



# Climate Risk & Resiliency

Summary 2021



# Introduction

**Climate change is one of the most pressing issues of our time, impacting communities around the world. Natural disasters, environmental degradation and extreme weather patterns disrupt agricultural food supply chains and threaten food security.**

At McDonald's, we are assessing climate risk and strengthening our collective resiliency because it's the right thing to do for our planet, our communities and our business. As the world's leading global foodservice retailer, we have a unique opportunity to mobilize our entire value chain to act now, from our Franchisees to our suppliers, farmers and ranchers around the world.

Reducing emissions and adapting to climate change is critical to our collective success and the resilience of the McDonald's System. While taking action to help meaningfully address climate change is challenging and requires significant investment, we believe in its business value, today and over the long term.

We also recognize the importance of understanding and disclosing climate-related risks and opportunities for our business. We look to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to guide our reporting approach. We have developed this report with reference to the TCFD framework.

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## TCFD Overview

The Financial Stability Board created the TCFD to help improve and increase reporting of climate-related financial information. The TCFD has developed a framework to help public companies and other organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes. The TCFD recommendations are designed to solicit decision-useful, forward-looking information that can be included in mainstream financial filings.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.

## Key Takeaways

- McDonald's has taken action on climate for years, and we are actively working toward our **science-based targets that cover Scopes 1, 2 and 3**, as well as sustainable sourcing goals, deforestation commitments and more.
- We are **leveraging scenario modeling** to understand the transition and physical risks and opportunities for the McDonald's System, including our supply chain, Company offices and Company-owned and franchised restaurants.
- We pledged to put McDonald's on the path to **net zero emissions by 2050**, and are working with partners to define a **science-based framework** that will guide the future evolution of our existing targets.
- Our climate change strategy is guided and governed by a **cross-functional leadership team that engages all levels of the Company**, from the Board of Directors to country-level sustainability staff.

**Further details about McDonald's strategy, goals, progress and definitions can be found on the [Impact Strategy & ESG Reporting page](#) of our website.**

# Governance

## The Board's Oversight of Climate-Related Risks and Opportunities

Our Board of Directors (our Board) believes that a fundamental understanding of the Company's business, strategy and industry assists it in the effective discharge of its duties. As part of its oversight role, our Board regularly reviews the Company's performance.

## Taking Responsibility for Risk

Under the Company's Corporate Governance Principles, our Board is responsible for overseeing the Company's enterprise-wide risk management (ERM) framework, which is designed to identify, assess and prioritize strategic, financial and reputational risks with the potential to have a sustained impact on the Company. The ERM process includes consideration of climate-related risks (see Integration Into Overall Risk Management on page 14 for more information).

## Sustainability & Corporate Responsibility Committee

The Sustainability & Corporate Responsibility Committee of our Board (the SCR Committee) reviews and monitors the Company's strategies and efforts to address sustainability and resiliency through its performance as a sustainable organization, including environmental and social issues such as climate-related risks. This involves updates and discussion on the Company's climate change strategy, risk management practices, commitments and progress. For example, in 2017, the Committee endorsed the commitment to and public launch of McDonald's Climate Action strategy, which includes the Company's science-based target for greenhouse gas (GHG) emissions reductions, approved by the SBTi. The SCR Committee continues to review and monitor the development and implementation of performance metrics with respect to the Company's sustainability priorities, including on climate change.

### Annual Strategy Session

Our Board holds an annual strategy session with the Company's senior leadership team and other members of management who present our Board with important information about the Company's strategic priorities. In 2020, our Board oversaw management's development and adoption of *Accelerating the Arches*. This new strategy encompasses all aspects of McDonald's business as the leading global omni-channel restaurant brand and includes a refreshed purpose to feed and foster the communities McDonald's and its Franchisees serve around the world; values that define McDonald's and guide our actions and behaviors; and growth pillars that build on McDonald's competitive advantages.

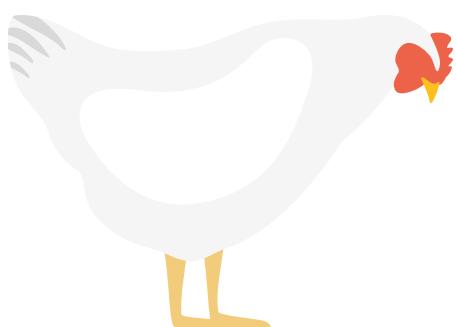
## Sustainability & Corporate Responsibility Committee

### Relevant Areas of Focus:

- Review and monitor the Company's strategies and efforts to address sustainability and Brand trust.
  - Oversee important sustainability priorities and other matters, including corporate philanthropy.
  - Review and monitor the development and achievement of the Company's sustainability goals and metrics.
  - Review global sustainability communication plans and reporting.
  - Review risks related to sustainability and corporate responsibility matters.
- Meetings in 2020: 4

The SCR Committee typically addresses the following key matters throughout the year, establishing its meeting calendar for the following year during the fourth quarter:

- Discuss Brand purpose initiatives, including climate change strategy.
- Review trends in environmental, social and governance (ESG) disclosure.
- Update on ESG engagement strategy, reporting plan and investor trends.
- Update on corporate philanthropy.
- Update on food safety strategy.
- Sustainability year in review.
- Consider shareholder proposals, as appropriate.
- Review annual shareholders' meeting voting results on shareholder proposals, as appropriate.



## **Management's Role in Assessing and Managing Climate-Related Risks and Opportunities**

### **Chief Global Impact Officer and Chief Sustainability Officer**

The Company's Chief Global Impact Officer and reporting Chief Sustainability Officer are responsible for overseeing performance, actions and goals relating to climate change and climate-related issues. They serve as the executive sponsors of McDonald's climate change strategy. Our Chief Global Impact Officer reports directly to the Company's President and Chief Executive Officer.

The Chief Global Impact Officer leads the Global Impact team, which is focused on harnessing and directing the full strength of McDonald's ongoing efforts to effect positive change around the world. The Global Impact team provides leadership and support for our global impact strategy overall, including ESG and climate policies, programs and reporting, as well as support for country-level sustainability staff for localized execution relevant to our markets.

In addition, the annual individual performance plans for the Chief Global Impact Officer and Chief Sustainability Officer set out objectives related to the Company's climate change strategy, targets and issues, with compensation directly related to the attainment of those objectives (among others). Examples of such individual performance plan objectives might include advancing progress on McDonald's Climate Action goals to reduce GHG emissions across McDonald's restaurants, offices and supply chain, such as through energy or emissions reduction projects, efficiency improvements, supplier engagement and/or behavior changes.

### **Other C-Suite Officers**

The Company's Chief Global Impact Officer and Chief Sustainability Officer serve as a cross-functional leadership team with other executive and corporate officers, such as the Chief Supply Chain Officer and the Chief Customer Officer. Together, they oversee McDonald's Impact Strategy, which helps to ensure the organization maintains focus and commitment on fulfilling its overall global sustainability performance, including goals and actions relating to climate-related issues.

### **Global Impact**

Global Impact is focused on harnessing and directing the full strength of McDonald's ongoing efforts to effect positive change around the world. Within Global Impact, the Global Sustainability & ESG team provides corporate staff leadership, coordination and support for our global sustainability policies, programs and reporting. The team liaises with other departments throughout the business and Franchisees to address climate-related issues. This includes work with the Government Relations team, who brings the perspective of stakeholders and policymakers

into the business to support decision-making, and the Communications team, who drives global awareness of impact, sustainability and supply chain initiatives among a variety of audiences. Through integrated communications strategies, the team helps advocate key sustainability priorities in support of McDonald's purpose of feeding and fostering communities.

Our Global Supply Chain teams are the main conduit to our suppliers. By collaborating closely with them, the Global Sustainability & ESG team is able to engage with independent suppliers to embed sustainability considerations, including climate change and circularity, into global sourcing decisions for food and packaging. It also works with the McDonald's Global Customer Experience team (including the Global Restaurant Development and Restaurant Solutions Group) to increase the energy efficiency of our restaurants through operations, equipment, design and technology, as well as to drive collection of recycling and advance circular solutions to help keep waste out of nature.





