had specific knowledge and involvement.

Confidential Information and Trade Secrets: all valuable and unique tangible and intangible information and techniques acquired, developed or used by McDonald's relating to its business, operations, employees and customers, which gives McDonald's a competitive advantage in the businesses in which McDonald's is engaged, including without limitation processes, methods, techniques, systems, computer data, formulae, patents, models, devices, compilations, customer lists, supplier lists or any information of whatever nature that gives McDonald's an opportunity to obtain an advantage over competitors who do not know or use such data or information.

Executive: defined in the first paragraph above.

HR Official: the Company's Senior Executive Vice President of Human Resources (or any successor position).

McDonald's: the Company and its subsidiaries, divisions, affiliates and related companies.

McDonald's-Related Person: any director, officer, employee or franchisee of the Company or any of its subsidiaries, divisions, affiliates and related companies.

Other Separation Benefits: defined in Section 9(c) below.

Person: a person, firm, corporation, partnership, venture or other entity of any kind.

Plan: defined in the first paragraph above.

Recovery Period: defined in Section 10(c)(iii) below.

Release Date: the last day of the Executive's Transition Period.

Released Persons: defined in Section 9(a) below.

Specified Competitors: the entities listed on Exhibit B hereto and their respective subsidiaries and affiliates, as required by Section 1.02(b) of the Plan.

Stock Option Gains: defined in Section 10(c)(iv) below.

Violation: defined in Section 8(a) below.

2. ***Relationship of Agreement to Plan.*** The Executive hereby agrees to be bound by the terms of the Plan, and to fulfill all of his/her obligations under the Plan, including without limitation to render services as set forth in the Plan and to execute additional Agreement(s) as and when required by the Plan. The provisions of the Plan, including without limitation the provision regarding administration in Article 2 of the Plan, are applicable to this Agreement and to the obligations of the Company and the Executive hereunder, and are hereby incorporated by reference into this Agreement. However, any amendments made to the Plan after the date of this Agreement will not apply to the Executive.

3. ***Circumstances Requiring Agreement.*** The Executive's Continued Employment Period shall be the period from ___________, _____to ___________, _____. This Agreement constitutes the Executive's Continued Employment Period Agreement.

4. ***Compensation and Benefits.*** During the Executive's Continued Employment Period, the Executive shall receive the compensation and benefits provided for in Article 5 of the Plan, subject to the Executive's compliance with the requirements of the Plan and this Agreement. In addition, upon the termination of the Executive's employment, he/she shall receive the compensation and benefits (if any) provided for in such circumstances under Article 7 of the Plan.

5. ***Company Property and Confidentiality.***

    (a) *Acknowledgements.* The Executive acknowledges that (i) it is the policy of McDonald's to maintain as secret and confidential all Confidential Information and Trade Secrets; (ii) all Confidential Information and Trade Secrets are the sole and exclusive property of McDonald's; and (iii) disclosure of Confidential Information and Trade Secrets would cause significant damage to McDonald's.

    (b) *Company Property.* The Executive agrees to turn all Company Property over to the CEO or the CEO's designee, at or as promptly as practicable following the execution of this Agreement, except for Company Property that is necessary to perform his or her assigned functions during the Continued Employment Period. The Executive also agrees to turn any Company Property that the Executive retains after the date of this Agreement pursuant to the preceding sentence over to the CEO or the CEO's designee as soon as it is no longer necessary for the Executive to retain such Company Property in order to perform such assigned functions, and in any event not later than the last day of the Executive's employment with the Company.

    (c) *Confidentiality.* The Executive shall not, without obtaining the Company's consent pursuant to Section 7 below, use, disclose, furnish or make accessible to any Person any Confidential Information and Trade Secrets obtained during the Executive's employment with the Company at any time (including, without limitation, during or after the Retention Period, the Transition Period or the Continued Employment Period) for so long as such information remains confidential or secret, except as required by the duties of the Executive's employment with the Company.

6. ***Other Covenants.***

    (a) *Acknowledgements.* The Executive acknowledges that McDonald's is engaged in a highly competitive, global business that requires the preservation of Confidential Information and Trade Secrets. The Executive further acknowledges that McDonald's has near-permanent relationships with vendors, affiliates, customers, suppliers, manufacturers, alliance partners, employees and service organizations, which McDonald's has a legitimate interest in protecting. Finally, the Executive acknowledges that the covenants set forth in this Section 6 are reasonable under the circumstances, that he or she has the skill and ability to find alternative commensurate work not in violation of such covenants and the Executive has the wherewithal to support himself/herself and his/her family without violating such covenants, including without limitation the covenant not to compete provided for in Section 6(b) below.

    (b) *Noncompetition.* The Executive agrees to not work for or provide services to a Competing Business or to the Specified Competitors during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for two years following any termination of the Executive's employment.

    (c) *Other Covenants.* In addition, the Executive shall not, at any time during the Executive's employment with the Company:

        (i) Promote, sell or create any product sold by a Competing Business or a Specified Competitor;

        (ii) Provide marketing services, consultation or services to enhance the sales of a Competing Business or a Specified Competitor; or

        (iii) Use the McDonald's name or any other brand name of McDonald's, or the fact of the Executive's affiliation or former affiliation with McDonald's, in any manner that aids or benefits, or is intended to aid or benefit, a Competing Business or a Specified Competitor.

(d) *Exceptions.* It shall not be considered a violation of this Section 6 for the Executive to engage in any of the following:

(i) The performance of services for and on behalf of an investment banking or commercial banking, auditing or consulting firm during the Continued Employment Period or at any time after the termination of the Executive's employment, so long as the Executive is not personally engaged in rendering services to or soliciting business of a Competing Business or any of the Specified Competitors; and

(ii) Being the record or beneficial owner of up to one (1) percent of the outstanding voting securities of any publicly traded entity, provided that such investment does not create a conflict of interest between the Executive's duties hereunder and the Executive's interest in such investment or otherwise violate the Company's rules and policies (including without limitation the Standards of Business Conduct).

