

## Dear shareholders:

This is an exciting letter to write for a number of reasons. For one, it is an honor to follow in the footsteps of Ray Kroc, Fred Turner and Mike Quinlan as chief executive officer of McDonald's. I believe leaders cast long shadows, and each of these remarkable men has made an everlasting impact on the McDonald's System. Through their efforts, we have become one of the strongest brands ever. For another reason, it is a pleasure to help chronicle a genuinely remarkable 1998 performance on all fronts for our Company. Finally, I am acutely aware that I am communicating on behalf of literally hundreds of thousands of our committed employees, owner/operators and suppliers. So in equal parts I am proud, grateful and quite humbled to share my thoughts with you on our business performance.

Let me begin by saying thank you to each of our shareholders. We appreciate the investment you have made in McDonald's,

During 1998, our stock delivered a total return of 62 percent, contributing to a five-year compound annual total return rate of 23 percent and a 10-year rate of 21 percent.

and we are committed to repaying your confidence with rich returns. During 1998, our stock delivered a total return of 62 percent, contributing to a five-year compound annual total return rate of 23 percent and a 10-year rate of 21 percent. To those of you with long-term investments in the

Company, we value your loyalty. And to those who have recently joined our McFamily of investors, I'm pleased that you've chosen us. I firmly believe the best is yet to come.

My unabashed optimism is rooted in a very basic belief: McDonald's is a special company—capable of exceeding even our own high expectations.

Yes, we are perhaps the best-known brand in the world. Yes, we operate nearly 25,000 restaurants in 115 countries. And yes, our size, financial strength and global expertise in development, operations and marketing give us competitive advantages.

But frankly, those are not the reasons why McDonald's is so special. They are instead the results—the by-products, if you will—of something more fundamental and more powerful.

As CEO, it is my responsibility and privilege to travel throughout the world, visiting restaurants and talking with owner/operators, Company people, suppliers and customers. In this capacity, I see firsthand why McDonald's is special, why we have an edge wherever we do business. It is because of our unique heritage—a history of success and innovation—and it is because of the people who embrace that heritage.

You can see the power of our heritage at work throughout the world.

In Miami, it is a restaurant manager who earned a "Manager of the Year" award by day and a law degree by night. In Canada, it is a group of owner/operators who took a risk with a new product, and now their McFlurry desserts are in more than 15,000 restaurants in 36 countries. In Nicaragua, it is the daughter of our original owner/operator in that country who reopened McDonald's after years of civil unrest. In the U.S., it is our entire System responding to a competitive challenge against our World Famous Fries and seeing our potato tonnage increase. In Chicago, it is a 94-year-old crewperson who still delights in satisfying our customers. Around the world, it is 195 Ronald McDonald Houses reaching out with loving support to families in need. It is the magic of Disney, brought to life in a Happy Meal toy for "a bug's life." It's our founder, Ray Kroc, named by *Time* magazine as one of the 20 builders and titans of the 20th century.

And there is so much more. It's two young men in France and Hungary, fresh out of law school, who joined McDonald's as operations trainees and are now CEOs of dynamic, growing McDonald's businesses in their countries. It's a young operations manager who moved from Taiwan to Beijing to open our first restaurant there, and now is president of the Beijing market with 52 restaurants. It's the third-generation owner/operator in Chicago's northwest suburbs who helped pioneer our Made For You food preparation system. It's the minority pork supplier now deriving over one-half of his revenue from McDonald's Japan. It's the Brazilian franchisee, four months with the System, already working on how to add a drive-thru to his shopping mall location. It's our proud association of African-American owner/operators in the U.S. recognized by *Minority Business Report* with its prestigious Advocate of the Year award. And throughout the world, it is the entire McFamily,

pulling together, doing what we can, to help when natural disasters strike the communities we serve.

McDonald's is special because we rely on a powerful heritage—one that enables us to stand tall for the System, especially when we face a challenge.

As an example, let's look at the U.S. business. Just a year ago, there were quite a few naysayers suggesting that the best days of our U.S. business were behind us, that our only opportunities for growth existed overseas. Frankly, those were fighting words—for our U.S. management team, for 2,800 proud owner/operators, and for hundreds of thousands of restaurant managers and crew across the country.

We pulled together as a team, learned from our mistakes, focused sharply on a set of strategies to drive performance at the restaurant level, and proceeded to turn the U.S. business around faster than even we predicted.

Last year, we posted our highest comparable sales increase since 1993. This contributed to our total U.S. System sales increase of six percent in 1998. Also, we surpassed our plans for increasing U.S. operating income. Excluding Made For You costs and a special charge for our home office productivity initiative, we increased U.S. operating income by 13 percent. We plan to build on this momentum under the leadership of Alan Feldman, our new president of McDonald's USA.

Internationally, we faced tough challenges in 1998 due to economic turmoil in a number of countries, and we overcame them as well. I attribute this to the leadership of Jim Cantalupo, who has headed up our international business for the past 11 years.

Jim has always taken a long-term view of growth and development outside the U.S., and this has strengthened our position wherever we do business. We've developed an unsurpassed infrastructure of suppliers, restaurants and management talent, which provides us with the resources and flexibility to deal with difficult cyclical situations. In addition, we protect profits from the economic impact of currency fluctuations by sourcing locally, where practical, and financing expansion with local currency debt.

So while the earnings of other global companies suffered in the face of economic crises in Asia and elsewhere, our international performance was strong. Excluding the effect of foreign currency translation, McDonald's sales outside the U.S. rose 14 percent in 1998, and operating income increased by a solid 12 percent. I'm equally pleased to note that Jim's many contributions were rewarded in 1998 with a well-deserved promotion to vice chairman of McDonald's Corporation and chairman and CEO of McDonald's International.

With our overall results in mind, let me express sincere thanks to each and every customer who visited McDonald's this year. Our continued success is wholly dependent on your satisfaction, and our goal is to make every meal we serve you a "happy meal."

In fact, I firmly believe that the success we had last year, especially in the U.S., was directly related to our intensified efforts to listen better, and respond better, to customer needs.

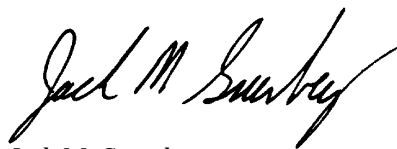
By listening, by focusing on strategic priorities, by motivating people and by encouraging innovation, 1998 was a year in which we extended our considerable lead internationally and achieved a remarkable

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turnaround in our U.S. business. Many companies would do the equivalent of a corporate "high-five" after such a year. At McDonald's, we are not looking to celebrate. Instead, we are sharpening our strategic focus, resolving to do even better in 1999 and beyond.

These are some of the reasons why I believe McDonald's truly is special.

Sincerely,



Jack M. Greenberg  
President and Chief Executive Officer, Shareholder

March 15, 1999