### Governance Summary for Climate-Related Risks and Opportunities

<b>Board of Directors</b>	Exercises oversight of McDonald's overall climate strategy and ERM framework, both as a full Board and through standing committees. An important element of our Board's oversight involves regular interaction with Board and senior management regarding the Company's risk exposure and mitigation effects as they relate to the Company's business strategy, operations and values. Our Board also conducts an annual review of strategic and enterprise risks.
<b>Sustainability &amp; Corporate Responsibility Committee</b>	The SCR Committee reviews and monitors the Company's strategies and efforts to address sustainability and resiliency through its performance as a sustainable organization, including environmental and social issues.
<b>Global Chief Impact Officer</b>	Responsible for overseeing performance, actions and goals relating to climate change and climate-related issues. Serves as an executive sponsor of McDonald's overall sustainability aspirations.
<b>Chief Sustainability Officer</b>	Responsible for overseeing performance, actions and goals relating to climate change and climate-related issues. Serves as an executive sponsor of McDonald's overall sustainability aspirations.
<b>Cross-Functional Leadership Team</b>	<p>Established to bring together senior executives from across the Company who are accountable for leading McDonald's Impact Strategy.</p> <p>This team of leaders has evolved with our strategy and reports to the President and Chief Executive Officer. Among others, leading officers include:</p> <ul style="list-style-type: none"> <li>• Chief Global Impact Officer</li> <li>• General Counsel and Corporate Secretary</li> <li>• Global Chief People Officer</li> <li>• Chief Supply Chain Officer</li> <li>• Chief Customer Officer</li> </ul>
<b>Global Impact</b>	The Global Impact organization is focused on harnessing and directing the full strength of McDonald's ongoing efforts to effect positive change around the world. The team includes Government Relations, Communications, Sustainability, and McDonald's corporate philanthropy and ESG strategy teams. Within Global Impact, the McDonald's Global Sustainability & ESG team provides corporate staff leadership, coordination and support for our global sustainability policies, programs and reporting. This includes close partnership with global cross-functional teams, such as Global Supply Chain and Customer Experience, and support for country-level sustainability staff for localized execution relevant to our markets.
<b>Global Supply Chain</b>	<p>The Global Supply Chain organization is focused on developing and executing sustainable sourcing strategies across the Company's supply chain footprint, including ensuring relationships with suppliers are based on transparency, inclusion and trust.</p> <p>Global Supply Chain works closely with Global Impact to develop and implement category-specific strategies that drive responsible sourcing, resilience and Brand trust in service of the Company's purpose to feed and foster communities.</p>
<b>Customer Experience</b>	The Customer Experience organization is focused on transforming how customers engage with the McDonald's Brand, creating a more authentic and compelling experience at each physical and digital McDonald's customer touchpoint. It includes the Company's Data Analytics, Digital Customer Engagement, Global Marketing, and Global Restaurant Development and Restaurant Solutions teams. The Global Sustainability & ESG team within Global Impact works with the Global Restaurant Development and Restaurant Solutions teams to increase energy efficiency of our restaurants through operations, equipment, design and technology.



# Strategy

## Climate-Related Risks, Opportunities and Time Horizons

The Company's risk management processes identify, prioritize and address a broad range of risks that can directly or indirectly impact the organization in the short, medium and long term. Climate, forests, water and other natural resource-related risks are assessed based on both breadth as well as depth of impact to the McDonald's System (the Company, together with its Franchisees and suppliers). Each risk is measured distinctly depending on the topic but may include the anticipated impact on factors such as sales, price stability, competitive advantage, restaurants and Franchisees, customers and communities, supply chain commodities, suppliers, and producers and farmers. Assessment of a risk's substantive impact may include magnitude, duration and/or dependency. We also assess impact based on existing crisis preparedness or the ability to develop such crisis preparedness, contingency and resiliency plans, and expressed external stakeholder concern or inquiry.

We disclose the impacts of climate-related risks and opportunities on our business each year and share our latest [CDP Climate Change disclosure](#) on our website. We leverage learnings from this to further advance our climate mitigation and resilience strategies. We will also continue to develop our own reporting on this issue based on best practice guidance, including that of the TCFD.

### Short-, Medium- and Long-Term Time Horizons

Highlighted on the right are just some of the key risks with the potential to have a financial or strategic impact on our business. The risks are not disclosed in order of magnitude, nor are they exhaustive of the potential climate-related risks to our business.

**We source food and beverage products and ingredients from suppliers in over 100 countries**

Risk	Timeline	Potential Result
<b>Mandates on and regulation of existing products and services</b>	<b>Short term (0–2 years)</b>	Designing out waste, improving the sustainability of our packaging and ultimately moving toward a circular economy are top priorities for our business. These strategies support our long-term business resilience, help us to keep the communities where we live and work clean, and minimize our environmental footprint to help protect the planet for future generations. Shifting consumer demand toward sustainable packaging and the increasing regulation of disposable packaging in jurisdictions in which McDonald's operates – specifically the adoption of new environmentally driven legislation on packaging (e.g., the EU Circular Economy Package) – are a potential risk to our business as there could be an increase in costs and impact on supply chain optimization that is being monitored.
<b>Changes in precipitation patterns and extreme variability in weather patterns</b>	<b>Medium term (2–11 years)</b>	Severe weather conditions and natural disasters (or expectations about them) can adversely affect consumer behavior and confidence levels, the local operations in impacted markets, or other factors that affect our results and prospects, such as commodity costs. Climate change can increase the frequency and severity of such weather-related events and natural disasters. Our receipt of proceeds under any insurance we maintain with respect to certain of these risks may be delayed, or the proceeds may be insufficient to offset our losses fully. For example, we source food and beverage products and ingredients from suppliers in over 100 countries across North America, Latin America, Europe and Asia Pacific, Middle East and Africa (APMEA). Changes in weather patterns and increased frequency of extreme weather-related events (e.g., temperature changes, precipitation, floods, droughts, cyclones, and quality or quantity impacts to other natural resources) could have a direct impact on our operations, Franchisees and restaurants, as well as the operations of our suppliers by causing disruption to the supply and availability of key commodities and ingredients such as protein, produce and coffee, and a direct impact on our ability to source and price our food consistently, due to commodity price increases or volatility and the uncertainty of these changes.
<b>Carbon pricing mechanisms</b>	<b>Long term (11–30 years)</b>	Carbon pricing mechanisms are increasing at an international, national and sub-national level and, according to The World Bank's "State and Trends of Carbon Pricing 2021" report, a total of 64 carbon pricing instruments are now in operation around the world. The Company operates in many different countries, including but not limited to the U.S., Canada, the U.K., France and Sweden and within multiple jurisdictions within countries, and may therefore be subject to varying forms of emerging climate-related regulations resulting in increased costs for restaurant operations in those jurisdictions where carbon pricing systems are in development or scheduled for implementation.
<b>Changes in precipitation patterns and extreme variability in weather patterns</b>	<b>Long term (11–30 years)</b>	Water is one of the world's most precious resources, with supplies under increasing pressure from climate change, extreme weather, floods, growing populations and swelling demand. The Company is primarily an operator and franchisor of McDonald's restaurants, which serve locally relevant food and beverages at locations across the world. Risks to the business relating to water, including but not limited to water stress or flooding, could potentially impact operations through a combination of restaurant closures, operational delays, higher operating costs, loss of license to operate, disruption to sales, supply chain disruption, water supply disruption and reputational and brand damage, any of which would have a financial and/or strategic impact on our business.



Opportunity	Timeline	Potential Result
<b>Transition to more efficient buildings</b>	<b>Short term (0–2 years)</b>	McDonald's has begun transitioning to more efficient buildings and kitchen equipment. Together with our Franchisees, we are working across our restaurants to be more innovative and efficient, with investments in areas such as renewable energy, energy management systems, LED lighting and energy-efficient kitchen and restaurant equipment (e.g., refrigeration and heating, ventilation and air conditioning – HVAC – systems).
<b>Supporting and advancing suppliers' climate strategies</b>	<b>Short term (0–2 years)</b>	We work with expert partners such as CDP to support our suppliers in developing their own approach to climate action. Through the CDP Supply Chain program, we engage with our suppliers to better understand the level of action they are undertaking across their own businesses. In 2021, we asked 131 suppliers to report to CDP Climate and Forests. This encompassed all globally managed suppliers of beef, chicken, dairy, cheese, bakery and baked goods, logistics, produce, liquid products and potatoes. It also included the top 80% of our fiber-based packaging and key equipment suppliers and additional selected U.S. suppliers. These suppliers represented 79% of our annual global spend across food, packaging, logistics and equipment in 2020.
<b>Use of lower-emission sources of energy</b>	<b>Medium term (2–11 years)</b>	<p>A primary climate-related opportunity driver for McDonald's is the procurement of low-cost, clean electricity for the operation of restaurants. This enables the Company and Franchisees to manage risks of increased operational costs due to clean energy policies and regulations in the short term, and enhance the long-term resiliency of our restaurants for the future.</p> <p>For example, in 2020, McDonald's completed three new virtual power purchase agreement (VPPA) transactions, with two wind farms and one portfolio of solar projects slated to be built in Illinois, Oklahoma, North Carolina and Ohio. Once all the projects initiated in 2019–2021 are online, the energy generated by renewable energy projects is expected to be equivalent to over 8,000 restaurants' worth of electricity and contribute to a 22% GHG reduction from our 2015 baseline. McDonald's portion of these renewable energy projects is expected to help prevent approximately 2,300,000 metric tons of CO<sub>2</sub>e emissions each year.</p>
<b>Accelerating sustainable and regenerative farming</b>	<b>Medium term (2–11 years)</b>	<p>The positive environmental impacts of regenerative agriculture practices, such as improving biodiversity and capturing carbon, are demonstrable. The Company is working on a number of activities with the potential to increase climate resiliency in this area, including but not limited to:</p> <ul style="list-style-type: none"> <li>Investing in soil and biodiversity in Nebraska, U.S.: With Cargill, The Nature Conservancy and Target, we support regenerative agriculture practices that help mitigate climate change and improve the resiliency of land.</li> <li>Improving grazing techniques in the U.S.: We launched a partnership with the Foundation for Food &amp; Agriculture Research (FFAR) to analyze the impact of Adaptive Multi-Paddock (AMP) grazing practices against continuously grazed ranches.</li> <li>Regenerative grazing in the U.K.: We're working with FAI Farms on a regenerative grazing system that focuses on how cattle are a vital part of the ecosystem on the farm, contributing to soil biology with the trampling of grass and addition of dung to feed microbes to create more and better soil.</li> </ul>
<b>Accelerating sustainable and regenerative farming</b>	<b>Long term (11–30 years)</b>	<p>The majority of our environmental impacts occur beyond our own operations, through the Company's supply chain, and so McDonald's journey toward sustainable sourcing begins with our suppliers. Among other activities, the Company is focused on collaborative action and investment to address climate-related risks associated with our agriculture value chain and partnering to advance sustainable and regenerative agriculture practices to help protect our planet for communities today and in the future.</p> <p>Given McDonald's size and scale, we believe we have an important role to play in responsible sourcing. We approach sustainable agriculture holistically and consider our impact on the planet, the livelihoods of the people who produce our food, the communities in which they live and the well-being of the animals we rely on. We want to create positive impact, such as by boosting resiliency, improving biodiversity, maintaining native grasslands and capturing carbon, and rebuilding soils. We have listed a number of activities in this area with a medium-term time frame, and we fully expect to continue working with farmers and ranchers over the long term on these projects while developing other such opportunities across the world.</p>