(e) *No Solicitation or Hiring of Employees.* The Executive shall not, during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for two years following any termination of the Executive's employment, solicit or attempt to solicit any employee (other than the Executive's administrative assistant), consultant, franchisee, supplier or independent contractor of McDonald's to terminate, alter, or lessen that party's affiliation with McDonald's or to interfere with or violate the terms of any agreement or understanding between such entity, employee or person and McDonald's.

(f) *No Disparagement.* The Executive shall not, during the portion of his/her Employment Periods that follows the date of execution of the Agreement and for three years following any termination of the Executive's employment, (i) make any public disclosures or publish any articles or books about McDonald's, its business or any McDonald's-Related Person, or grant an interview to any representative of the public media, without the prior written consent of the CEO, or (ii) intentionally publish any statement or make any disclosure about McDonald's, its business or any McDonald's-Related Person that is disparaging, derogatory or otherwise casts a bad light on McDonald's, its business or any McDonald's-Related Person.

7. ***Consent Procedure.***

(a) *Seeking Consent.* The Executive may seek the Company's consent to engage in any of the activities prohibited by Section 6 above, by providing written notice thereof to the Company addressed to the HR Official [or to the CEO], *(1)* including a full and complete disclosure in writing to the Company of all the relevant facts, including without limitation the services to be rendered or activities to be engaged in, places of employment, performance of services or activities, compensation to be paid, expertise to be provided, amount to be invested, stock or debt to be received, and business plan or plans to be executed by such entity or person. The Company thereafter shall have fourteen (14) calendar days to consider the Executive's contemplated activities as disclosed and shall in writing, either consent or object to such activities. It is agreed that consent shall not be unreasonably withheld.

(b) *Binding Decisions.* All decisions of the Company under this Section 7 shall be final and binding upon the Executive, and the Executive shall not engage in any such activities if the Company shall object.

8. ***Legal Compulsion.***

(a) *Notice.* If the Executive reasonably and in good faith believes that he or she is or may be compelled by law or by a court or governmental agency by a proper proceeding to disclose Confidential Information and Trade Secrets, or to make a statement or take other action that would, absent this Section 8, violate Section 6(f) above (each such disclosure, statement or action, a "Violation"), then the Executive shall give the Company written notice thereof as far in advance of such Violation as is lawful and practicable, shall cooperate (at the Company's sole expense) with the Company in its efforts to prevent such Violation from being compelled, and shall limit his or her Violation to the minimum compelled by law or court order, except to the extent the Company agrees otherwise in writing.

(b) *No Violation.* If the Executive complies with the foregoing procedure to the greatest extent possible without violating applicable law, then the Executive shall not be deemed to have breached Section 5(c) or 6(f) above, as applicable, as a result of the Violation.

(1) Do not include in an Agreement signed by the CEO.

9. ***Release Provisions.*** For the entire period of the Executive's employment by the Company, including his Retention Period, up to the Release Date:

(a) *Release.* The Executive understands, intends and agrees that this Section 9 constitutes full, complete and final satisfaction of all claims, demands, lawsuits or actions of any kind, whether known or unknown, against McDonald's and/or their respective directors, officers or employees (with McDonald's, collectively, the "Released Persons"), arising at any time up to and including the Release Date, and the Executive hereby forever releases each Released Person from all such matters. This includes, but is not limited to, a release of claims, demands, lawsuits and actions of any kind relating to any employment or application for employment or franchise, claims relating to resignation and/or cessation of employment, claims alleging breach of contract of any tort, claims for wrongful termination, defamation, intentional infliction of emotional distress, personal injury, violation of public policy and/or negligence related to employment or resignation, claims under Title VII of the Civil Rights Act of 1964, as amended, Section 1981 of the Civil Rights Act of 1866, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, as amended, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act of 1993, the Illinois Human Rights Act, or any other state, Federal or local law prohibiting discrimination, and claims based on any other law, regulation, or common law, whether before any Federal, state or local agency, in any court of law or before any other forum. Notwithstanding the foregoing, the Executive's release shall not extend to any claims (i) for benefits under Employee Plans that are qualified under Section 401(a) of the Internal Revenue Code, (ii) for compensation or benefits to which the Executive is entitled under the Plan as provided in Section 4 above, (iii) for compensation or benefits under any Employee Plan or Compensation Plan to which the Executive is entitled by the terms thereof, except as provided otherwise in Section 9(c) below and except to the extent such entitlements are specifically amended or eliminated by the Plan, or (iv) for indemnification under the Company's policy on indemnification of officers and directors and coverage under any related insurance policies.

(b) *Advice, Time to Consider and Revocation.* [The Executive is hereby advised to consult with an attorney prior to executing this Agreement. The Executive is further advised that he/she has a period of 21 days within which to consider the terms of this Agreement and whether or not to execute it. In addition, for a period of 7 days following the Executive's execution of this Agreement, he/she has the right to revoke this Agreement, and no portion of this Agreement shall become effective or enforceable until such revocation period has expired.] *(2)*

(c) *Other Benefits.* The Executive acknowledges and agrees that the payments and benefits provided to the Executive under the Plan are in lieu of any payments, benefits or arrangements to which the Executive might otherwise be entitled to under any Employee Plan or other plan or arrangement which provides for severance or separation ("Other Separation Benefits"), and the Executive hereby waives any and all rights and claims that he or she may now or hereafter have to any Other Separation Benefits; provided, that the foregoing waiver shall not apply to any right the Executive may have to any gross-up payments related to the excise tax on excess parachute payments imposed by Section 4999 of the Internal Revenue Code under any change of control employment agreement with the Company. The foregoing shall not be construed as affecting in any manner the Executive's benefits and entitlements (if any) under any Employee Plan that provides pension or retiree medical or life insurance benefits.

