MCDONALDS CORP
Form DEF 14A
April 08, 2003

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

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Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

McDONALD'S CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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To McDonald's Corporation shareholders:

McDonald's Corporation *will hold its 2003 Annual Shareholders' Meeting on Thursday, May 22, 2003, at 9:00 a.m. Central Time, in the Prairie Ballroom at The Lodge at McDonald's Office Campus, Oak Brook, Illinois. The registration desk will open at 7:30 a.m.*

At the meeting, shareholders will be asked to:

1. *Elect nine Directors;*
2. *Approve the appointment of independent auditors for 2003;*
3. *Act on a shareholder proposal, if presented; and*
4. *Transact other business properly presented at the meeting.*

Shareholders are cordially invited to attend the Annual Meeting. If you are unable to attend the meeting in person, you may watch a live webcast by going to www.investor.mcdonalds.com and clicking "Webcast". (A replay of the Annual Meeting also will be available for a limited time.)

Your Board of Directors recommends that you vote FOR all nominees for Directors, FOR the approval of our auditors and AGAINST the shareholder proposal. Your vote is important.

Please consider the issues presented in our Proxy Statement and vote your shares as promptly as possible.

By order of the Board of Directors,

Gloria Santona
Secretary

Oak Brook, Illinois
April 8, 2003

General information

RECORD DATE AND VOTING AT THE ANNUAL MEETING

Shareholders owning McDonald's common stock at the close of business on March 24, 2003 (the record date), may vote at the 2003 Annual Meeting. On that date, 1,271,960,917 shares of common stock were outstanding. Each share is entitled to one vote on each matter to be voted upon at the Annual Meeting.

Most shareholders have a choice of voting over the Internet, by telephone or by using a traditional proxy card. Refer to your proxy or voting instruction card to see which options are available to you and how to use them.

The Internet and telephone voting procedures are designed to authenticate shareholders' identities and to confirm that their instructions have been properly recorded.

If you properly sign and return your proxy card or complete your proxy via the telephone or the Internet, your shares will be voted as you direct. If you sign and return your proxy but do not specify how you want your shares voted, they will be voted FOR the election of all nominees for Director as set forth under "Election of Directors," FOR the approval of auditors and AGAINST the shareholder proposal. You may revoke your proxy and change your vote at any time before the Annual Meeting by submitting written notice to the Corporate Secretary, by submitting a later-dated and properly executed proxy (including by means of a telephone or Internet vote) or by voting in person at the Annual Meeting.

All votes cast at this year's Annual Meeting will be tabulated by EquiServe Trust Company, N.A. (EquiServe), which has been appointed independent inspector of election. EquiServe will determine whether or not a quorum is present. With respect to the election of Directors, shareholders may vote (a) in favor of all nominees, (b) to withhold votes as to all nominees, or (c) to withhold votes as to specific nominees. Directors are elected by a plurality vote, so the nine nominees named on page 2 of the Proxy Statement receiving the greatest number of votes will be elected. EquiServe will treat votes withheld as shares present for purposes of determining a quorum. Withheld votes will not affect the outcome of the election. With respect to the approval of auditors, the shareholder proposal or any other matter properly brought before the meeting, shareholders may vote (a) in favor of the matter, (b) against the matter, or (c) abstain from voting on the matter. EquiServe will treat abstentions as shares present for purposes of determining a quorum. Since a majority of the shares represented at the meeting and entitled to vote is required for approval of these matters, abstentions will have the effect of a vote against approval.

Under New York Stock Exchange rules, the proposals to elect Directors and approve the appointment of independent auditors are considered "discretionary" items. This means that brokerage firms may vote in their discretion on these matters on behalf of clients who have not furnished voting instructions at least fifteen days before the date of the Annual Meeting.

In contrast, the shareholder proposal described in the Proxy Statement is a "non-discretionary" item. This means brokerage firms that have not received voting instructions from their clients on this matter may not vote on this proposal. These "broker non-votes" will not be considered in determining the number of votes necessary for approval, and, therefore, will have no effect on the outcome of the vote for this proposal.

We do not know of any other matters to be presented or acted upon at the meeting. If any other matter properly comes before the meeting, the shares represented by proxies will be voted in accordance with the judgment of the person or persons voting those shares.

PROXY SOLICITATION

The 2003 Proxy Statement and form of proxy were mailed to shareholders beginning on or about April 8, 2003 in connection with the solicitation of proxies by the Board of Directors to be used at the 2003 Annual Meeting.

The cost of soliciting proxies will be paid by the Company. The Company has retained Innisfree M&A Incorporated to aid in the solicitation at a fee of $15,000 plus reasonable out-of-pocket expenses. Proxies may also be solicited by employees and Directors of the Company by mail, by telephone, by facsimile, by e-mail or in person.

CONFIDENTIAL VOTING

It is the Company's policy to protect the confidentiality of shareholder votes throughout the voting process. In this regard, your vote will not be disclosed to the Company, its Directors, officers or employees, except to meet legal requirements or to assert or defend claims for or against the Company or except in those limited circumstances where (1) a proxy solicitation is contested; (2) you write comments on a proxy card; or (3) you authorize disclosure. The inspector of election has been and will remain independent of the Company.

Nothing in this policy prohibits you from disclosing the nature of your vote to the Company, its Directors, officers or employees, or impairs voluntary communication between you and the Company, nor does this policy prevent the Company from ascertaining which shareholders have voted or from making efforts to encourage shareholders to vote.

Item 1. Election of Directors

The Board is divided into three classes, each having three-year terms that expire in successive years. The five nominees standing for election as Directors at this year's Annual Meeting to hold office for three-year terms expiring in 2006 are James R. Cantalupo, Robert A. Eckert, Enrique Hernandez, Jr., Jeanne P. Jackson and Andrew J. McKenna. To provide for classes of equal size, two nominees, namely John W. Rogers, Jr. and Roger W. Stone, are standing for election as Directors for one-year terms expiring in 2004, and two nominees, namely Charles H. Bell and Cary D. McMillan, are standing for election as Directors for two-year terms expiring in 2005.

NOMINEES

The nominees for Director are: Charles H. Bell, James R. Cantalupo, Robert A. Eckert, Enrique Hernandez, Jr., Jeanne P. Jackson, Andrew J. McKenna, Cary D. McMillan, John W. Rogers, Jr. and Roger W. Stone.

The Board of Directors expects all nominees to be available for election. If any of them should become unavailable to serve as a Director for any reason prior to the Annual Meeting, the Board may substitute another person as a nominee. In that case, your shares will be voted for that other person.

Your shares will be voted according to your instructions. If you execute your proxy but do not provide voting instructions, your shares will be voted FOR the election of the nine nominees named above. The nine nominees who receive the most votes will be elected.