## Impact on Business, Strategy and Financial Planning

McDonald's corporate and markets assess and plan for the risks and opportunities related to climate change. There are significant investments made to activate our strategies, including opportunities integrated into our financial planning to achieve our science-based target to reduce GHG emissions, or to implement resilience and adaptation plans and other actions to accommodate transitional and physical risks and opportunities. Below are examples of important steps we have taken.

- We have integrated building and equipment efficiency measures, and the associated cost savings (e.g., from energy efficiency) have been identified and incorporated into asset reinvestment plans in the short- to medium-term time horizon.
- We have set an expectation for all McDonald's globally managed suppliers to set climate targets, measure emissions and make reductions – particularly in Scope 3 emissions – in line with their broader sustainability strategies. These targets include estimated impacts from land use change. Through our climate data and insights platform, we know which suppliers and food-sourcing categories contribute the most to our emissions, as well as emissions from land use change such as deforestation, allowing us to work with these suppliers to create strategies that support our science-based target and reduce our impact on the climate. As well as target-setting, we have an expectation that suppliers will instigate emissions monitoring and reduction programs, and report progress through the CDP Supply Chain program. This partnership approach will help suppliers understand the impacts of climate change on our businesses – including deforestation – and enable us to tailor supplier-led reduction initiatives that are specific to our supply chain, as well as foster new supplier collaborations to advance our climate mitigation and resilience strategies and achieve an even greater impact.

## **Investment in R&D**

As we decide how and where to pursue and scale innovation pilot programs, such as agricultural research projects or alternative energy technology and energy efficiency projects, we build on prior learnings and anticipate continuous future insights that will inform short-, medium- and long-term future investments in research and development (R&D) based on climate-related risks and opportunities.

Many markets are testing energy sourcing and reduction, water saving, and recycling and waste-related innovations. In 2020, McDonald's unveiled a first-of-its-kind net zero energy-designed restaurant at Walt Disney World Resort in Orlando, Florida. The global flagship restaurant is designed to create enough renewable energy on-site to cover 100% of its annual energy needs, and will serve as a learning hub to test solutions for reducing energy and water use.

We take a holistic approach to sustainability, which includes exploring ways to help our customers reduce their own environmental impact. For instance, in some markets, restaurants are offering electric vehicle charging points, whereas other markets are transitioning to more sustainable Happy Meal toys made from recycled, renewable or certified materials.

The Company is testing and deploying new packaging solutions in our restaurants globally, to learn how we can reduce packaging and switch to more sustainable materials while still delivering a great experience for our customers.

Additionally, the Company has two key commitments on Packaging & Waste:

- Source 100% of our guest packaging from renewable, recycled or certified sources by 2025.
- Recycle guest packaging in 100% of McDonald's restaurants by 2025.

We understand that recycling infrastructure, regulations and consumer behaviors vary from city to city and country to country, but we plan to be part of the solution and help influence powerful change.

The Company is also engaged in a range of projects and initiatives that focus on impact in our supply chain. For example:

- We launched a partnership with the Foundation for Food and Agriculture Research. We also committed to match up to \$4.5 million in a research project with The ASU Foundation for A New American University. The research is analyzing the impact of AMP grazing practices, which mimic the natural grazing patterns of wild ruminants against continuously grazed ranches across 10 ranches in the southeastern U.S.
- We helped to establish project CAP'2ER in France, an environmental footprint calculator that evaluates the environmental impacts within beef farming, helping to identify where farmers can work to reduce their GHG emissions. To date, more than 20,000 assessments have been carried out, and we have verified that 129,000 hectares of land is being managed to support biodiversity by French beef farmers who we source from.
- We have developed a Deforestation-Free Beef Procurement Policy in priority countries where we aim to quantify and address the link between identified or projected deforestation and our supply chain. We use satellite imagery of the area along with data analysis to determine whether supplying farms comply with our Deforestation-Free Beef Procurement Policy.
- McDonald's is engaged in efforts to halt conversion of ecosystems that host critical biodiversity, including forests, grasslands and savannahs, such as our support of the Instituto Onça-Pintada in Brazil. Apex predators, such as jaguars, are a good indication of a robust and thriving ecosystem. The Certificado Onça-Pintada, or Jaguar Friendly Ranch Certification, by the Instituto Onça-Pintada recognizes accomplishments related to protecting this threatened species.

## Operations

In cases of extreme weather events, restaurant operations and deliveries have been disrupted in some geographies. As we continue to pursue climate-related scenario modeling going forward, in the short to long term we will continue to assess the materiality of these impacts to the Company and its Franchisees and suppliers.

Energy and GHG-reducing technologies and approaches identified as opportunities are being implemented across our restaurants. An example is McDonald's digital Global Restaurant Building & Equipment Standard (GRBES), which is being rolled out to countries globally through 2021. The GRBES platform is designed to provide building and equipment requirements for new restaurants and guidance on exterior and site LED lighting, energy management, building construction, refrigeration, HVAC, maintenance and servicing, local equipment, recycling bins and water conservation. Our efforts to realize this opportunity are measured as part of our GHG and enterprise-level corporate sustainability tracking system on an annual basis.

## Resilience of Strategy

Reducing emissions and adapting to climate change is critical to the collective success and resilience of the McDonald's System. While taking action on climate change is challenging and requires significant investment, we believe it will drive business value in the long term by ensuring we are striving to manage operational costs in our energy supply, improve the security of supply of our raw materials and reduce our exposure to increasing environmental risks, regulation and taxes.

Based on globally developed and leading climate scenarios, the Company is conducting and analyzing scenario modeling to understand the transition and physical risks and opportunities for the McDonald's System, including our supply chain, Company offices, and Company-owned and franchised restaurants. The analysis will include the implications of carbon pricing mechanisms and water-related risks. In line with our corporate sustainability tracking system, a data analysis platform was developed for assessing the potential impact of carbon taxes and water-related risks across all global locations, and on key commodities and sourcing regions.

### Physical Risk Scenario Analysis

To assess physical risk, we chose the Intergovernmental Panel on Climate Change (IPCC) RCP 8.5 scenario that allows us to assess the implication of acute and chronic water-related risks to McDonald's restaurants and suppliers in a "business-as-usual" scenario.

Our initial physical risk assessment is focused on water stress under the conditions of a rapidly heating planet and covers all Company-owned and franchised restaurants globally and our supply chain, including key agricultural commodities. The time horizon for this scenario analysis is 2030 for restaurants and 2040 for supply chain, selected for its relevance to our organization due to the importance of water for our operations and supply chain, notably agriculture, and allows us to view medium- and long-term risks and opportunities in financial terms.

The results of the analysis will help us understand the potential financial impact to our business by:

- Scenario;
- Time period;
- Directional focus in terms of priority locations; and
- Commodities where further analysis and refinement is required.

Additionally, the results support the identification and scaling of best practices for mitigating such risks to help build a more resilient System.

### Transition Risk Scenario Analysis

To assess transition risk, we chose the Sustainable Development Scenario (SDS) from the World Energy Model of the International Energy Agency (the IEA). In line with TCFD recommendations, we chose the IEA's SDS model as a recognized and comparable third-party scenario that allows us to assess our resilience in a world where global temperatures are limited to well below 2°C. The SDS outlines a major transformation of the global energy system by 2040 and is characterized by widespread adoption of clean energy policies and regulation.

Our initial transition risk assessment is focused on emerging regulation on carbon pricing mechanisms, specifically the carbon price exposure to the McDonald's System in a low-carbon scenario. Our assessment covers all Company-owned and franchised restaurants globally. We also assessed our key agricultural commodities that represent our main supply chain GHG drivers globally, with the ambition to expand this modeling in the near future.