(d) *Acknowledgements.* The Executive acknowledges having read and understood the provisions of this Section 9 as well as the other provisions of this Agreement, and represents that his/her execution of this Agreement constitutes his/her knowing and voluntary act, made without coercion or intimidation. The Executive acknowledges and agrees that the release set forth in this Section 9 is being given only in exchange for consideration in addition to anything of value to which the Executive already is entitled. The Executive finally agrees not to file any lawsuits against the Company or any of the released entities or persons with respect to claims covered by the release given in this Section 9.

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(2) *This language may be deleted or modified by the Company, depending upon individual circumstances and/or changes in law* relating to age discrimination or otherwise.

10. ***Remedies.***

(a) *Acknowledgements.* In recognition of the confidential nature of the Confidential Information and Trade Secrets, and in recognition of the necessity of the limited restrictions imposed by the Agreement, the Executive acknowledges it would be impossible to measure solely in money the damages which McDonald's would suffer if the Executive were to breach any of his/her obligations under Sections 5 and 6 above. The Executive also acknowledges that his/her breach of any such obligations would irreparably injure the Company.

(b) *Entitlement to Injunctive Relief.* If the Executive breaches any of his/her obligations under Sections 5 and 6 above, McDonald's shall be entitled, in addition to any other remedies to which McDonald's may be entitled under the Agreement or otherwise, to an injunction issued by a court of competent jurisdiction, to restrain any breach or threatened breach, of such provisions, and the Executive waives any right to assert any claim or defense that McDonald's has an adequate remedy at law for any such breach and any right to require, or request a court to require, that McDonald's post a bond in connection therewith.

(c) *Effect on Other Benefits.* In the event of a breach by the Executive of any of his/her obligations under this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action, the Company shall be entitled to:

(i) discontinue any and all payments and other benefits to which the Executive or his/her beneficiaries would otherwise be entitled pursuant to this Agreement and/or the Plan;

(ii) terminate any and all unexercised stock options then held by the Executive or by any transferee of the Executive;

(iii) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to repay to the Company the aggregate amount of cash payments received by the Executive from the Company pursuant to this Agreement and/or the Plan during the period commencing on the Executive's Change-in-Status Date and ending on the date on which the Company requests such repayment (the "Recovery Period"); and

(iv) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to pay to the Company any Stock Option Gains (as defined in the next two sentences). "Stock Option Gains" with respect to the Executive's stock options that were not vested as of his or her Change-in-Status Date means the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period. "Stock Option Gains" with respect to the Executive's stock options that were vested as of his or her Change-in-Status Date means the excess, if any, of (A) the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period, over (B) the amount of gain that would have been recognized, had such exercises instead occurred on the Executive's Change-in-Status Date.

11. ***Successors.*** This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective heirs, representatives and successors.

12. ***Jurisdiction and Venue.*** Any action arising under this Agreement or between the Company and the Executive shall be instituted and brought exclusively under the jurisdiction and venue of the appropriate state or federal courts for the City of Oak Brook, Illinois, County of DuPage. The Executive hereby consents to the exclusive jurisdiction of said courts regardless of where the Executive may be domiciled at the time such suit is brought. It is further agreed that in the event the Company shall be required to institute any proceedings to enforce the terms of this Agreement, then the Company shall be entitled to recover its attorney fees and attendant expenses as part of any recovery.

13. ***Captions.*** The captions of the Sections of and Exhibits to this Agreement are not a part of the provisions hereof and shall have no force or effect.

14. ***Entire Agreement.*** This Agreement, together with the Plan, contain the entire agreement between the parties, and supersede any and all previous agreements, written or oral, between the Executive and the Company relating to the subject matter hereof. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by each of the parties hereto.

15. ***Counterparts.*** This Agreement may be executed in counterparts, each of which shall be deemed an original.

16. ***Severability.*** If any one or more Sections or other portions of this Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Section or other portion not so declared to be unlawful or invalid. Any Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Section or other portion to the fullest extent possible while remaining lawful and valid.

17. ***Governing Law.*** To the extent not preempted by federal law, this Agreement shall be interpreted and construed in accordance with the laws of the State of Illinois, without regard to any otherwise applicable conflicts of law or choice of law principles.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

McDonald's Corporation

By

Title

Name

Exhibit A. Executive Retention Plan

[Attach]

Exhibit B. Specified Competitors

[List of 25 to be inserted upon preparation of specific Agreement]

Exhibit C. **Termination Agreement**

THIS TERMINATION AGREEMENT (this “Agreement”) is entered into as of this ___day of ___________, ___, by and between McDonald’s Corporation, a Delaware corporation (the “Company”) and _________________(the “Executive”), pursuant to the Company’s Executive Retention Plan (the “Plan”), a copy of which is attached hereto as Exhibit A.

WITNESSETH:

WHEREAS, the Executive is a Tier _______Executive under the Plan; and

WHEREAS, if the Executive complies with his/her obligations under the Plan, he/she will hereafter be entitled to substantial compensation and benefits under the Plan to which he/she would not otherwise be entitled; and

[WHEREAS, during the Executive’s Transition Period [and Continued Employment Period], [(1)] the Executive has received substantial compensation and benefits under the Plan to which he/she would not otherwise have been entitled; and] [(2)]

WHEREAS, the Executive is required under the Plan to execute this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. ***Definitions.*** Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan. The following terms shall have the meanings set forth below:

Agreement: defined in the first paragraph above.

Company: defined in the first paragraph above.

Company Property: all records, documents, materials, papers, computer records or print-outs belonging to McDonald’s, including without limitation those containing Confidential Information and Trade Secrets.