The Board of Directors recommends that shareholders vote FOR all nine nominees.

BIOGRAPHICAL INFORMATION

Hall Adams, Jr. Retired Chief Executive Officer of Leo Burnett & Co., Inc. Director of Moody's Corporation and Sears, Roebuck and Co. Class of 2005. Age: 69. Director since 1993.

Charles H. Bell *Nominee*. President and Chief Operating Officer since January 2003. Mr. Bell previously held the following positions at McDonald's Corporation: from June 2001 to December 2002, President of McDonald's Europe; from September 1999 to June 2001, President of Asia/Pacific, Middle East and Africa Group; and from 1993 to September 1999, Managing Director of McDonald's Australia. Nominated for Class of 2005. Age: 42. Director since January 2003.

Edward A. Brennan Retired Chairman, President and Chief Executive Officer of Sears, Roebuck and Co. Director of The Allstate Corporation, AMR Corporation, Exelon Corporation, Minnesota Mining and Manufacturing Company and Morgan Stanley Dean Witter & Co. Class of 2005. Age: 69. Director since 2002.

James R. Cantalupo *Nominee*. Chairman and Chief Executive Officer since January 2003. Mr. Cantalupo previously held the following positions at McDonald's Corporation: Vice Chairman, Emeritus and President, Emeritus, January 1, 2002 to December 31, 2002; Vice Chairman and President, December 1999 to December 2001; Vice Chairman and Chairman and Chief Executive Officer of McDonald's International, August 1998 to December 1999; and President and Chief Executive Officer, McDonald's International, January 1992 to August 1998. Director of Illinois Tool Works, Inc., Rohm and Haas Company (until May 2003) and Sears, Roebuck and Co. Nominated for the Class of 2006. Age: 59. Except for an eight-month absence from the Board, Mr. Cantalupo has served as a Director since 1987.

Robert A. Eckert *Nominee*. Chairman and Chief Executive Officer of Mattel, Inc., a designer, manufacturer and marketer of family products, since May 2000. From 1997 to 2000, Mr. Eckert was President and Chief Executive Officer of Kraft Foods. Nominated for Class of 2006. Age 48.

Enrique Hernandez, Jr. *Nominee*. Chairman and Chief Executive Officer of Inter-Con Security Systems, Inc., a provider of high-end security and facility support services to government, utilities and industrial customers. Presiding Director of Nordstrom, Inc., Director of Tribune Company and Wells Fargo & Company. Nominated for Class of 2006. Age: 47. Director since 1996.

Jeanne P. Jackson *Nominee*. Formerly Chief Executive Officer of Walmart.com, a subsidiary of Wal-Mart Stores, Inc., from March 2000 to January 2002. From May 1995 to March 2000, President and Chief Executive Officer of Banana Republic, a Gap Inc. brand. From November 1998 to March 2000, Ms. Jackson held the additional responsibility for the Gap Inc. Direct Division. Director of NIKE, Inc. and Nordstrom, Inc. Nominated for Class of 2006. Age: 51. Director since 1999.

Donald G. Lubin Partner of the law firm of Sonnenschein Nath & Rosenthal, which provides legal services to the Company on a regular basis. Director of Molex Incorporated. Class of 2004. Age: 69. Director since 1967.

Walter E. Massey President of Morehouse College since 1995. Director of Bank of America Corporation, BP p.l.c. and Motorola, Inc. Class of 2004. Age: 64. Director since 1998.

Andrew J. McKenna *Nominee*. Chairman and Chief Executive Officer of Schwarz Paper Company, a printer, converter, producer and distributor of packaging and promotional materials. Director of Aon Corporation, Click Commerce, Inc. and Skyline Corporation. Mr. McKenna has reached the retirement age of 73; however, the Board has asked him to serve for an additional term to aid in the management transition. Nominated for Class of 2006. Age: 73. Director since 1991.

Adams
Bell, *Nominee*
Brennan
Cantalupo, *Nominee*
Eckert, *Nominee*
Hernandez, *Nominee*

Jackson, *Nominee*
Lubin
Massey
McKenna, *Nominee*
McMillan, *Nominee*
Rogers, *Nominee*

Savage
Stone, *Nominee*
Thurston
Turner

Cary D. McMillan *Nominee*. Chief Executive Officer of Sara Lee Branded Apparel since October 2001, and Executive Vice President of Sara Lee Corporation, one of the world's leading branded consumer packaged goods companies, since January 2000. From 1999 to 2001, Mr. McMillan was Chief Financial and Administrative Officer of Sara Lee Corporation. Prior to that time, Mr. McMillan was Managing Partner of Arthur Andersen, LLP. Director of Hewitt Associates, Inc. and Sara Lee Corporation. Nominated for Class of 2005. Age 45.

John W. Rogers, Jr. *Nominee*. Chairman and Chief Executive Officer and founder of Ariel Capital Management, Inc., a privately-held institutional money management firm specializing in equities, since January 1983. Director of Aon Corporation, Bank One Corporation, Exelon Corporation and GATX Corporation. Nominated for Class of 2004. Age 45.

Terry L. Savage Financial journalist, author and President of Terry Savage Productions, Ltd., which provides speeches, columns and videos on personal finance for corporate and association meetings, publications and national television programs, and networks including CNN, NBC and PBS. Class of 2005. Age: 58. Director since 1990.

Roger W. Stone *Nominee*. Chairman and Chief Executive Officer of Box USA Group, Inc., corrugated box manufacturer, since July 2000. Mr. Stone retired as President and Chief Executive Officer of Smurfit-Stone Container Corporation, a multinational paper company primarily producing and selling pulp, paper and packaging products, a position he held from 1999 to 2000. Prior to 1999, Mr. Stone served as Chairman, President and Chief Executive Officer of Stone Container Corporation. Director of Autoliv Inc. Nominated for Class of 2004. Age: 68. Director since 1989.

Robert N. Thurston Business consultant. Class of 2004. Age: 70. Director since 1974.

Fred L. Turner Senior Chairman since 1990. Director of Baxter International Inc. and W.W. Grainger, Inc. Class of 2005. Age: 70. Director since 1968.

SENIOR DIRECTORS

A Senior Director is a retired director who advises the Board in a non-voting capacity. At the upcoming Annual Meeting, Gordon C. Gray and Donald R. Keough will retire as Senior Directors. These gentlemen have made significant contributions to our Company, and we thank them.