The results of the analysis will help us understand the potential financial impact to our business by scenario and time period and directional focus in terms of priority locations and commodities.

### Addressing the Largest Elements of Our Footprint

Our scenario analysis and risk identification processes provide us with a clearer understanding of the short-, medium- and long-term risks to our business. In collaboration with thousands of Franchisees, suppliers and producers, we use these insights and others from across our business to prioritize action on the largest elements of our carbon footprint. We are also contributing to the development of GHG accounting methods to demonstrate the impact of factors such as preventing land use change and carbon sequestration to our footprint, to keep our strategy robust and resilient.



### **Restaurant Energy Usage and Sourcing**

Together with our Franchisees, we are working across our restaurants to be more innovative and efficient, with investments in areas such as renewable energy, energy management systems, LED lighting and energy-efficient kitchen equipment (e.g., refrigeration and HVAC systems).

For example, to advance the overall sustainability of McDonald's restaurants in Europe, we operate to Green Building Guidelines, which are part of our continuous efforts to reduce energy consumption by sharing best practice and using the latest technologies.

Across the globe, our markets are in various phases of strategy development, and in 2020 we launched a new internal enterprise-wide climate data and insights platform to support market-level local climate strategies and track progress.

A primary climate-related opportunity driver for McDonald's is the procurement of low-cost, renewable electricity for the operation of restaurants, directly or indirectly. Renewable energy procurement at restaurants will enable the Company and Franchisees to manage risks of increased operational costs due to clean energy policies and regulations in the short term, and enhance the long-term resiliency of our restaurants for the future.

For example, in 2020, McDonald's completed three new VPPA transactions, with two wind farms and one portfolio of solar projects slated to be built in Illinois, Oklahoma, North Carolina and Ohio. Once all the projects initiated in 2019–2021 are online, the energy generated by renewable energy projects is expected to be equivalent to over 8,000 U.S. restaurants' worth of electricity.

**In 2020, our renewable energy purchases covered **over 6,000** restaurants' worth of electricity across 11 markets**

In Europe, renewable energy purchases in 2020 covered over 6,000 restaurants' worth of electricity across 11 markets (Austria, France, the U.K., Ireland, Germany, the Netherlands, Poland, Portugal, Spain, Sweden and Switzerland).

### **Packaging & Waste**

Packaging helps us serve food quickly and safely to our customers, but we also know that how it is designed, produced, transported and disposed of has an impact on the planet. Our packaging & waste strategy aims to accelerate a circular economy and design out waste to further help reduce emissions across our operations and supply chain. Read more on the [Packaging & Waste](#) page of our website.

### **Beef Production**

We are one of the biggest buyers of beef in the world, and beef is one of the top three contributors to the overall carbon footprint of our supply chain. This is why we are prioritizing action in this area in partnership with our suppliers, nongovernmental organizations (NGOs) and climate experts.

Since 2011, we have supported and participated in global, regional and national roundtables, bringing together partners to identify, develop and scale the most sustainable agricultural practices. We request all of our globally managed beef suppliers report their actions on climate through CDP Supply Chain. The majority have their own climate targets, and we are working with suppliers to develop tailored roadmaps for key ingredients (including beef) to meet our global GHG emissions target.

As beef is one of the top three contributors to the overall carbon footprint of our supply chain, we're prioritizing development of our "Beef Climate Roadmap" with input from our suppliers, NGOs, academics and other experts. We are in the process of developing product-specific roadmaps for meeting our SBTi goals. We also publish progress updates toward our 2030 goals annually through CDP and on our website to demonstrate transparency and accountability.

We are also working with partners to advance the science around sustainable beef farming practices. Our work with the [Foundation for Food & Agriculture Research](#) and universities in the U.S., for example, is looking at how regenerative grazing practices can capture more carbon in the soil and increase biodiversity.

In partnership and collaboration with farmers, suppliers, industry groups, academia, civil society and the [Global Roundtable for Sustainable Beef](#) (GRSB), we have helped establish multi-stakeholder groups in our top 10 sourcing countries, which represent approximately 85% of our global beef volumes. All 10 of our top 10 beef sourcing countries sourced beef from sustainability programs aligned with the GRSB principles and criteria and met McDonald's requirements by the end of 2020.

Read more on the [Sustainable Agriculture & Beef](#) page of our website.

### **Forests as a Climate Solution**

McDonald's knows that corporate accounting and disclosure of GHG emissions from deforestation is a major challenge, and that reporting expectations on these emissions will continue to evolve. We are committed to transparency and strengthening the Company's reporting to help demonstrate how we are managing risks associated with deforestation. However, we recognize that we have more work to do to ensure our policies and implementation plan for eliminating deforestation from our supply chains are built into our overall climate action strategy.

We support deforestation-free supply chains, and we see promoting forests as a climate solution not just as our responsibility, but as core to our business. To help protect our forests and their important role in our environment, we have committed to eliminating deforestation from our global supply chain by 2030. In 2020, we reached a major milestone by achieving our deforestation-free goals for several of our priority commodities, including palm oil and soy sourced for the feed of chicken used in McDonald's products.

Our climate reduction targets include estimated impacts from land use change, and our corporate sustainability tracking system is capable of modeling emissions from land use change such as deforestation for cropland. To demonstrate the positive impact that our Commitment on Forests has had, we have started to bring together our forests and climate measurement system to improve the way we measure the climate impact of forest conservation in our supply chain.

### Engaging Our Supply Chain

To achieve our supply chain goals, we work closely with suppliers and producers, particularly our biggest suppliers in the product categories in which we can have the greatest impact. We all share a common commitment to delivering action on climate and driving continuous improvement. We have set an expectation for all McDonald's proactive suppliers to set climate targets, measure emissions and make reductions – particularly in Scope 3 emissions – in line with their broader sustainability strategies.

We work with expert partners such as CDP, an organization that helps companies manage their environmental impacts, to support our suppliers in developing their own approach to climate action. Through the CDP Supply Chain program, we engage with our suppliers to better understand the level of action they are undertaking across their own businesses.

In 2021, we asked 131 suppliers to report to CDP Climate and Forests. These suppliers represented 79% of our annual global spend across food, packaging, logistics and equipment in 2020.



Our supply chain focus will be on areas including:

- **Farm Management** – On farms, sustainability and efficiency are interconnected. When farmers have access to markets, capital and training to optimize their resources, they can also improve their economic viability and minimize their carbon footprint. We are improving our insight into the farming systems that supply the food for our menu, and our suppliers work with farmers to help them improve their efficiency and reduce emissions by adopting more sustainable practices.
- **Rebuilding Soils** – Progressive grazing techniques and other agricultural practices can bolster soil's ability to store carbon and improve climate resiliency while optimizing the nutrition it can provide animals. We support initiatives to help farmers adopt management practices that improve soil health, and at the same time ensure that farming systems that actively sequester carbon are recognized in GHG measurements.
- **Conserving Forests** – Forests play a pivotal role in absorbing GHG emissions, creating oxygen and supporting ecosystems – and yet around the world they are under threat from deforestation and degradation. Deforestation is estimated to account for 15% of the planet's global GHG emissions, and presents a real risk to our shared environment, as well as our business, supply chain and customers. We are working with partners across our global supply chains to verify that the products sourced for our menu are not putting forests at risk, and we are committed to eliminating deforestation from our global supply chains by 2030. Read more about our work on the Conserving Forests page of our website.
- **Post-farm Efficiency** – We are constantly looking for new opportunities to cut emissions throughout the rest of our supply chain, and are working on initiatives that include improving energy usage at supplier facilities, enhancing transportation efficiency and reducing food waste.

### Keeping Our Transport and Logistics Impact Low

McDonald's logistics network transports our food products more than 250 million miles every year. Our logistics providers are working to minimize the environmental footprint of our distribution activities by reducing the distances our products travel, moving toward alternative fuels and making product journeys as efficient as possible.

We have a twofold approach to working with our suppliers to achieve world-class logistics operations with the lowest possible environmental footprint:

- Using fewer miles and less fuel through continuous routing improvements, innovations like engineless cooling and air deflectors, and ongoing driver training.
- Increasing the use of alternative fuels with lower emissions.

In 2019, our two largest logistics providers, HAVI and Martin Brower, also signed up to the SBTi, and committed to cutting carbon emissions from their operations by 40% per metric ton of goods delivered by 2030 from a 2015 base year. Since then, all of McDonald's Global and North American independent logistics suppliers have set science-based targets approved by the SBTi.

We also pair innovation in transportation with our efforts to eliminate waste from our kitchens and supply chains. For instance, rather than relying on a separate collection service, trucks in some countries "back-haul" waste from McDonald's restaurants when returning to the distribution centers. This helps to recycle waste streams, like cardboard, used cooking oil, and some plastics and cups, while reducing mileage and emissions in the process.

We encourage all our logistics providers to use carbon-efficient fuels. This includes alternative fuels such as renewable natural gas created from biowaste, biofuels, hydrogen, natural gas, propane and electricity. Where possible, these biofuels are generated from by-products rather than crops grown for food.