Competing Business: any Person (and any branches, offices or operations thereof) that is a material and direct competitor of McDonald’s in any country in the world or in any state of the United States by virtue of selling, manufacturing, processing or promoting any product that is substantially similar to, competes with, or is intended to compete with, replace, or duplicate in the market any product that was sold or under development by McDonald’s during the five years (or shorter period of the Executive’s employment with the Company) preceding the date of execution of this Agreement or with respect to which the Executive has had specific knowledge and involvement.

Confidential Information and Trade Secrets: all valuable and unique tangible and intangible information and techniques acquired, developed or used by McDonald’s relating to its business, operations, employees and customers, which gives McDonald’s a competitive advantage in the businesses in which McDonald’s is engaged, including without limitation processes, methods, techniques, systems, computer data, formulae, patents, models, devices, compilations, customer lists, supplier lists or any information of whatever nature that gives McDonald’s an opportunity to obtain an advantage over competitors who do not know or use such data or information.

Executive: defined in the first paragraph above.

HR Official: the Company’s Senior Executive Vice President of Human Resources (or any successor position).

McDonald’s: the Company and its subsidiaries, divisions, affiliates and related companies.

McDonald’s-Related Person: any director, officer, employee or franchisee of the Company or any of its subsidiaries, divisions, affiliates and related companies.

Other Separation Benefits: defined in Section 9(c) below.

Person: a person, firm, corporation, partnership, venture or other entity of any kind.

Plan: defined in the first paragraph above.

Recovery Period: defined in Section 10(c)(iii) below.

Release Date: the Executive’s Date of Termination.

Released Persons: defined in Section 9(a) below.

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(1) Include bracketed phrase in Agreements signed after the Continued Employment Period begins.
(2) Include bracketed paragraph in Agreements signed after Change-in-Status Date.

Specified Competitors: the entities listed on Exhibit B hereto and their respective subsidiaries and affiliates, as required by Section 1.02(b) of the Plan.

Stock Option Gains: defined in Section 10(c)(iv) below.

Violation: defined in Section 8(a) below.

2. ***Relationship of Agreement to Plan.*** The provisions of the Plan, including without limitation the provision regarding administration in Article 2 of the Plan, are applicable to this Agreement and to the obligations of the Company and the Executive hereunder, and are hereby incorporated by reference into this Agreement. However, any amendments made to the Plan after the date of this Agreement will not apply to the Executive.

3. ***Circumstances Requiring Agreement.*** The Executive's employment [has terminated] [will terminate] as a result of [insert the appropriate clause from the following:]

[the expiration of his/her Continued Employment Period]

[termination by the Company during the Executive's Retention Period, other than for Cause]

[termination by the Executive for Good Reason during his/her [Retention Period] [Transition Period]] (3)

The Executive's Date of Termination is ___________, ___. This Agreement constitutes the Executive's Termination Agreement.

4. ***Termination Benefits.*** [For a Termination Agreement entered into at the end of the Continued Employment Period] The Executive's eligibility for retiree status and retiree benefits for purposes of Compensation Plans and Employee Plans shall be determined by giving the Executive credit for employment from the Change-in-Status Date through the Date of Termination, provided that the Executive properly executes this Agreement, does not revoke this Agreement, and complies with all Agreements that he or she is required under the Plan to execute.

[For a Termination Agreement entered into in connection with a termination covered by Section 7.01 of the Plan] The Executive shall be entitled to receive Termination Benefits in accordance with Section 7.01 of the Plan, provided that the Executive properly executes this Agreement, does not revoke this Agreement, and complies with all Agreements that he or she is required under the Plan to execute. These Termination Benefits are outlined on Exhibit C hereto.

5. ***Company Property and Confidentiality.***

(a) *Acknowledgements.* The Executive acknowledges that (i) it is the policy of McDonald's to maintain as secret and confidential all Confidential Information and Trade Secrets; (ii) all Confidential Information and Trade Secrets are the sole and exclusive property of McDonald's; and (iii) disclosure of Confidential Information and Trade Secrets would cause significant damage to McDonald's.

(b) *Company Property.* The Executive agrees to turn all Company Property over to the CEO or the CEO's designee, at or as promptly as practicable following the execution of this Agreement.

(c) *Confidentiality.* The Executive shall not, without obtaining the Company's consent pursuant to Section 7 below, use, disclose, furnish or make accessible to any Person any Confidential Information and Trade Secrets obtained during the Executive's employment with the Company at any time (including, without limitation, during or after the Retention Period, the Transition Period or the Continued Employment Period) for so long as such information remains confidential or secret.

6. ***Other Covenants.***

(a) *Acknowledgements.* The Executive acknowledges that McDonald's is engaged in a highly competitive, global business that requires the preservation of Confidential Information and Trade Secrets. The Executive further acknowledges that McDonald's has near-permanent relationships with vendors, affiliates, customers, suppliers, manufacturers, alliance partners, employees and service organizations, which McDonald's has a legitimate interest in protecting. Finally, the Executive acknowledges that the covenants set forth in this Section 6 are reasonable under the circumstances, that he or she has the skill and ability to find alternative commensurate work not in violation of such covenants and the Executive has the wherewithal to support himself/herself and his/her family without violating such covenants, including without limitation the covenant not to compete provided for in Section 6(b) below.

(b) *Noncompetition.* The Executive agrees to not work for or provide services to a Competing Business or to the Specified Competitors at any time on or before ___________, _____[insert second anniversary of Date of Termination].

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(3) Applies only to Tier I Executives.

(c) *Exceptions.* It shall not be considered a violation of this Section 6 for the Executive to engage in any of the following:

(i) The performance of services for and on behalf of an investment banking or commercial banking, auditing or consulting firm during the Continued Employment Period or at any time after the termination of the Executive's employment, so long as the Executive is not personally engaged in rendering services to or soliciting business of a Competing Business or any of the Specified Competitors; and

(ii) Being the record or beneficial owner of up to one (1) percent of the outstanding voting securities of any publicly traded entity, provided that such investment does not create a conflict of interest between the Executive's duties hereunder and the Executive's interest in such investment or otherwise violate the Company's rules and policies (including without limitation the Standards of Business Conduct);

(iii) The performance of services for a Competing Business or for a Specified Competitor at any time after the termination of the Executive's employment, so long as the Executive does not perform services for or work on a competitive product or a substantially similar product of the Company and has obtained the Company's consent pursuant to Section 7 below.

