

CFO Review by Mike Conley

I'd like to talk to you about what McDonald's is doing to increase the value of your investment in the Company.

Our goal is to manage new and existing investments so that every dollar invested contributes to increases in shareholder value.

For existing assets, our focus is on building comparable sales through operational excellence and innovation.

When evaluating investment opportunities, such as how many restaurants to open or whether to open in a new country, our decision is based on our ability to earn returns greater than our cost of capital. Exceeding our cost of capital means that we will be able to satisfy our debt holders as well as meet or exceed the higher return expectations of our shareholders. For each new opening considered, we project the expected sales and profits to determine if the returns are acceptable for both the Company and our owner/operators.

For some investments, the returns are achieved right away, and for others, it may take a little longer. But we invest to sustain long-term profitable growth. For example, initially our investment in the international business generated low returns, but over time has added enormous value.

McDonald's strong balance sheet allows us to borrow at attractive rates, helping to reduce the cost of capital, creating additional value.

A few years ago, in the U.S., as new restaurants opened with lower sales volumes, returns on these restaurants were declining. In light of this trend, we took action to improve these returns. First, we adopted a more selective expansion strategy. Secondly, for substantially all new U.S. restaurants, we are now leasing land (versus buying) and subleasing to our

owner/operators. In addition, during 1998 we began testing a program that gave U.S. owner/operators the option to own new restaurant buildings versus leasing from the Company. This innovative

approach is a "win/win" for our owner/operators and our shareholders. The owner/operators generally realize an increase in cash flow and add substantial value to their businesses long term. McDonald's still has long-term tenure in the land and receives related rental income.

This approach increases our returns because of the more efficient capital deployment. The Company's avoided capital investment adds to cash flow and allows us to increase share repurchases.

Return on average assets increased to

16.4 percent

Excluding Made For You costs and special charge

As part of the process of managing existing assets, we continuously review our capital structure to ensure that we are maximizing shareholder value. As a result, we investigated various capital deployment alternatives, including REITs, for existing restaurant land and buildings. Based on our analysis to date, we believe the

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best way to continue our long-term profitable growth is to continue to own these assets and focus our efforts on driving higher returns by running great restaurants and building sales. Worldwide, the

lower number of net openings in 1998 reflected our more selective expansion strategy as we continue to focus on building comparable sales, managing our capital outlays more effectively and increasing returns. We also closed a number of lower volume satellite restaurants, primarily in the U.S.

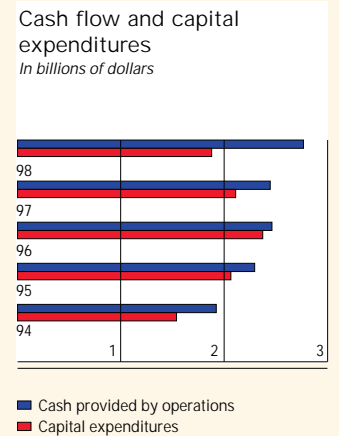
For international expansion, our unparalleled global infrastructure provides a competitive advantage that is difficult to replicate. Other businesses may leave a market or stop growing in difficult economies, while we continue to thoughtfully invest based on our long-term view of the opportunity.

We continue to leverage our global strengths and purchasing power to reduce operating costs worldwide. In addition, as we concentrate our growth in existing markets, we expect selling, general and administrative expenses as a percent of sales will continue to trend lower over time.

These factors enabled the international segment to fund \$1.4 billion of capital expenditures in 1998 with cash from its operations for the first time. The U.S. has been self-financing for a number of years, and its free cash flow has been used to help fund international expansion.

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\$887 million. As capital expenditures level off and cash from operations continues to increase, we expect free cash flow to continue to grow. We will use this growing free cash flow to add value through share repurchase and paying dividends. In addition, this free cash flow gives us the flexibility to develop other business and growth opportunities long term.



We believe share repurchase is a great way to enhance shareholder value. In 1998, we purchased 38 million shares for \$1.2 billion, of which 10.2 million shares for \$320 million related to our new \$3.5 billion share repurchase program. Over the past 10 years, we purchased \$4.8 billion, or 306 million shares, of our stock and paid \$1.7 billion in common stock cash dividends. We believe these actions will provide attractive long-term returns to shareholders.

To conclude, I believe that McDonald's ongoing focus on profitable growth and improving returns on average assets and invested capital, our strong U.S. and international businesses and our growing cash flow should continue to create shareholder value.