# Risk Management

## Risk Identification and Assessment Process

The Company's risk management processes identify, prioritize and address a broad range of risks that can directly or indirectly impact the organization in the short, medium and long term, and we tier risks accordingly. The risks are determined as substantive based on a variety of quantitative and qualitative factors that our risk management processes use to monitor and assess the complexity of these topics.

The scope and approach for responding to identified risks depend on the cost and operations impact on the organization and the calculated impact on the environment. Our approach includes but is not limited to engaging our suppliers and Franchisees to develop mitigation and adaptation plans and strategies, and partially informs our approach to setting commitments, such as our science-based climate targets and net zero emissions pledge.

We have recently committed additional resources to focus on climate-related risks. We are conducting and analyzing climate scenario modeling to identify risks and opportunities, and we are working with expert partners to analyze the potential material impacts and implications for our System. We have also developed a supply chain cross-commodity working team dedicated to supply chain resiliency, including climate.

### Acute Physical Risks

The impacts of specific events with acute physical risk (e.g., hurricanes or other natural disasters) are included in regular evaluations. Severe weather conditions and natural disasters can adversely affect consumer behavior and confidence levels, supply availability and costs, as well as the local operations in impacted markets, all of which can also affect our business results and prospects.

### Chronic Physical Risks

The impact of chronic physical risks (e.g., changes in temperature or water access) are included in regular evaluations, especially for agricultural supply chains. Severe weather conditions and shifting climate patterns can adversely affect consumer behavior and confidence levels, supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects.

### Current Regulatory Risks

The Company has global operations and is therefore subject to the laws of the U.S. and all foreign jurisdictions in which the Company operates, and the rules and regulations of various governing bodies, which may differ among jurisdictions.

Compliance to existing regulations is a requirement for the Company and Franchisees and changes in regulation are assessed regularly and feedback is shared via our Government Relations team. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, product packaging. Our success depends in part on our ability to manage the impact of regulations that can affect our business plans and operations, or that increase our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

An example of current regulatory impact is the European Union's Single-Use Plastics (SUP) Directive. As part of this directive, as of July 2021, the EU no longer allows certain single-use plastic items, such as plastic cutlery and straws, to be placed on the Member States market. Specialist corporate and cross-functional teams on packaging are well established in the Company to identify and develop strategies to respond to such risks. As a result of the SUP directive as it relates to single-use plastic items, McDonald's in EU Member States – which include, among others, France, Germany, Ireland, Italy, Portugal, Spain and The Netherlands – met this legislation with the removal or replacement of plastic straws, stirrers, balloon sticks, cutlery and some locally sourced plates as of Q1 2021.

### Emerging Regulatory Risks

Emerging laws and regulations are assessed regularly with feedback shared via the Government Relations team. Specialist corporate teams exist within the Company that also identify actual or perceived risks relating to emerging regulation in areas such as climate, packaging and energy to support the development of mitigation strategies. One example of a considered climate-related risk is that of emerging carbon pricing regulation and the potential financial impact on restaurants operating in jurisdictions where carbon tax schemes are proposed for implementation, and the potential increase in raw material costs associated with production in jurisdictions where carbon pricing systems may be implemented by national governments.

Additionally, in the EU, the Government Relations team is actively monitoring and assessing the potential effect of the 2030 Climate Target Plan, the strategy on measures to increase the EU's 2030 target for GHG emissions to at least 55% below 1990 levels to better achieve climate neutrality by 2030. The team is also evaluating Farm to Fork, the EU's sustainable food blueprint and a major component of the Green Deal, which includes an action plan with 27 measures aimed at greener food production, healthier and more sustainable diets and less food waste, among other emerging regulations.



## Technology Risks

Technology solutions and associated risks are evaluated as part of both restaurant and supply chain sustainability programs. Our long-term business objectives depend on the successful System-wide execution of our strategies.

We continue to build upon our investments in technology and modernization in order to transform the customer experience. For Company-operated restaurants, this can include the substitution of existing products and services with lower emissions options, including but not limited to renewable energy, packaging or restaurant equipment. If these initiatives are not well executed, or if we do not fully realize the intended benefits of these significant investments, our business results may suffer.

## Legal Risks

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks, including growing climate-related risks. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, product packaging, the safety of our food and other products, labeling and other disclosure practices. Compliance efforts with those regulations may be affected by ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of information from third-party suppliers.

Our success depends in part on our ability to manage the impact of regulations and other initiatives that can affect our business plans and operations, and it has increased our costs of doing business and exposure to litigation, governmental investigations or other proceedings. As such, legal compliance is assessed regularly across local laws to ensure our Company is in line with all applicable laws and obligations.

## Market Risks

We regularly assess fluctuations in commodity markets in partnership with suppliers across different geographies to monitor raw material availability. For example, the Company utilizes public commodity reporting to assess anticipated fluctuations in commodities that may impact future prices or assured supply. Beyond direct crop impact, extreme weather incidents may impact manufacturing facilities, causing unplanned downtime and resulting pressure on pricing and/or supply.

We also monitor trends in consumer preferences and regulatory developments that may impact markets in relation to climate action to implement appropriate mitigation controls and minimize the impact on operations.

## Reputational Risks

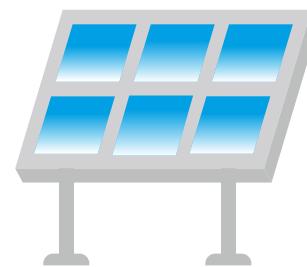
Climate change and other environmental factors are included in the criteria we evaluate regularly for customer and external stakeholder feedback.

The Company conducts consumer and stakeholder surveys, interviews and stakeholder engagements that allow us to understand expectations and gauge reputation within the context of the food and beverage industry, as well as among corporate sustainability leaders. These insights inform our communications and engagement on sustainability topics and are considered in our sustainability strategies including [Climate Action](#), [Forests](#), [Responsible Sourcing](#), [Sustainable Agriculture & Beef](#) and [Packaging & Waste](#), which are intended to demonstrate to customers, as well as internal and external stakeholders, that the Company understands the interconnectivity of environment, social and economic business drivers. For example, [Packaging & Waste](#) has emerged as a top environmental concern for customers from recent multi-market customer research, which reinforces our work in this area as a priority for the Company.

## Management Process

Our Sustainability team partners closely with Global Finance to determine potential financial impacts to the Company and its Franchisees. Climate, forests, water and other natural resource-related risks are assessed based on both breadth as well as depth of impact to the McDonald's System. Each is measured distinctly depending on the topic, but may include impact on factors such as sales, price stability, competitive advantage, restaurants and Franchisees, customers and communities, supply chain commodities, suppliers, and producers and farmers. Assessment of a risk's substantive impact may include magnitude, duration and/or dependency. We also assess impact based on existing crisis preparedness or the ability to develop such crisis preparedness, contingency and resiliency plans, and expressed external stakeholder concern or inquiry.

Identification, assessment and management of risk in our supply chain is overseen by the VP and Risk Management and Advisory Services, who reports directly to the Chief Supply Chain Officer. This VP role is supported by a team of colleagues to lead the design, development and implementation of a comprehensive risk management strategy for our supply chain organization around the world. They regularly assess supply chain risks, working with the Chief Global Impact Officer, Chief Sustainability Officer and other Sustainable Sourcing Directors on identified environmental risks.



## Integration Into Overall Risk Management

### **Identifying, Assessing and Responding to Climate-Related Risks and Opportunities**

Senior managers in a wide range of functional areas are responsible for identifying and managing risks within their areas of expertise. In many cases, they have their own formal risk identification and management processes. A cross-functional working group helps ensure timely risk information is shared across internal stakeholders and elevated within the organization as appropriate. Input is also incorporated from partners outside the Company, such as strategic suppliers and industry experts. For example, the Company leverages partnerships and insights from leading external environmental stakeholders and industry groups to continually monitor and integrate the latest factors (science, policy, geopolitics, trends) into our climate risk and resiliency planning.

We are currently in the process of analyzing medium- and long-term implications from carbon pricing mechanisms and water stress risks for both McDonald's restaurants and our supply chain. The results of these assessments will be integrated into our corporate sustainability tracking system to advance climate-related risk discussions within the business, to ensure we are appropriately managing these risks and related opportunities, and to support effective alignment with the TCFD as part of our future planning.

### **Enterprise-Wide Risk Management Framework**

Our Board is responsible for overseeing the Company's ERM framework. The framework is designed to identify, assess and prioritize strategic, financial and reputational risks with the potential to have a sustained impact on the Company. The Company periodically reviews the ERM framework and incorporates learnings to drive transparency and strategic decision-making.

Management is responsible for the design and execution of the ERM framework. The Company's internal auditors also support risk identification and risk monitoring within the Company. The framework leverages internal risk committees made up of cross-functional leadership, which meet regularly to evaluate and prioritize risk in the context of Accelerating the Arches, with further escalation to the President and Chief Executive Officer or our Board as appropriate.

Our Board exercises oversight of the ERM framework, both as a full Board and through its standing committees. An important element of our Board's oversight involves regular interaction with senior management regarding the Company's risk exposure and mitigation effects as they relate to the Company's business strategy, operations and values. Our Board also conducts an annual review of strategic and enterprise risks, and considers, among other items, the Company's mitigation and overall strategy, competitive landscape, capital structure and succession planning.