(d) *No Solicitation or Hiring of Employees.* The Executive shall not, at any time on or before ___________, _____[insert second anniversary of Date of Termination], solicit or attempt to solicit any employee (other than the Executive's administrative assistant), consultant, franchisee, supplier or independent contractor of McDonald's to terminate, alter, or lessen that party's affiliation with McDonald's or to interfere with or violate the terms of any agreement or understanding between such entity, employee or person and McDonald's.

(e) *No Disparagement.* The Executive shall not, at any time on or before ___________, _____[insert third anniversary of Date of Termination], (i) make any public disclosures or publish any articles or books about McDonald's, its business or any McDonald's-Related Person, or grant an interview to any representative of the public media, without the prior written consent of the CEO, or (ii) intentionally publish any statement or make any disclosure about McDonald's, its business or any McDonald's-Related Person that is disparaging, derogatory or otherwise casts a bad light on McDonald's, its business or any McDonald's-Related Person.

7. ***Consent Procedure.***

(a) *Seeking Consent.* The Executive may seek the Company's consent to engage in any of the activities prohibited by Section 6 above, by providing written notice thereof to the Company addressed to the HR Official [or to the CEO], *(4)* including a full and complete disclosure in writing to the Company of all the relevant facts, including without limitation the services to be rendered or activities to be engaged in, places of employment, performance of services or activities, compensation to be paid, expertise to be provided, amount to be invested, stock or debt to be received, and business plan or plans to be executed by such entity or person. The Company thereafter shall have fourteen (14) calendar days to consider the Executive's contemplated activities as disclosed and shall in writing, either consent or object to such activities. It is agreed that consent shall not be unreasonably withheld.

(b) *Specific Activities.* Without limiting the generality of the foregoing, such consent shall not be withheld in any case in which an Executive seeks consent to engage in conduct described in Section 6(d)(iii) above and provides the Company with representations in form and substance reasonably satisfactory to the Company that he or she shall not work on or perform services for a competitive product or substantially similar product as described in Section 6(d)(iii) above.

(c) *Binding Decisions.* All decisions of the Company under this Section 7 shall be final and binding upon the Executive, and the Executive shall not engage in any such activities if the Company shall object.

8. ***Legal Compulsion.***

(a) *Notice.* If the Executive reasonably and in good faith believes that he or she is or may be compelled by law or by a court or governmental agency by a proper proceeding to disclose Confidential Information and Trade Secrets, or to make a statement or take other action that would, absent this Section 8, violate Section 6(f) above (each such disclosure, statement or action, a "Violation"), then the Executive shall give the Company written notice thereof as far in advance of such Violation as is lawful and practicable, shall cooperate (at the Company's sole expense) with the Company in its efforts to prevent such Violation from being compelled, and shall limit his or her Violation to the minimum compelled by law or court order, except to the extent the Company agrees otherwise in writing.

(4) Do not include in an Agreement signed by the CEO.

(b) No Violation. If the Executive complies with the foregoing procedure to the greatest extent possible without violating applicable law, then the Executive shall not be deemed to have breached Section 5(c) or 6(f) above, as applicable, as a result of the Violation.

9. ***Release Provisions.*** For the entire period of the Executive's employment by the Company, including his Retention Period, up to the Release Date:

(a) *Release.* The Executive understands, intends and agrees that this Section 9 constitutes full, complete and final satisfaction of all claims, demands, lawsuits or actions of any kind, whether known or unknown, against McDonald's and/or their respective directors, officers or employees (with McDonald's, collectively, the "Released Persons"), arising at any time up to and including the Release Date, and the Executive hereby forever releases each Released Person from all such matters. This includes, but is not limited to, a release of claims, demands, lawsuits and actions of any kind relating to any employment or application for employment or franchise, claims relating to resignation and/or cessation of employment, claims alleging breach of contract of any tort, claims for wrongful termination, defamation, intentional infliction of emotional distress, personal injury, violation of public policy and/or negligence related to employment or resignation, claims under Title VII of the Civil Rights Act of 1964, as amended, Section 1981 of the Civil Rights Act of 1866, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, as amended, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act of 1993, the Illinois Human Rights Act, or any other state, Federal or local law prohibiting discrimination, and claims based on any other law, regulation, or common law, whether before any Federal, state or local agency, in any court of law or before any other forum. Notwithstanding the foregoing, the Executive's release shall not extend to any claims (i) for benefits under Employee Plans that are qualified under Section 401(a) of the Internal Revenue Code, (ii) for Termination Benefits to which the Executive is entitled under the Plan as provided in Section 4 above, (iii) for compensation or benefits under any Employee Plan or Compensation Plan to which the Executive is entitled by the terms thereof, except as provided otherwise in Section 9(c) below and except to the extent such entitlements are specifically amended or eliminated by the Plan, or (iv) for indemnification under the Company's policy on indemnification of officers and directors and coverage under any related insurance policies.

(b) *Advice, Time to Consider and Revocation.* [The Executive is hereby advised to consult with an attorney prior to executing this Agreement. The Executive is further advised that he/she has a period of 21 days within which to consider the terms of this Agreement and whether or not to execute it. In addition, for a period of 7 days following the Executive's execution of this Agreement, he/she has the right to revoke this Agreement, and no portion of this Agreement shall become effective or enforceable until such revocation period has expired.] (5)

(c) *Other Benefits.* The Executive acknowledges and agrees that the payments and benefits provided to the Executive under the Plan are in lieu of any payments, benefits or arrangements to which the Executive might otherwise be entitled to under any Employee Plan or other plan or arrangement which provides for severance or separation ("Other Separation Benefits"), and the Executive hereby waives any and all rights and claims that he or she may now or hereafter have to any Other Separation Benefits; provided, that the foregoing waiver shall not apply to any right the Executive may have to any gross-up payments related to the excise tax on excess parachute payments imposed by Section 4999 of the Internal Revenue Code under any change of control employment agreement with the Company. The foregoing shall not be construed as affecting in any manner the Executive's benefits and entitlements (if any) under any Employee Plan that provides pension or retiree medical or life insurance benefits.