STOCK OWNERSHIP

The following table shows the common stock ownership of the named individuals and the group as of February 1, 2003, except as indicated below. The Company does not believe there is any person or group who owned, as of February 1, 2003, more than 5% of the outstanding common stock. Directors, Nominees, Executive Officers and Mr. Greenberg as a group have sole voting and investment power over shares of common stock listed below except for 31,895 shares held jointly with spouses, 19,075 shares held by members of their immediate families and 860,826 shares held in trust or in a partnership, over which they share voting and investment power. None of the named individuals or Executive Officers owns more than 1.0% of the common stock outstanding. Directors, Nominees, Executive Officers and Mr. Greenberg as a group owned (directly, indirectly and through benefit plans) approximately 1.0%.

Name	**Common stock (a,b,c,d)**	**Stock equivalents (e)**	**Total**
Hall Adams, Jr.	20,000	6,987	26,987
Charles H. Bell	410,807	4,251	415,058
Edward A. Brennan	2,500	2,324	4,824
James R. Cantalupo	3,130,177	19	3,130,196
Robert A. Eckert, *Nominee*(f)	0	0	0
Jack M. Greenberg	3,398,302	35,930	3,434,232
Enrique Hernandez, Jr.	20,400	14,983	35,383
Jeanne P. Jackson	8,250	9,499	17,749
Donald G. Lubin	73,754	41,391	115,145
Walter E. Massey	10,000	5,744	15,744
Andrew J. McKenna	46,640	42,405	89,045
Cary D. McMillan, *Nominee*(f)	0	0	0
John W. Rogers, Jr., *Nominee*(f)	10,100	0	10,100
Michael J. Roberts	523,064	20,718	543,782
Terry L. Savage	19,000	44,838	63,838
James A. Skinner	896,109	33,169	929,278
Stanley R. Stein	556,225	0	556,225
Roger W. Stone	31,666	54,322	85,988
Robert N. Thurston	102,526	58,611	161,137
Fred L. Turner	1,473,338	19,451	1,492,789
Directors, Nominees, Executive Officers and Mr. Greenberg as a group (the Group)(28 persons)	12,997,341	460,690	13,458,031

(a) Beneficial ownership of shares that are owned by members of their immediate families directly or through trusts is disclaimed as follows: Messrs. Lubin, 374; McKenna, 640; Rogers, 100; and the Group, 1,014.

(b) Excludes 48,000 shares held by Mr. McKenna as Trustee of the Schwarz Profit Sharing Trust.

(c) Includes unallocated shares held in the Company's Profit Sharing and Savings Plan as follows: Messrs. Bell, 1,148; Cantalupo, 3,642; Greenberg, 4,356; Roberts, 10,498; Skinner, 15,809; Stein, 3,575; Turner, 19,577; and the Group, 119,573.

(d) Includes shares that could be purchased by exercise of stock options on or within 60 days after February 1, 2003 under the Company's option plans as follows: Directors Adams, 16,000; Bell, 395,889; Cantalupo, 2,810,846; Hernandez, 12,000; Jackson, 6,000; Lubin, 16,000; Massey, 10,000; McKenna, 16,000; Savage, 16,000; Stone, 13,666; Thurston, 16,000; Turner, 637,000; Messrs. Greenberg, 3,106,500; Roberts, 482,588 Skinner, 708,645; Stein, 471,875 (of these shares, 129,528 were transferred to members of Mr. Stein's immediate family); and the Group, 10,703,892.

(e)

Includes common stock equivalents credited under the Supplemental Profit Sharing and Savings Plan and the Directors' Stock Plan.

(f)

Share ownership as of March 28, 2003. These Director nominees do not currently serve on the Board of Directors.

STOCK OWNERSHIP GUIDELINES

In 1997, minimum stock ownership guidelines for outside Directors were established. Each Director is expected to acquire, within a five-year period after becoming a Director, common stock or common stock equivalent units equal in value to at least five times the annual retainer and hold such amount of stock throughout his or her term.

Additional information concerning the Board of Directors

BOARD COMMITTEES

The **Audit Committee** reviews the performance, and recommends to the Board the selection and retention, of the Company's independent auditors. The Audit Committee reviews with the internal auditors and the independent auditors the overall scope and results of their respective audits, the internal accounting and financial controls and the steps management has taken to monitor and control the Company's major risk exposure. Members of the Committee are Directors Hernandez (Chairman), Massey, Savage and Stone. In 2002, the Audit Committee met 13 times, including meeting to review the Company's annual and quarterly financial results prior to their public issuance.

The **Compensation Committee** evaluates the performance of the Company's Chief Executive Officer in consultation with the outside Directors and recommends his compensation to the Board annually; reviews and approves senior management's compensation; and establishes compensation guidelines for all other officers. The Committee administers the Company's incentive compensation and stock option plans and develops compensation policies. Members of the Committee are Directors Thurston (Chairman), Adams, Brennan and Jackson. In 2002, the Compensation Committee met eight times.

The **Governance Committee** sets criteria for Board membership; searches for and screens candidates to fill Board vacancies; recommends appropriate candidates for election each year and, in this regard, evaluates individual Director performance; assesses overall Board performance; considers issues regarding Board composition and size; recommends to the Board the compensation paid to outside Directors; and evaluates the Company's corporate governance process. Members of the Committee are Directors McKenna (Chairman), Brennan, Lubin, Savage and Stone. In 2002, the Committee met six times. Shareholders can nominate Director candidates for consideration by writing to the Governance Committee, c/o the Corporate Secretary, McDonald's Corporation, McDonald's Plaza, Oak Brook, Illinois 60523 and providing the candidate's name, biographical data, qualifications and the candidate's written consent to being named as a nominee in the Company's Proxy Statement and to serve as a Director if elected.

The **Corporate Responsibility Committee** acts in an advisory capacity to the Company's management with respect to policies and strategies that affect the Company's role as a socially responsible organization, including, but not limited to, issues pertaining to health and safety, the environment, employee opportunities, consumers and the communities in which the Company does business. Members of the Committee are Directors Massey (Chairman), Adams, Jackson and McKenna. In 2002, the Committee met two times.

The Board also has an Executive Committee and a Finance Committee. The **Executive Committee** may exercise most Board powers during the period between Board meetings. Members of this Committee are Directors Cantalupo (Chairman), Lubin, McKenna and Thurston. No meetings were held in 2002.

The **Finance Committee** acts in an advisory capacity to management and the Board on financial matters, including investments and acquisitions, as may from time to time be referred to it by the Board or management. Members of the Committee are Directors Stone (Chairman), Hernandez, Lubin and Thurston. The Committee met two times in 2002.