# Metrics & Targets

## Metrics to Assess Climate-Related Risks and Opportunities

We disclose the climate-related metrics that we currently track and report through our [annual CDP Climate Change disclosure](#), as well as details of the incentives we provide for management of climate-related issues. We also report on progress against our [science-based target on our website](#). For our raw material metrics, we primarily use our annual raw material survey of suppliers, which gathers data on volume, origin and sustainability certification across the six categories of products supplied to McDonald's that align with our 2020 Sustainable Sourcing Goals. We collect and calculate emissions metrics through our corporate sustainability tracking system.

We will continue to enhance our methodology and data quality in future years. Currently, reported figures reflect the latest enhancements to our 2015 base year emissions, which have been updated based on best practice guidance on leveraging the latest methodology and available data. However, we expect the baseline and annual progress figures to be further adjusted and refined in future reporting cycles with continued methodology and data quality enhancements.

## Scope 1, 2 and 3 Emissions

The majority of McDonald's restaurants worldwide are owned and operated by Franchisees and, as a result, the bulk of our restaurants are in the Scope 3 (indirect emissions) GHG Protocol accounting category, which is also where our supply chain carbon footprint sits.

To accurately demonstrate the impact of the range of climate action activities we are undertaking (in particular within Scope 3/supply chain), we are helping to develop and refine GHG accounting methods in collaboration with other companies and NGOs. We aim to track not only GHG reductions but also the positive impact of commitments, such as the carbon removed from the atmosphere through sequestration.

Scope 1: Sources of direct emissions (owned or controlled by the Company)	Scope 2: Sources of indirect emissions (owned or controlled by the Company)	Scope 3: Sources of all other indirect emissions (including our Franchisees and supply chain)
<b>0.18%</b> <b>of our</b> <b>emissions</b>	<b>0.8%</b> <b>of our</b> <b>emissions</b>	<b>99.02%</b> <b>of our</b> <b>emissions</b>
<b>GHG Emissions (In metric tons)</b>		
2020: 97,398	2020: 431,395*	2020: 53,704,901
2015 (Baseline): 162,958	2015 (Baseline): 1,295,064*	2015 (Baseline): 49,802,177
*market-based		
Company-operated restaurants and offices only	Company-operated restaurants and offices only	Franchisee-owned restaurants, waste from all restaurants, supply chain, transportation and logistics
<ul style="list-style-type: none"> <li>• Heating and mobile fuels</li> <li>• Refrigerants</li> <li>• Fugitive emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Electricity and heating (purchased or acquired)</li> </ul>	<b>Upstream</b> <ul style="list-style-type: none"> <li>• Supply chain</li> <li>• Transportation and logistics</li> </ul> <b>Downstream</b> <ul style="list-style-type: none"> <li>• Franchisee-owned restaurants: <ul style="list-style-type: none"> <li>- Electricity and heating (purchased or acquired)</li> <li>- Heating and mobile fuels</li> <li>- Refrigerants</li> <li>- Fugitive emissions</li> </ul> </li> <li>• Restaurant waste</li> </ul>



See our [CDP Climate submission](#) for further information, including definitions.

## Climate-Related Targets and Progress

### Pledge to Achieve Net Zero Emissions by 2050

Climate science has progressed since we first set our targets in 2018, and we are raising our ambition to meet current recommendations and guidance from the SBTi. In 2021, we joined the [United Nations Race to Zero](#) campaign, pledging to put McDonald's on the path to net zero emissions by 2050.

In pursuit of this ambition, we have committed to evolve our current 2030 targets to align with the SBTi Business Ambition for 1.5°C campaign, which focuses on reducing emissions by 2030 to keep global temperature rises under 1.5°C. We will also develop a longer-term emissions reduction and neutralization strategy to reach net zero emissions by 2050.

We are working with partners to contribute insights from McDonald's supply chain and sustainability journey to the SBTi's important ongoing work to develop 1.5°C emissions reduction pathways for forestry, land and agriculture, and to define a science-based framework for net zero emissions. Once final, these frameworks will guide the future evolution of our existing targets.

### Progress Toward Our Current 2030 Targets

Current science-based targets set to limit global warming to well-below 2°C above preindustrial levels; will reset to limit warming to 1.5°C following release of the new SBTi forest, land and agriculture (FLAG) methodology.

Goal	Progress
<b>By 2030, we aim to partner with Franchisees to reduce GHG emissions related to McDonald's restaurants and offices by 36% from a 2015 base year.</b>	As of the end of 2020, we have achieved an 8.5% reduction in McDonald's restaurants' and offices' absolute emissions from the 2015 baseline. This means approximately 23.6% of our target has been achieved.  Once all 2019–2021 transacted U.S. renewable energy projects are online, the energy generated is expected to be equivalent to over 8,000 U.S. restaurants' worth of electricity and contribute to a 22% reduction from the 2015 baseline.
<b>By 2030, we aim to reduce emissions intensity (per metric ton of food and packaging) by 31% across our supply chain from the 2015 baseline.</b>	As of the end of 2020, the emissions intensity of our supply chain has decreased by 5.9% from the 2015 baseline.  This means we are approximately 19% of the way toward our target. We continue to partner with our suppliers to make progress, and we are seeing an increase in the number of our suppliers setting climate targets and implementing strategies to reduce emissions intensity that are tailored to their own supply chains.



Approximately **23.6%** of our target to reduce emissions in our restaurants and offices has been achieved

Approximately **19%** of the way toward our supply chain emissions intensity reduction target



## Who We Are

McDonald's is the world's leading global foodservice retailer with nearly 40,000 locations in 119 countries. Approximately 93% of McDonald's restaurants worldwide are owned and operated by independent local business owners. As one of the world's largest restaurant companies, we believe we have a responsibility to provide long-term, sustainable value creation for shareholders while taking action on some of the world's most pressing social and environmental challenges. We're also prioritizing our role and impact in the communities we have been serving for more than 65 years and speaking up about how we plan to feed and foster the future of those communities over the next 65 years. As we look to the future, we believe we can have an even greater impact by focusing on four areas that matter most to our communities:

- Food Quality & Sourcing
- Our Planet
- Community Connection
- Jobs, Inclusion & Empowerment

## About This Report

For further information on terms and definitions, governance, performance data and more, please visit the [Climate Action](#) section of our website, which is designed to be a living reporting platform.

## Key Definitions

- McDonald's: Our global brand, unless specified otherwise.
- We/the Company: McDonald's Corporation and its majority-owned subsidiaries worldwide.
- The System: The Company, its Franchisees and suppliers, also known as McDonald's "three-legged stool."
- Franchisees: Collective group of independent individuals and entities owning and operating McDonald's restaurants under one of the following structures – conventional franchise, developmental license or affiliate; for more information, please see the [Company's Annual Report](#).
- McDonald's restaurants/Restaurants: Includes restaurants owned by the Company and its Franchisees.

## Forward-Looking Statements and Website Links

This report contains certain forward-looking statements or projections, which reflect our expectations regarding future events, performance and goals and involve a number of risks and uncertainties. Generally speaking, any statement in this report not based upon historical fact is a forward-looking statement. Forward-looking statements can also be identified by the use of forward-looking or conditional words, such as "could," "should," "can," "continue," "estimate," "forecast," "intend," "look," "may," "will," "expect," "believe," "anticipate," "plan," "remain," "confident" and "commit" or similar expressions. In particular, statements regarding our plans, strategies, prospects, goals and expectations regarding our business and industry are forward-looking statements. You should not rely unduly on forward-looking statements. These are not guarantees of performance and speak only as of the date the statement is made. Factors that could cause actual results to differ materially from our expectations are detailed in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to update such forward-looking statements, except as may otherwise be required by law.

Website links included in this report are for convenience only. Information contained on or accessible through such website links is not incorporated herein and does not constitute a part of this report.



## Find Out More

Our website: [corporate.mcdonalds.com](http://corporate.mcdonalds.com)



# A Message From Our CEO



**This past year showed us what makes McDonald's unique, once again. Guided by our core values, we've experienced first-hand how our focused actions – both big and small – can translate into meaningful experiences for our customers, bringing our purpose to feed and foster community to life each day.**

With the strength of our full System, we've worked together to build a more diverse, equitable and inclusive business, source more food responsibly, adopt more sustainable practices, and implement innovative and credible solutions in our ongoing quest to be a good neighbor in the communities where we live, work and serve.

We are proud of the work we do to make a difference – and will continue to help uphold this promise in all of the communities in which we operate.

## Showing Up for Our Communities

Ray Kroc used to say, "None of us is as good as all of us" – a phrase that serves as a constant reminder of McDonald's impact on the world when we leverage the collective strength of our System.

We all felt this sentiment more deeply over the past two years as we continued to navigate the COVID-19 pandemic – and it is equally as prevalent now as we face ongoing headwinds.

Front of mind is the continuing humanitarian crisis resulting from the war against Ukraine. Our hearts and minds remain with the Ukrainian people and all impacted, as the ongoing war has brought new elements of uncertainty to communities around the world.