(d) *Acknowledgements.* The Executive acknowledges having read and understood the provisions of this Section 9 as well as the other provisions of this Agreement, and represents that his/her execution of this Agreement constitutes his/her knowing and voluntary act, made without coercion or intimidation. The Executive acknowledges and agrees that the release set forth in this Section 9 is being given only in exchange for consideration in addition to anything of value to which the Executive already is entitled. The Executive finally agrees not to file any lawsuits against the Company or any of the released entities or persons with respect to claims covered by the release given in this Section 9.

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(5) This language may be deleted or modified by the Company, depending upon individual circumstances and/or changes in law relating to age discrimination or otherwise.

10. ***Remedies.***

(a) *Acknowledgements.* In recognition of the confidential nature of the Confidential Information and Trade Secrets, and in recognition of the necessity of the limited restrictions imposed by the Agreement, the Executive acknowledges it would be impossible to measure solely in money the damages which McDonald's would suffer if the Executive were to breach any of his/her obligations under Sections 5 and 6 above. The Executive also acknowledges that his/her breach of any such obligations would irreparably injure the Company.

(b) *Entitlement to Injunctive Relief.* If the Executive breaches any of his/her obligations under Sections 5 and 6 above, McDonald's shall be entitled, in addition to any other remedies to which McDonald's may be entitled under the Agreement or otherwise, to an injunction issued by a court of competent jurisdiction, to restrain any breach or threatened breach, of such provisions, and the Executive waives any right to assert any claim or defense that McDonald's has an adequate remedy at law for any such breach and any right to require, or request a court to require, that McDonald's post a bond in connection therewith.

(c) *Effect on Other Benefits.* In the event of a breach by the Executive of any of his/her obligations under this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action, the Company shall be entitled to:

(i) discontinue any and all payments and other benefits to which the Executive or his/her beneficiaries would otherwise be entitled pursuant to this Agreement and/or the Plan;

(ii) terminate any and all unexercised stock options then held by the Executive or by any transferee of the Executive;

(iii) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to repay to the Company the aggregate amount of cash payments received by the Executive from the Company pursuant to this Agreement and/or the Plan during the period commencing on the Executive's Change-in-Status Date and ending on the date on which the Company requests such repayment (the "Recovery Period"); and

(iv) in the case of any such breach occurring after the Executive's Change-in-Status Date, require the Executive to pay to the Company any Stock Option Gains (as defined in the next two sentences). "Stock Option Gains" with respect to the Executive's stock options that were not vested as of his or her Change-in-Status Date means the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period. "Stock Option Gains" with respect to the Executive's stock options that were vested as of his or her Change-in-Status Date means the excess, if any, of (A) the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period, over (B) the amount of gain that would have been recognized, had such exercises instead occurred on the Executive's Change-in-Status Date.

11. ***Successors.*** This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective heirs, representatives and successors.

12. ***Jurisdiction and Venue.*** Any action arising under this Agreement or between the Company and the Executive shall be instituted and brought exclusively under the jurisdiction and venue of the appropriate state or federal courts for the City of Oak Brook, Illinois, County of DuPage. The Executive hereby consents to the exclusive jurisdiction of said courts regardless of where the Executive may be domiciled at the time such suit is brought. It is further agreed that in the event the Company shall be required to institute any proceedings to enforce the terms of this Agreement, then the Company shall be entitled to recover its attorney fees and attendant expenses as part of any recovery.

13. ***Captions.*** The captions of the Sections of and Exhibits to this Agreement are not a part of the provisions hereof and shall have no force or effect.

14. ***Entire Agreement.*** This Agreement, together with the Plan, contain the entire agreement between the parties, and supersede any and all previous agreements, written or oral, between the Executive and the Company relating to the subject matter hereof. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by each of the parties hereto.

15. ***Counterparts.*** This Agreement may be executed in counterparts, each of which shall be deemed an original.

16. ***Severability.*** If any one or more Sections or other portions of this Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Section or other portion not so declared to be unlawful or invalid. Any Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Section or other portion to the fullest extent possible while remaining lawful and valid.

17. ***Governing Law.*** To the extent not preempted by federal law, this Agreement shall be interpreted and construed in accordance with the laws of the State of Illinois, without regard to any otherwise applicable conflicts of law or choice of law principles.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

McDonald's Corporation

By

Title

Name

Exhibit A. Executive Retention Plan

[Attach]

Exhibit B. Specified Competitors

[List of 25 to be inserted upon preparation of specific Agreement]

Exhibit C. **Termination Benefits**

[To be completed upon preparation of specific Agreement]

Termination Benefits paid in a lump sum as per Section 7.01(a) of the Plan:

Accrued Obligations:	$__________
Earned Bonus:	$__________
Severance Benefit:	$__________
Welfare Benefit:	$__________

Stock Options that vest and remain exercisable in accordance with Section 7.01(b) of the Plan:
[List]

Exhibit 10(i)(i). **First Amendment to Tier I Change of Control Employment Agreement**

1. The McDonald's Corporation Tier I Change of Control Employment Agreement (the "Agreement"), is hereby amended by adding at the end of Article 10 a new Section 10.16, reading in its entirety as follows:

   10.16 ***Company Subsidiaries and Successors.*** References in the Agreement to employment by "the Company" shall be deemed to include employment by (1) any entity in which the Company directly or through intervening subsidiaries owns 100% of the total combined voting power or value of all classes of stock, or, in the case of an unincorporated entity, 100% interest in the capital and profits and (2) any successor or assign of the Company pursuant to Section 10.02, and any obligation of the Company hereunder shall be deemed satisfied if and to the extent an entity described in clause (1) or (2) of this sentence performs such obligation.