COMPENSATION OF THE BOARD

In 2002, each outside Director received an annual retainer of $35,000 plus a $2,000 fee for each Board meeting attended, a $1,000 fee for each committee meeting attended and a $1,000 fee for each executive session attended that was not held in conjunction with a Board meeting. The chairman of each committee also received an additional annual retainer of $10,000. Directors can defer their retainer and fees in the form of common stock equivalent units under the Company's Directors' Stock Plan. Deferred amounts are credited to an account, which is adjusted to reflect dividends as well as gains or losses, as if invested in common stock. Each outside Director also received a credit of $17,500 to his or her Directors' Stock Plan account at the end of each full year of service, up to a maximum of 10 years. Deferred amounts are generally paid in cash after the Director retires from the Board but can be deferred further up to a maximum of 15 years at the option of the Director. Outside Directors may participate in a Matching Gift Program, whereby charitable donations to qualifying organizations are matched.

In May 2002, each outside Director received an option to purchase 5,000 shares of common stock. All options vest in equal annual installments over three years, have a 10-year life and permit the holder to purchase shares at their fair market value on the date of grant. A stock option grant of 5,000 shares is made to each outside Director when he or she joins the Board of Directors. Such a grant was made to Mr. Brennan when he joined the Board in May 2002.

In 2002, Directors Lubin and Thurston received the use of corporate vehicles valued at $11,671 and $3,680, respectively.

The Board met 12 times in 2002.

McDONALD'S CORPORATION
CORPORATE GOVERNANCE PRINCIPLES

The following is the complete text of McDonald's Corporate Governance Principles:

McDonald's Corporation's Board of Directors is entrusted with, and responsible for, the oversight of the assets and business affairs of McDonald's Corporation in an honest, fair, diligent and ethical manner. This Board has long believed that good corporate governance is critical to our fulfilling our obligations to shareholders. We have tried to be a leader in this area, having adopted written governance principles as early as 1994. We were among the first to memorialize our governance principles, to regularly evaluate them and to publish information about them annually in our proxy statement. We firmly believe that good governance is a journey, not a destination. Therefore, we are committed to reviewing our governance principles at least annually, with a view to continuous improvement. As our governance processes evolve, we will change this document. One thing that we will not change, however, is our commitment to ensuring the integrity of the Company in all of its dealings with stakeholders. Our continued focus on leadership in corporate governance is an integral part of fulfilling our commitment to shareholders.

ROLES AND RESPONSIBILITIES

Role of the Board. The Board, which is elected by the shareholders, is the ultimate decision-making body of the Company, except with respect to matters reserved to shareholders. The primary function of the Board is oversight. The Board, in exercising its business judgment, acts as an advisor and counselor to senior management and defines and enforces standards of accountability all with a view to enabling senior management to execute their responsibilities fully and in the interests of shareholders. The following are the Board's primary responsibilities:

> Overseeing the conduct of the Company's business so that it is effectively managed in the long-term interest of shareholders;

> Selecting, evaluating and compensating the Chief Executive Officer (CEO) and planning for CEO succession, as well as monitoring management's succession planning for other key executives;

> Reviewing, approving and monitoring the Company's strategic plans and objectives;

> Monitoring the Company's accounting and financial reporting practices and reviewing the Company's financial and other controls;

> Overseeing the Company's compliance with applicable laws and regulations; and

> Overseeing the processes that are in place to safeguard the Company's assets and mitigate risks.

In performing its oversight function, the Board is entitled to rely on the advice, reports and opinions of management, counsel, auditors and outside experts. In that regard, the Board and its Committees shall be entitled, at the expense of the Company, to engage such independent legal, financial or other advisors as they deem appropriate, without consulting or obtaining the approval of any officer of the Company.

Role of Management. The Company's business is conducted by its employees, managers and officers, under the direction of senior management and led by the CEO. In carrying out the Company's business, the CEO and senior management are accountable to the Board and ultimately to shareholders. Management's primary responsibilities include the day-to-day operation of the Company's business, strategic planning, budgeting, financial reporting and risk management; and in fulfilling those responsibilities, management must balance the unique relationships between and among the McDonald's System of employees, franchisees, suppliers and customers.

COMPOSITION OF THE BOARD

Size of the Board. The Board itself determines its size within the range of 11 to 24 members required by the Company's Certificate of Incorporation. The Board believes that, at this time, the optimal number of Directors is between 12 and 17.

Qualifications and Selection of Directors. The Governance Committee is responsible for selecting candidates for Board membership, subject to Board approval, and for extending invitations to join the Board. In selecting candidates, the Board endeavors to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who display the independence of mind and strength of character to effectively represent the best interests of shareholders. Candidates are selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Consistent with its charter, the Governance Committee is responsible for screening candidates, for establishing criteria for nominees, and for recommending to the Board a slate of nominees for election to the Board at the Annual Meeting of Shareholders. Candidates are approved by the full Board.

Independence of Directors. A substantial majority of Directors shall be independent of management. It is the intent of the Board that all newly appointed or elected non-management Directors shall be independent. An independent Director is one who is free of any relationship with the Company or its management that may impair, or appear to impair, the Director's ability to make independent judgments. The Board of Directors determines each Director's independence after reviewing pertinent facts and circumstances. This determination is made in conformity with applicable laws, regulations and stock exchange listing requirements. If a change in circumstance affects an independent Director's continuing

independence, that Director shall submit his or her resignation to the Chair of the Governance Committee. The Governance Committee shall determine whether to accept or reject such resignation.

Management Directors. The only management members of the Board shall be the CEO, the President and the Senior Chairman. Each of the CEO and the President shall resign from the Board at the time that service as a Company officer ends.

Retirement; Term Limits. A Director will be expected to retire on the date of the Annual Meeting of Shareholders immediately following his or her 73rd birthday, although the full Board may nominate existing members of the Board over the age of 73 as candidates in exceptional circumstances. The Board does not believe that arbitrary term limits on Directors' service are appropriate as they may sometimes force the Company to lose the contribution of Directors who have over time developed increased insight into the Company and its operations. However, a Director's service should not outlast his or her ability to contribute and consequently the Board does not believe that Directors should expect to be renominated continually until they reach the age of 73. Each Director's continued tenure shall be re-considered at the end of his or her term, taking into account the results of the Board's most recent self-evaluation. It is the Board's intent to maintain a balance of Directors who have longer terms of service and those who have joined more recently.

BOARD LEADERSHIP

Selection of CEO and Chairman. The non-management Directors shall select the CEO and the Chairman. The non-management Directors will exercise their discretion in combining or separating the positions of Chairman and CEO, as they deem appropriate in light of prevailing circumstances.

Executive Officers. The CEO shall select all executive officers, subject to the approval of the Board of Directors.