In moments like these, our number one priority remains our people. I continue to be deeply moved by the offers of support from across our global System and all the generous contributions – from colleagues opening their homes to refugees around the world, to the deployment of the Ronald McDonald House Charities® (RMHC®) Care Mobile in Poland and Latvia. We are supporting connection, families and communities in times of need – because being part of the community means being there for people every day, especially during the most challenging of times.

Through our newly established McDonald's Community Fund, we are now better prepared to respond when people need us the most – whether by investing in Chicago-based neighborhood organizations that are actively and effectively working to address the youth opportunity crises in our hometown, or a corporate contribution of \$5 million to an Employee Assistance Fund to support our Ukrainian colleagues.

These actions define what it means to work at McDonald's, to be part of the McFamily and to get better, together.

## Empowering Our People

At the heart of many of these efforts are local McDonald's Franchisees and restaurant teams, who have stayed strong through unprecedented challenges, keeping restaurants running while providing hope, inspiration and extraordinary service to our customers and communities worldwide.

The ability to recruit, develop and retain the best talent possible has never been more vital. Together with our Franchisees, we are proud of our ability to provide opportunity for education and skills training – including access to local education, tuition assistance and job readiness programs, as well as programs and resources that support our respective employees, both at work and at home, including our Global Brand Standards.

By creating the type of environment where people want to work – whether they're looking to develop skills that can take them to future jobs or planning to build a career with us – McDonald's and its Franchisees are continuously investing and providing a holistic employee value proposition.

## Helping Protect Our Planet

Earning the trust of our people and customers by doing what we say we're going to do has always been key to building a strong brand and a lasting legacy. And in a world where people expect much more of the brands with which they do business, this becomes all the more important.

As communities around the world experience the impacts of climate change, we believe we need to be part of the solution. That's why, in 2021, we set an ambition to achieve net zero emissions by 2050. We're prioritizing action on the largest elements of our carbon footprint – from restaurant energy use to packaging and waste, and the sourcing of key ingredients for our menu.

Meaningful change also requires us to find alternative and sustainable solutions to help protect the world's natural resources and the communities that rely on them. This is the future of our business. We are committed to partnering with our suppliers around the world to scale innovative practices, from responsible sourcing and regenerative agriculture, to widespread reuse and recycling programs.

## Looking Ahead

At McDonald's, we and our Franchisees are helping drive enormous impact by living our purpose...by providing life-changing career opportunities for hundreds of millions of people...by continuing to support the legacy of RMHC®...and by mobilizing the scale of our supply chain for good, time and time again.

The actions we continue to take today across people, communities and our planet will ensure we're building a better business and a more trusted brand for generations to come.

## Chris Kempczinski

President & CEO,  
McDonald's Corporation

# Our 2021 Progress at a Glance

**At McDonald's, our purpose is to feed and foster communities. To do this, we must help address some of the world's most pressing social challenges and ensure the natural world is protected for future generations.**

Our 2021 Progress at a Glance provides an overview of the latest progress against our publicly stated environmental, social and governance (ESG) goals. The pages that follow provide more holistic information on 2021 performance across our priority ESG issues. We are dedicated to communicating regularly about our impact and progress in a transparent and standardized manner. You can find more detail about our position, approach and actions online wherever you see this symbol .



## Food Quality & Sourcing

### Responsible Sourcing

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In 2014, we set global goals for sustainable sourcing of our priority ingredients<sup>1</sup>—those where we can have the greatest impact. Following our 2020 Responsible Sourcing Goals being substantially achieved, we continue to work with our suppliers on what is outlined in those commitments, evaluating ongoing progress.



### Nutrition & Marketing Practices

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In 2018, we announced five Global Happy Meal Goals to be achieved by all markets by the end of 2022, with auditing and reporting on our 20 major markets.<sup>2</sup> In October 2020, we released an [interim Progress Report](#) demonstrating the progress we've made at the half-way point. We continue to support markets on their progress against our Global Happy Meal Goals and remain on track to publish our final progress report in 2023.

### Animal Health & Welfare and Responsible Antibiotic Use

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**Our U.S. pork supply chain is more than 61% of the way to our goal to phase out use of gestation stalls for housing pregnant sows.** We remain committed to this journey, and we are on track to achieve our target by the end of 2024.



**74% of eggs sourced in the U.S. are cage free** as of the end of 2021, with a goal of 100% by the end of 2025.

**We are on track to achieve all our 2024 Broiler Welfare Commitments,** across our in-scope markets<sup>3</sup>, which are aimed at improving welfare outcomes for over 70% of chickens in McDonald's global chicken supply.

**Australia, Brazil, Canada, Europe, Japan, South Korea and the U.S. have already achieved our goal to eliminate medically important antibiotics<sup>4</sup> from chicken** served by 2027, with China on track to comply with our goal by the end of 2027.

**Beef antibiotic pilots have been conducted in 10 key beef sourcing markets.**<sup>5</sup> These markets represented over 80% of our global beef supply chain in 2021. Insights from these pilots will be used to help refine antibiotic-use targets and measurement capabilities.



## Our 2021 Progress at a Glance

### Our Planet

#### Nature, Forests & Water

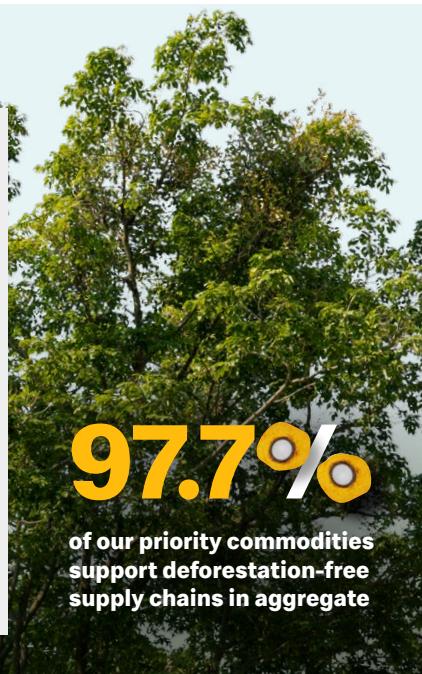
 [Page 9](#)

We substantially achieved our 2020 goals to tackle deforestation in our priority ingredient supply chains, and **97.7% of volumes from these commodities continued to support deforestation-free supply chains** in 2021.

Now, we are committed to eliminating deforestation from our global supply chain by the end of 2030.

**97.7%**

of our priority commodities support deforestation-free supply chains in aggregate



#### Climate Action

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We have achieved a **2.9%<sup>7</sup> reduction in the absolute greenhouse gas (GHG) emissions** of our restaurants and offices compared to 2015 figures. As the 2019–2022 transacted U.S. renewable energy projects come online they are expected to contribute to a **27% reduction** from our global 2015 baseline.

We have achieved a **7.8%<sup>7</sup> reduction in supply chain GHG emissions** intensity compared to 2015 figures.



#### Packaging, Toys & Waste

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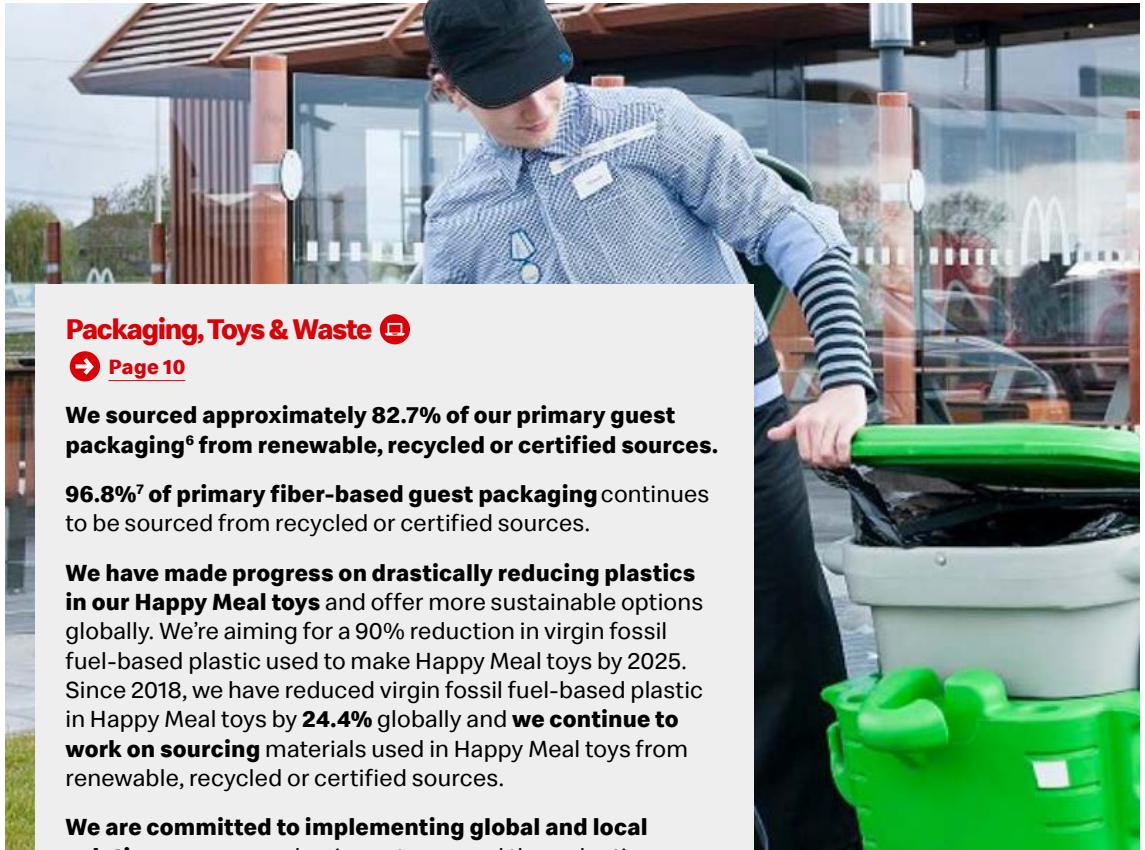
We sourced approximately **82.7% of our primary guest packaging<sup>6</sup>** from renewable, recycled or certified sources.