2. This amendment is effective as of January 25, 2005.
3. Except as specifically provided above, the Agreement is hereby ratified and confirmed without amendment.

Exhibit 10(l). **Arrangement between M. Lawrence Light and McDonald's Corporation**

Set forth below is a description of the material terms of an arrangement between M. Lawrence Light and McDonald's Corporation (the "Company"):

1. When Mr. Light ceases to be the Chief Marketing Officer of the Company, the Company will offer Mr. Light continued employment for a period of two and one-half years at the rate of $50,000 per year. Throughout this continued employment period, Mr. Light's existing equity grants will continue to vest and be exercisable in accordance with their original terms. During this two and one-half year period, Mr. Light can only be terminated for Cause, with Cause being defined as: (i) the willful failure of Mr. Light to perform substantially all of his duties with the Company (other than any failure resulting from incapacity resulting from physical or mental illness), after written demand for substantial performance is delivered to Mr. Light by the Compensation Committee of the Company's Board of Directors or the Company's Chief Executive Officer; or (ii) willful violation of the Company's rules and policies (including without limitation the Company's Standards of Business Conduct) as in effect from time to time; or (iii) the commission of any act or acts involving dishonesty, intentional breach of fiduciary obligation, fraud, illegality, malfeasance or moral turpitude; or (iv) Mr. Light is convicted of or found liable for a criminal or civil violation or cause of action involving fraud or dishonesty; or (v) Mr. Light is found liable for or guilty in a civil matter of engaging in discriminatory conduct in violation of any labor or employment laws or in violating or contributing to a violation of an employee's civil rights; or (vi) Mr. Light materially breaches the non-competition agreement referenced in the following section; or (vii) Mr. Light refuses to carry out clearly assigned duties or is otherwise insubordinate.
2. In return for the continued employment described above, Mr. Light must agree not to work for or provide services to a quick service or casual dining Competing Business for two years following his termination of employment. Competing Business means any casual dining or quick service restaurant business (operational or start-up) anywhere in the world that is substantially similar to, competes with, or is intended to compete with, replace, or duplicate in the market any product or service that was sold or under development by the Company during Mr. Light's tenure of employment with the Company or which Mr. Light has specific knowledge or involvement.

Exhibit 12. **McDonald's Corporation Computation of Ratio of Earnings to Fixed Charges**

DOLLARS IN MILLIONS	**Years ended December 31, 2004**	**2003**	**2002**	**2001**	**2000**
Earnings available for fixed charges					
Income before provision for income taxes and cumulative effect of accounting changes	**$ 3,202.4**[(1)]	$2,346.4[(2)]	$1,662.1[(3)]	$2,329.7[(4)]	$2,882.3
Minority interest expense (income) in operating results of majority-owned subsidiaries, including fixed charges related to redeemable preferred stock, less equity in undistributed operating results of					

less-than-50% owned affiliates	**5.4**	18.1	6.6	(15.4)	16.2
Income tax provision (benefit) of 50% owned affiliates included in consolidated income before provision for income taxes	**13.1**	(28.6)	(9.5)	51.0	93.7
Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	**310.2**	289.6	266.7	252.5	207.0
Interest expense, amortization of debt discount and issuance costs, and depreciation of capitalized interest*	**394.2**	427.3	419.7	510.3	470.3
	$ 3,925.3	$3,052.8	$2,345.6	$3,128.1	$3,669.5
Fixed charges					
Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	**$ 310.2**	$ 289.6	$ 266.7	$ 252.5	$ 207.0
Interest expense, amortization of debt discount and issuance costs, and fixed charges related to redeemable preferred stock*	**375.6**	408.9	401.7	492.9	457.9
Capitalized interest*	**4.1**	7.9	14.4	15.4	16.5
	$ 689.9	$ 706.4	$ 682.8	$ 760.8	$ 681.4
Ratio of earnings to fixed charges	**5.69**	4.32	3.44	4.11	5.39

* *Includes amounts of the Registrant and its majority-owned subsidiaries, and one-half of the amounts of 50%-owned affiliates.*

(1) *Includes pretax charges of $241.1 million consisting of $130.5 million related to asset/goodwill impairment and $159.9 million related to the correction in the Company's lease accounting practices and policies as well as a $49.3 million gain relating to the sale of the Company's interest in a U.S. real estate partnership.*

(2) *Includes pretax charges of $407.6 million primarily related to the disposition of certain non-McDonald's brands and asset/goodwill impairment.*

(3) *Includes pretax charges of $853.2 million primarily related to restructuring markets and eliminating positions, restaurant closings/asset impairment and the write-off of technology costs.*

(4) *Includes net pretax expense of $252.9 million consisting of charges primarily related to the U.S. business reorganization and other global change initiatives and restaurant closings/asset impairment, partly offset by a gain on the initial public offering of McDonald's Japan.*

***Exhibit 21.* McDonald's Corporation Subsidiaries of the Registrant**

Name of Subsidiary (State or Country of Incorporation)

Domestic Subsidiaries

McDonald's Deutschland, Inc. (Delaware)
McDonald's Restaurant Operations Inc. (Delaware)
McG Development Co. (Delaware)
Chipotle Mexican Grill, Inc. (Delaware)
Boston Market Corporation (Delaware)

Foreign Subsidiaries

McDonald's Franchise GmbH (Austria)
McDonald's Australia Limited (Australia)
McDonald's France, S.A. (France)
MDC Inmobiliaria de Mexico S.A. de C.V. (Mexico)
McDonald's Restaurants Pte., Ltd (Singapore)
Restaurantes McDonald's S.A. (Spain)
McKim Company Ltd. (South Korea)
Shin Mac Company Ltd. (South Korea)
McDonald's Nederland B.V. (Netherlands)
Moscow-McDonald's (Canada)
McDonald's Restaurants Limited (United Kingdom)

The names of certain subsidiaries have been omitted as follows:

(a) 49 wholly-owned subsidiaries of the Company, each of which operates one or more McDonald's restaurants within the United States.