Presiding Director. The role of the Presiding Director is to preside at all executive sessions of the Board of Directors and to be an avenue for communications with non-management Directors. If the Chairman is a non-management Director, then the Chairman shall be the Presiding Director. If the Chairman is a management Director, the Chair of the Governance Committee shall be the Presiding Director.

RESPONSIBILITIES AND CONDUCT OF DIRECTORS

Responsibilities of Directors. Directors must devote the time and attention, and meet as frequently as necessary, to discharge their responsibilities. In discharging their responsibilities, Directors must exercise their business judgment and act in a manner that they believe in good faith is in the long-term best interests of the Company and its shareholders. Directors are expected to attend all or substantially all Board meetings and meetings of the Committees of the Board on which they serve. Directors are also expected to spend whatever additional time as may be necessary for them to discharge their responsibilities appropriately. Directors shall ensure that other existing or future commitments do not materially interfere with their ability to fulfill their responsibilities as Company Directors.

Other Board Service by Management Directors. The CEO shall not serve on the boards of more than two for-profit companies, and the President shall not serve on the board of more than one for-profit company, in addition to the McDonald's Board. Each management Director shall obtain the approval of the Board before accepting an invitation to serve on the Board of another for-profit company.

Other Board Service by Non-Management Directors. Whether service on the boards of directors of other companies is likely to interfere with the performance of a Director's duties to the Company depends on the individual and the nature of the Director's other activities. Accordingly, the Board does not have a specific limitation on the number of directorships a non-management Director may hold. It is expected that, before accepting another board position, a Director will consider whether that service will compromise his or her ability to perform his or her present responsibilities to the Company. Each non-management Director shall provide advance notice to the Chairman and the Chair of the Governance Committee of acceptance of an invitation to serve on the Board of any other for-profit company.

Change of Circumstance. If a Director's principal occupation or business association changes, or if other similarly material changes in a Director's circumstances occur, the Director shall submit a resignation to the Chair of the Governance Committee. The Governance Committee shall determine whether to accept or reject such resignation.

Code of Conduct for Directors. Directors shall adhere to the Code of Conduct for Directors.

Conflicts of Interest. Directors shall avoid any situation that may give rise to a conflict of interest or the appearance of a conflict of interest. If an actual or potential conflict of interest arises, the Director shall promptly inform the Chairman of the Board and the Chair of the Governance Committee and recuse himself or herself from any Board deliberations or decisions related to the matter that is the subject of the conflict of interest. If an actual or potential conflict exists and cannot be resolved by a Director's recusal from participation in discussions or deliberations related to the matter or in any other reasonable manner, the Director shall submit a resignation to the Chair of the Governance Committee. The Governance Committee shall determine whether to accept or reject such resignation. The Board shall resolve any conflict of interest question involving the CEO or any executive officer.

FUNCTIONING OF THE BOARD

Board Meetings. The Board of Directors meets at least six times a year. Additional meetings are scheduled as necessary or appropriate in light of prevailing circumstances. The Chairman chairs all meetings of the Board of Directors. The Chairman establishes an agenda for each meeting. Agendas are set so as to ensure that the Board will be able to fulfill its oversight responsibilities. Directors may at any time suggest the addition of any matters to a meeting agenda or raise for discussion at any meeting any subject that they wish, whether or not it is on the agenda for the meeting. The Secretary attends all meetings of the Board and records the minutes. The Vice Chairman, Chief Financial Officer and General Counsel also attend meetings of the Board. Any one or all of these officers may be excused from all or any portion of a Board meeting at the request of any Director.

Executive Sessions. The Board of Directors refers to meetings of the non-management Directors as "executive sessions." The Presiding Director chairs executive sessions; however, he may choose to defer to a Committee Chair when the subject matter of the meeting falls within the purview of a Board Committee. The non-management Directors, led by the Presiding Director, determine the frequency, length and agenda for executive sessions. An executive session is scheduled immediately before or after a regular Board meeting at least twice each year.

Site Visits. Directors are expected to visit Company facilities throughout the year. Periodically, the Board will meet away from the Company's headquarters in order to visit certain of the Company's operations and provide the Directors the opportunity to meet with local management.

Information to be Distributed Prior to Meetings. Information regarding the Company's business and performance is distributed to all Directors on a monthly basis. In addition, business updates and information regarding recommendations for action by the Board at a meeting shall be made available to the Board a reasonable period of time before meetings.

FUNCTIONING OF COMMITTEES

Committee Structure. The Board believes that the Company benefits from its collective wisdom and therefore the Board as a whole will deal with major corporate decisions. There are, however, certain key areas that require more in-depth examination than might be possible at a full Board meeting. Accordingly, the Board has established six standing Committees: Audit, Compensation, Corporate Responsibility, Executive, Finance and Governance. The Board also may establish ad hoc committees from time to time as circumstances and business activities warrant.

Committee Charters. Each standing Committee shall have a written charter that shall be approved by the full Board, upon the recommendation of the Governance Committee. Each Committee charter shall state the purpose of the Committee and reflect the responsibilities that the Committee has undertaken. Each Committee shall review its charter annually and recommend amendments to it as appropriate to reflect changes in the Committee's responsibilities, applicable law or regulations, and other relevant considerations.

Committee Membership. Committees and their Chairs shall be appointed by the Board annually at the Annual Meeting of the Board, on recommendation of the Governance Committee. It is the Board's policy that, with the exception of the Executive Committee, only non-management Directors shall serve on the standing Committees. The members of the Audit, Compensation and Governance Committees shall at all times meet the requirements of applicable law and listing standards. It is the sense of the Board that it should benefit from the periodic rotation of Committee members and Committee Chairs, and the Governance Committee shall take this into account in its annual review of Committee membership.

Committee Meetings. The Chairs of the various Committees, in consultation with their Committee members, shall determine the frequency, length and agenda of Committee meetings. Information regarding matters to be considered at Committee meetings shall be distributed to Committee members a reasonable period of time before such meetings. The Chair of each Committee shall report on the activities of the Committee to the Board following Committee meetings and minutes of Committee meetings shall be distributed to all Directors for their information.

BOARD COMPENSATION AND SHARE OWNERSHIP

Board Compensation. Directors who are Company employees shall not be compensated for their services as Directors. The Governance Committee shall determine the form and amount of compensation for non-management Directors, subject to approval of the full Board of Directors. The Committee shall be sensitive to questions of independence that may be raised where Director fees and expenses exceed customary levels for companies of comparable scope and size.

Share Ownership by Directors. The Board of Directors believes that an alignment of Director interests with those of shareholders is important. All Directors are expected to own stock in the Company in accordance with the policy established by the Governance Committee.

LEADERSHIP DEVELOPMENT

Annual Review of Management Performance. After consulting with the non-management Directors, the Chairs of the Compensation and Governance Committees shall approve the annual goals and objectives of the CEO. In order to ensure alignment in these discussions and in evaluating the CEO's performance, the Chair of the Compensation Committee shall be a member of the Governance Committee. Each year, the Chairs of the Compensation and Governance Committees shall consult with the non-management Directors in evaluating the CEO's performance and shall thereafter jointly provide the CEO with a performance review for the preceding year. Consistent with this evaluation, the Compensation Committee shall establish the CEO's salary, bonus and other incentive and equity compensation for the year. In addition, the Compensation Committee shall also annually approve the compensation structure for the Company's officers, and shall evaluate the performance of the Company's executive officers before approving their salary, bonus and other incentive and equity compensation.

Succession Planning. The Board shall annually consider a succession plan for the CEO and senior management.

Board Self-Evaluations. The Governance Committee shall annually evaluate the performance of the Board of Directors as a whole. Individual Directors will be evaluated periodically, but in no event less often than each time they are slated for re-election. In completing these evaluations, the Governance Committee may choose to benchmark the practices of other boards of directors; circulate surveys, questionnaires and evaluation forms; hire outside consultants and advisors; and use such other methods as it may deem helpful and appropriate. At the conclusion of the evaluation process the Chair of the Governance Committee shall report the Committee's conclusions to the full Board and may make recommendations for improvement to the full Board.

Committee Self-Evaluations. Each of the Audit, Compensation, Corporate Responsibility and Governance Committees shall annually evaluate its performance as a Committee. At the conclusion of the evaluation process, the Chair of each respective Committee shall report the Committee's conclusions to the full Board and may make recommendations for improvement to the full Board.

Director Orientation and Education. New Directors shall participate in an orientation process, which shall address the Company's operations, performance, strategic plans, and corporate governance practices, and will include introductions to members of the Company's senior management and their respective responsibilities. All Directors are encouraged to participate in continuing education programs, and the Company shall pay the reasonable expenses of attendance by a Director at one such program per year.

COMMUNICATIONS

Access to Management and Information. In order to fulfill their oversight responsibilities, Directors shall have free access to Company management and employees. The Board encourages the Chairman to invite members of management to make presentations at Board meetings in order to provide particular insights into aspects of the Company's business or to provide individuals with exposure to the Board for purposes of management development. Management shall be responsive to all requests for information from Board members.

Board Interaction with Institutional Investors, the Press and other Constituencies. The Board believes that management speaks for the Company.

Public Communications with the Board. The Board of Directors shall provide a means by which persons, including shareholders, may communicate directly with non-management Directors, which shall be disclosed in the Company's annual proxy statement.

SHAREHOLDER PRACTICES

Shareholder Nominations. Shareholders may nominate Director candidates for consideration by the Governance Committee by writing to the Committee and providing the candidate's name, biographical data and qualifications. The policy in this regard shall be disclosed in the Company's annual proxy statement.

Consideration of Shareholder Proposals. The appropriate Board committee will consider any proposal properly presented by a shareholder for inclusion in the Company's annual proxy statement. In considering the proposal, the committee may seek input from an independent advisor and/or legal counsel, as appropriate; and will reach a conclusion and report to the full Board for its consideration. After full consideration by the Board of Directors, the shareholder proponent will be notified of the conclusion of the Board.

Confidential Voting. It is the Company's policy to protect the confidentiality of shareholder votes throughout the voting process. The policy in this regard shall be disclosed in the Company's annual proxy statement.

OTHER GUIDELINES AND POLICIES

In addition to these Principles and the Committee charters, the Board and its Committees will from time to time establish operating procedures, guidelines and policies that pertain to their respective oversight functions. The Secretary of the Company is charged with maintaining copies of these guidelines and policies.

Compensation Committee report on executive compensation

DEAR FELLOW SHAREHOLDERS:

PHILOSOPHY

Our Committee approves executive compensation, establishes compensation guidelines for corporate officers and administers the Company's stock option and other incentive plans. The Company's executive compensation program is designed to attract, motivate, reward and retain the best people.

We believe that the Company's executives will more effectively pursue the interests of McDonald's shareholders, whose interests they are charged with enhancing, if they are shareholders themselves. Therefore, McDonald's encourages ownership and retention of Company stock by executives. Our profit sharing program and stock option plans are designed to facilitate this share ownership.

EXECUTIVE COMPENSATION

We believe that executive compensation should be competitive with other large globally branded companies and alternative careers within the McDonald's System (i.e., careers as a franchisee or supplier) and our determinations are guided in part by the increasingly competitive demand in the market for talented executives who have the skills and expertise required to lead a large, dynamic global business. In this regard, we conduct an overall review of compensation annually.

We review information supplied by independent consultants to determine the competitiveness of McDonald's total compensation package with that of a peer group. The peer group, which we use for compensation comparison purposes, consists of most of the companies comprising the Dow Jones Industrial Average. We believe that these major corporations are most likely to compete with McDonald's for executive talent. At this point in time, base salary paid to the officers named in the summary compensation table on page 12 of the Proxy Statement approximates the middle of this peer group's range, while annual and long-term incentives paid to such officers are below the median.

In addition to reviewing competitive pay information, we also review shareholder returns for the Company and the peer group illustrated in the graph set forth on page 14 of this Proxy Statement. We also consider certain qualitative factors, which we believe contribute to building McDonald's global brand.

ANNUAL CASH COMPENSATION

Annual cash compensation for senior management, as for all employees, consists of base salary and a variable, at-risk incentive under the Target Incentive Plan (TIP).

Our Committee annually establishes an executive's base salary through our evaluation of the executive's level of responsibility and individual performance, considered in light of competitive pay practices. We gauge individual performance in: developing and executing corporate strategies; leading and developing people; initiating and managing change; balancing the many relationships within the McDonald's System; and contributing to programs that positively impact the Company's performance. Based on disappointing financial performance in 2001, and in order to reduce general and administrative expenses, no base salary merit increases were granted to any of the Company's officers in 2002. Actual salaries earned by officers in 2002, however, increased slightly over 2001 levels due to the fact that 2001 merit increases were awarded in April 2001, and were therefore in effect for only three-fourths of that year while they were in effect for all of 2002.

Under TIP, each employee is assigned a target incentive at the beginning of the year (the greater the individual's responsibility, the higher the percentage of target incentive to salary). Target incentives paid to executives are adjusted by financial performance factors (subject to adjustment for the effect of foreign currency translation on reported results and significant charges) for the Company or the particular area of the world led by that executive. In each case, an individual performance factor is also applied and, in certain cases, a team performance measure may also be applied. In order to provide for greater accountability, the Committee set threshold financial performance levels in 2002 that must be met before any target incentive awards would be paid. If these thresholds were not achieved, no awards would be paid to officers under TIP.