(b) Additional subsidiaries, including some foreign, other than those mentioned in (a), because considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

***Exhibit 23.* Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements of McDonald's Corporation and the related prospectus of our reports dated February 22, 2005 with respect to the Consolidated financial statements of McDonald's Corporation, McDonald's Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of McDonald's Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

Commission File No.

FORM S-8	FORM S-3
33-09267	33-00001
33-24958	33-64873
33-49817	333-25899
33-50701	333-59145
33-58840	333-60170
333-03409	333-82920
333-65033	333-92212
333-36776	333-120453
333-36778	
333-71656	
333-121092	
333-115770	

Ernst & Young LLP

Chicago, Illinois
March 1, 2005

***Exhibit 31.1.* Rule 13a–14(a) Certification of Chief Executive Officer**

I, James A. Skinner, Vice Chairman and Chief Executive Officer of McDonald's Corporation, certify that:

(1) I have reviewed this annual report on Form 10-K of McDonald's Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

  (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

  (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

  (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

  (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

  (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

  (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2005

/S/ James A. Skinner

By James A. Skinner
Vice Chairman and Chief Executive Officer

Exhibit 31.2. **Rule 13a–14(a) Certification of Chief Financial Officer**

I, Matthew H. Paull, Corporate Senior Executive Vice President and Chief Financial Officer of McDonald's Corporation, certify that:

(1) I have reviewed this annual report on Form 10-K of McDonald's Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2005

/S/ Matthew H. Paull

By Matthew H. Paull
Corporate Senior Executive Vice President
and Chief Financial Officer

Exhibit 32.1. **Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2004 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2005

/S/ James A. Skinner

By James A. Skinner
Vice Chairman and Chief Executive Officer

Exhibit 32.2. **Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2004 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 4, 2005		/S/ Matthew H. Paull
	By	Matthew H. Paull *Corporate Senior Executive Vice President* *and Chief Financial Officer*

Exhibit 99. **McDonald's Corporation One-year Return on Incremental Invested Capital (ROIIC)**

Return on incremental invested capital (ROIIC) is a measure reviewed by management to determine the effectiveness of capital deployed. One-year ROIIC is calculated as a percentage. The numerator is the Company's constant rate (constant rate excludes the impact of foreign currency translation) incremental operating income plus depreciation and amortization, based on a comparison of the current and prior year periods. The denominator is the constant rate weighted average adjusted cash used for investing activities during the two-year period. Adjusted cash used for investing activities is defined as cash used for investing activities less net cash (collections) and issuances of notes receivable, which do not generate operating income. Constant rate weighted average adjusted cash used for investing activities is based on a weighting applied on a quarterly basis detailed in the following table.

AS A PERCENT	**2004**	**2003**
Weightings:		
Quarters ended March 31	87.5%	12.5%
Quarters ended June 30	62.5	37.5
Quarters ended September 30	37.5	62.5
Quarters ended December 31	12.5	87.5

In determining the denominator used to calculate one-year ROIIC, weightings are applied to adjusted cash used for investing activities for each of the eight quarters in the applicable two-year period. These weightings reflect the relative contribution of each quarter's investing activities to constant rate incremental operating income. Thus, the weighting assigned in the first quarter of 2003 is substantially less than that assigned to the comparable 2004 period. Once the weightings are applied to the adjusted cash used for investing activities in each quarter, the results are aggregated to arrive at the one-year weighted average adjusted cash used for investing activities. Management believes that weighting cash used for investing activities provides a more accurate reflection of the relationship between its investments and returns than a simple average.

The reconciliations to the most comparable measurements, in accordance with accounting principles generally accepted in the U.S., for the numerator and denominator of ROIIC are as follows:

	Years ended December 31, 2004	**2003**	**Incremental change**
NUMERATOR:			
Operating income	$ 3,540.5	$2,832.2	$ 708.3
Depreciation and amortization	1,201.0	1,148.2	52.8
Effect of currency translation [(1)]			(258.3)
Constant rate incremental operating income plus depreciation and amortization			**$ 502.8**
DENOMINATOR:			
Cash used for investing activities	$ 1,383.1	$1,369.6	
Less: Net cash (collection)/issuances of notes receivable	(11.2)	(2.1)	
Adjusted cash used for investing activities	$ 1,394.3	$1,371.7	
Weighted average adjusted cash used for investing activities [(2)]	$ 1,233.2		
Effect of currency translation [(1)]	(6.3)		
Constant rate weighted average adjusted cash used for investing activities [(2)]	**$ 1,226.9**		
One-year ROIIC [(3)]	**41.0%**		

(1) *Represents the effect of foreign currency translation by translating results at an average exchange rate for the periods presented.*
(2) *Represents one-year adjusted cash used for investing activities, determined by applying the weightings described above to each quarter*

in the two-year period ended December 31, 2004.

(3) The decrease in impairment and other charges included in the increase in operating income between 2004 and 2003 benefited ROIIC by 10 percentage points.

The following trademarks used herein are the property of McDonald's Corporation and its affiliates or the Company: Big Mac, Big N' Tasty, Boston Market, Chicken McNuggets, Chicken Selects, Chipotle Mexican Grill, Egg McMuffin, Filet-O-Fish, i'm lovin' it, McDonald's, McFlurry, McGriddles, Quarter Pounder, Ronald McDonald, Sausage McMuffin, The Golden Arches Logo and mcdonalds.com.