For those executives with responsibility for the Company's U.S. business, 2002 target incentives were adjusted by team and individual performance factors based in part on performance of the Company's U.S. business in 2002, as measured by U.S. operating income, economic profit and U.S. owner/operator cash flow. Other non-financial factors designed to improve Quality, Service & Cleanliness (QSC) at McDonald's U.S. restaurants also impacted target incentives. Target incentives for those executives with specific responsibility for a particular area of the world other than the U.S. were adjusted by a performance factor measured against operating income growth and return on total assets for their respective areas. In certain markets, the following measures also were considered: customer and employee satisfaction, employer image, changes in comparable transaction counts and other nonfinancial initiatives designed to enhance our Brand.

In 2002, target incentives for executives responsible for the Company's overall performance, including Mr. Greenberg, were adjusted by an average of the performance factors for each of the areas of the world as described above and the accomplishment of additional initiatives designed to achieve key global strategies. For 2002, these strategies included achievement of general and administrative expense reduction targets, leadership in the area of social responsibility, as well as advancement of certain innovation and technology initiatives.

The Company failed to achieve its 2002 financial targets, although performance met the minimum thresholds established under TIP. Therefore, the Committee awarded target incentive awards for 2002 that were substantially below target. The Summary Compensation Table on page 12 of this Proxy Statement lists for 2002 the awards for the Named Officers.

LONG-TERM INCENTIVES

Long-term incentives consist of stock options and cash awards under a long-term incentive plan (LTIP). These awards serve to focus executive attention on the long-term performance of the business and comprise a significant portion of total compensation for senior management consistent with our increased emphasis on the risk-reward element of executive compensation.

Options. Options granted to executives typically have a life of ten years, vest over periods of four to seven years, and have an exercise price equal to the fair market value of the common stock on the grant date. In establishing guidelines for the size of stock option awards, we consider the following criteria (in order of importance): achievement of plan objectives, the implementation of key strategies and level of responsibility. Individual awards to members of senior management are made within these guidelines, dependent primarily upon current individual performance and on the potential for positively influencing future results.

Long-term incentive plan. Under this plan, officers receive cash awards based on corporate performance targets over three-year performance cycles. Cash awards vary if minimum, target or maximum predetermined performance goals are achieved at the end of the cycle. Specific measurements are chosen each year for each successive three-year cycle. For the three-year cycle ended December 31, 2002, actual growth in earnings per share and return on equity fell below the minimum threshold required for payment; therefore no amounts were paid for this cycle. Further, the Committee did not approve a long-term incentive award for the three-year cycle that would have begun in 2002.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

Mr. Greenberg participated in the compensation programs described throughout this report. Amounts paid and granted under these programs are disclosed in the compensation tables beginning on page 12 of this Proxy Statement. Mr. Greenberg did not receive a base salary increase in 2002. In accordance with the stock option grant criteria described above, Mr. Greenberg was granted an award of 600,000 stock options. On April 1, 2003, Mr. Greenberg was awarded an incentive payment of $800,000 under TIP reflecting the Company's below target performance in 2002.

Mr. Greenberg is no longer an executive officer or a Director of the Company. He is scheduled to begin his transition employment on April 30, 2003, at which time he will begin receiving benefits under the Executive Retention Plan adopted in 1998 and described beginning on page 19 of this Proxy Statement.

POLICY WITH RESPECT TO THE $1 MILLION DEDUCTION LIMIT

Section 162(m) of the Internal Revenue Code of 1986 generally limits the tax deductibility of annual compensation paid to certain officers to $1 million. Our Committee is obligated to recognize and reward performance which increases shareholder value and will exercise its discretion in determining whether or not to conform the Company's executive compensation plans to the approach provided for in the Code. Assuming continued deferral of compensation by certain officers, we expect that substantially all compensation will qualify as a tax-deductible expense.

Submitted by the Compensation Committee

Robert N. Thurston
Chairman

Hall Adams, Jr.

Edward A. Brennan

Jeanne P. Jackson

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SUMMARY COMPENSATION TABLE

James R. Cantalupo was appointed Chairman and Chief Executive Officer effective January 1, 2003. His 2003 compensation package, which is not required to be disclosed below, includes an annual salary of $1.4 million. In addition, Mr. Cantalupo received a stock option grant of 600,000 shares at $18.78 per share on December 5, 2002, when he accepted the appointment to Chief Executive Officer. After January 1, 2003, Mr. Cantalupo is eligible to receive stock option grants and other incentives available to senior executives.

The following table summarizes the total compensation earned by or paid for services rendered in all capacities to the former Chief Executive Officer and four other Executive Officers who were most highly compensated in 2002 (Named Officers). Executive Officers are designated by the Board of Directors.

				Long-term compensation			
				Awards		Payouts	
		Annual compensation					
Name and principal position	Year	Salary($)	Bonus($)	Restricted stock awards($)	Securities underlying options(#)	LTIP* payouts ($)	All other compensation ($)(a)
James A. Skinner	2002	$ 794,443	$ 475,000	0	235,000	$ 0	$ 125,381
Vice Chairman	2001	661,493	482,000	0	250,000	0	97,510
	2000	508,650	322,191	0	106,193	39,375	98,467
Charles H. Bell(b) President and Chief Operating Officer	2002	550,000	368,676	0	425,000	0	52,319
Michael J. Roberts(b) President McDonald's USA	2002	550,000	315,030	0	125,000	0	80,834
Stanley R. Stein	2002	520,000	299,844	0	95,000	0	83,932
Corporate Executive Vice	2001	511,281	323,000	0	108,900	0	82,198
President Human Resources	2000	477,500	320,043	0	72,600	35,000	92,054
Jack M. Greenberg(c)	2002	1,400,000	800,000	0	600,000	0	256,413
Formerly, Chairman and Chief	2001	1,374,840	1,200,000	0	675,000	0	257,398
Executive Officer	2000	1,274,250	1,263,797	0	490,000	130,253	320,044

*
Long-Term Incentive Plan

(a)
These amounts represent matching contributions and allocations by the Company to: (i) the Profit Sharing and Savings Plan, and (ii) the Supplemental Profit Sharing and Saving Plan; and premiums on group term life insurance paid in June 2002. The Compensation Committee of the Board has approved the termination of the group term life insurance program. For 2002, the amounts in each category were as follows: Messrs. Skinner, $17,994, $98,846 and $8,541; Bell, $14,393, $36,479 and $1,447; Roberts, $12,927, $64,555 and $3,352; Stein, $11,300, $64,076 and $8,556; and Greenberg, $17,994, $215,924 and $22,495. Amounts which have been included with respect to the Supplemental Profit Sharing and Savings Plan represent the Company's obligation to pay such amounts to participants.

(b)
Since Messrs. Bell and Roberts were not Executive Officers of the Company during either 2001 or 2000, no information is given for those years.

(c)
Formerly, Chairman and Chief Executive Officer, McDonald's Corporation. Mr. Greenberg is no longer an Executive Officer or a Director of the Company. He is scheduled to begin his transition employment on April 30, 2003, at which time he will begin receiving benefits under the Executive Retention Plan described beginning on page 19 of this Proxy Statement.

STOCK OPTIONS

Options have an exercise price equal to the fair market value of a share of common stock on the grant date, a 10-year life, and vest in installments over periods of four to seven years. The Company's stock option plans provide for accelerated vesting upon death, change in control, disability and retirement. The Compensation Committee has general authority to accelerate, extend or otherwise modify benefits under stock option grants. Subject to the approval of the Compensation Committee, options may be transferred to certain permissible transferees, including immediate family members, for no consideration.

The following table shows the value of the 2002 stock option grants to the Named Officers, determined as of the grant date using the Black-Scholes option-pricing model:

STOCK OPTION GRANTS IN 2002

	Individual grants				
Name	**Number of securities underlying options granted (#)**	**Percent of total options granted to employees in 2002**	**Exercise price $/Sh**	**Expiration date**	**Grant date present value(a)**
James A. Skinner	235,000	0.88%	$ 28.75	3/20/12	$ 2,610,850
Charles H. Bell	125,000	0.47%	$ 28.75	3/20/12	1,388,750
	300,000(b)	1.13%	$ 18.78	12/05/12	1,971,000
Michael J. Roberts	125,000	0.47%	$ 28.75	3/20/12	1,388,750
Stanley R. Stein	95,000	0.36%	$ 28.75	3/20/12	1,055,450
Jack M. Greenberg	600,000	2.25%	$ 28.75	3/20/12	6,666,000

(a)
The Black-Scholes model was used assuming a dividend yield of .75%, a risk-free interest rate of 5.25%, an expected stock price volatility based on historical experience of 27.5% and an expected option life based on historical experience of seven years. The attribution of values with the Black-Scholes model to stock option grants requires the input of subjective assumptions, as described

above, including the expected volatility of a stock price. While the assumptions are believed to be reasonable, the reader is cautioned not to infer a forecast of earnings or dividends either from the model's use or from the values adopted for the model's assumptions. Any future values realized would ultimately depend upon the excess of the stock price over the exercise price on the date the option is exercised.

(b)

Mr. Bell was granted this stock option in connection with his appointment as President and Chief Operating Officer of the Company.

AGGREGATED OPTION EXERCISES IN 2002 AND FISCAL YEAR-END OPTION VALUES

Name	**Shares acquired on exercise (#)**	**Value realized ($)(a)**	**Number of securities underlying unexercised options at 12/31/02 (#)(b,c) Exercisable/unexercisable**	**Value of unexercised in-the-money options at 12/31/02 ($)(d) Exercisable/unexercisable**
James A. Skinner	106,000	$ 1,386,845	535,847/ 624,346	$ 209,289/$0
Charles H. Bell	1,705	9,240	294,139/ 763,531	6,883/ 0
Michael J. Roberts	21,250	294,616	370,713/ 426,437	159,423/ 0
Stanley R. Stein	87,500	1,079,931	405,550/ 284,450(e)	76,314/ 0
Jack M. Greenberg	79,000	1,228,073	2,681,500/2,797,500	1,395,948/ 0

(a)

Calculated by subtracting the exercise price from the market value of the common stock on the exercise date, then multiplying by the number of shares exercised. All values are on a pretax basis.

(b)

The securities underlying the options are shares of common stock.

(c)

The option term was extended three years for substantially all employee optionees, including the Named Officers, for those options granted between May 1, 1999 and December 31, 2000 and having an exercise price greater than $28.90.

(d)

Calculated using the market value of the common stock at December 31, 2002 ($16.08 per share) less the option exercise price multiplied by the number of exercisable or unexercisable option shares, as the case may be. All values are on a pretax basis.

(e)

Of these exercisable stock options, 129,528 shares were transferred to members of Mr. Stein's immediate family.

Stock performance graph

The following performance graph compares the performance of the Company's common stock to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the performance of the companies comprising the Dow Jones Industrial Average (DJIA companies). The graph assumes that the value of the investment in the Company's common stock, the S&P 500 Index and the DJIA companies was $100 at December 31, 1997 and that all dividends were reinvested.

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries. For added perspective, a substantial portion of our operating income comes from outside the U.S. In addition, by virtue of our size, McDonald's inclusion in those indices tends to skew the results. Hence, we believe that such a comparison would not be meaningful.

On the other hand, our capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average since 1985.

Thus, in the absence of any readily identifiable peer group for McDonald's, we believe that use of the DJIA companies as the group for comparison is appropriate. Like McDonald's, many DJIA companies generate meaningful sales and revenues outside the U.S., and some manage global brands.

The performance graph that follows shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the S&P 500 Index and the DJIA companies (including McDonald's) for the five-year period ended December 31, 2002. Returns shown are for years ended December 31, and for the DJIA companies, returns are weighted for market capitalization as of the beginning of each year. Such returns will vary from that of the Dow Jones Industrial Average Index, which is not weighted by market capitalization and may be composed of different companies during the period under consideration.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURNS

Source: Standard & Poor's IMS

Item 2.   Approval of auditors

The Board is asking shareholders to approve Ernst & Young LLP as auditors for 2003. Ernst & Young LLP audited the Company's financial statements for 2002. A representative of that firm will be present at the Annual Meeting and will have an opportunity to make a statement and answer questions.

The Board recommends that shareholders vote FOR the appointment of Ernst & Young LLP as auditors for 2003 as proposed in this Item 2.

AUDIT FEES

The following table presents fees billed for professional services rendered for the audit of the Company's annual financial statements for 2002 and 2001 and fees billed for other services rendered by Ernst & Young LLP for 2002 and 2001:

IN MILLIONS	**2002**	**2001**
Audit Fees(a)	**$ 4.8**	$ 4.8
Audit-Related Fees(b)	**1.9**	1.9
Tax Fees(c)	**2.4**	1.7
All Other Fees(d)	**0.1**	0.1

(a) Fees for services associated with the annual audit, statutory audits required internationally, reviews of the Company's quarterly reports on Form 10-Q, comfort letters, consents and accounting consultations.

(b) Fees for internal control reviews including int