**96.8%<sup>7</sup> of primary fiber-based guest packaging** continues to be sourced from recycled or certified sources.

We have made progress on drastically reducing plastics in our Happy Meal toys and offer more sustainable options globally. We're aiming for a 90% reduction in virgin fossil fuel-based plastic used to make Happy Meal toys by 2025. Since 2018, we have reduced virgin fossil fuel-based plastic in Happy Meal toys by **24.4%** globally and **we continue to work on sourcing** materials used in Happy Meal toys from renewable, recycled or certified sources.

We are committed to implementing global and local solutions across our business to expand the reduction, reuse or recycling of guest packaging, and to help create demand for recycled materials by 2025.

In our top 35 markets, on average **35% of McDonald's restaurants offer guests the opportunity to recycle packaging items**. Regions with more robust infrastructure are showing greater progress. For example, on average, roughly 78% of our restaurants in McDonald's largest European markets already provide guest packaging recycling.



**35%**



of restaurants, on average, in our top 35 markets offer guests the opportunity to recycle packaging items.

## Food Quality & Sourcing

# A Long-Standing Commitment to Serving Safe, Quality Food

**How our food is produced and where it comes from matters to our customers, our communities and our shared environment. We provide a variety of choices and bring families together to share moments and create lasting memories. Additionally, we embed strict food safety standards to ensure we're preparing food and beverages customers can trust.**

### Nutrition & Marketing Practices

### Food Safety

 [Global Happy Meal Goals 2020 Progress Report \(pdf\)](#) (28.2MB)

### Our Global Happy Meal Nutrition Goals

We're focused on evolving the Happy Meal and making balanced meals more accessible. McDonald's will continue to approach this responsibly, offering balanced options and promoting menu items that contribute to recommended food groups, such as fruits, vegetables and low-fat dairy.

In 2018, we announced five Global Happy Meal Nutrition Goals to be achieved by the end of 2022. We continued to make progress toward them throughout 2021 and **plan to publish our final performance report in 2023**.

#### Progress So Far

**8 out of 20 major markets offer balanced meals**



**12 major markets have met our goal on simplifying ingredients**

**16 out of 20 major markets sold an increased share of Happy Meal items containing recommended food groups in 2019 versus 2018**

### Embedding Food Safety Standards Right Back to the Farm

Food safety is embedded in everything we do, from sourcing, menu development, packaging and distribution to the running of our restaurants.

In 2021, we made notable progress in ensuring standards were upheld, including:

- **2,000+ farmers trained** on McDonald's Good Agricultural Practices standards, which cover food safety as well as topics such as soil health, water use and land management.
- **2,077 third-party audits performed** according to our Supplier Quality Management System (SQMS).
- **46,241 restaurant food safety audits conducted.**

- **93% of audited suppliers met SQMS standards.** Where needed, we request corrective action plans, set timelines and perform verification to prevent noncompliance.

During the year, the McDonald's Global Food Safety Advisory Council advised on topics including Produce Safety standards and Restaurant Food Safety practices, driving continuous improvement. Additionally, we worked with suppliers and other stakeholders to update our SQMS standards, including improving food safety culture assessments.

### Our Focus on Nutrition and Responsible Marketing

McDonald's aims to help consumers make informed nutrition choices. We deliver nutrition labeling, calories on menu boards, mobile apps, kiosks, online nutrition calculators and defined marketing goals.

Working toward our Happy Meal Nutrition Goals, our internal, cross-functional network shares nutrition best practices across the Company. Externally, we participate in various pledges to drive industry-wide practices and are proud of our long history as an industry leader in responsible marketing to children, guided by our Global Marketing to Children Guidelines.



## Food Quality & Sourcing

# Sourcing Ingredients With Integrity

**Our global supply chain spans countries, continents and industries. We approach responsible sourcing holistically, understanding that our work impacts the livelihoods of people, the health of our shared planet and the well-being of animals.**

### Responsible Sourcing

### Animal Health & Welfare

### Responsible Antibiotic Use

### Broiler Chicken Progress Update (pdf) (97KB)

### Antibiotic Policy for Beef and Dairy Beef (pdf) (143KB)

### Using Antibiotics Responsibly

Since February 2019, we've tracked the use of medically important antibiotics across our top 20 chicken suppliers.<sup>16</sup> As of the end of 2021, HPCIA use has been eliminated in Australia, Brazil, Canada, Europe, Japan, South Korea and the U.S., with China on track to comply on or before 2027.

For beef, we have conducted global pilot tests in our 10 in-scope beef sourcing markets<sup>4</sup> to help refine our approach to targets and measurement capabilities for responsible use.

In 2020, we created a global, cross-functional working group to help develop an antibiotic policy for pork in our supply chain.

### Embedding Animal Health & Welfare in Our Supply Chain

Caring for the health and welfare of the animals in our supply chain enables us to continue delivering quality food to our customers.

McDonald's is a founding member of the Global Roundtable for Sustainable Beef and helped launch its first Global Goal for Animal Health & Welfare in 2021.

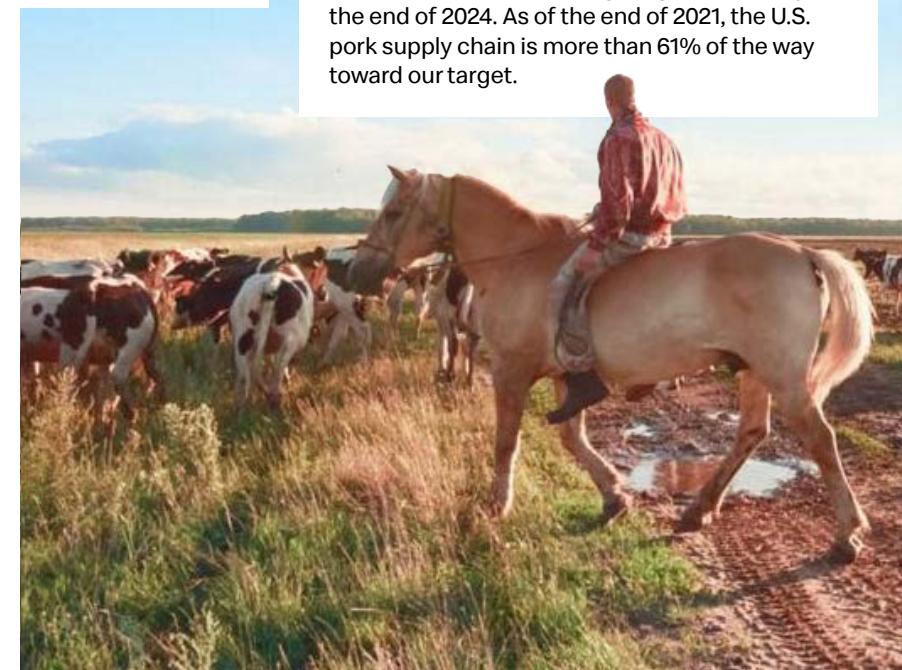
In 2018, we formed the Chicken Sustainability Advisory Council (CSAC) and in 2021, started tracking against 15 Broiler Chicken Key Welfare Indicators developed in conjunction with CSAC. The U.S. sources more than 74% cage-free eggs and Australia, France, Germany and the U.K. have achieved 100% cage-free eggs.

In the U.S., we're working with pork suppliers to phase out the use of gestation stalls (small, enclosed pens) for housing pregnant sows by the end of 2024. As of the end of 2021, the U.S. pork supply chain is more than 61% of the way toward our target.

### Evolving our Responsible Food Sourcing Approach

We have substantially achieved all our 2020 responsible sourcing goals for priority products. See our [2020–2021 Purpose & Impact Progress Summary](#) to learn more about this milestone. We are now looking ahead. Recognizing there is always an opportunity to achieve more, we are

planning to **enhance our focus on regenerative agriculture** to further build on our commitment to a sustainable and thriving food system.



## Our Planet

# Tackling Climate Change for a Stronger Food System

**We are working to take climate action and transform our food systems for the better, embracing our unique opportunity to mobilize the entire McDonald's System to act. We're focused on reducing emissions in buildings and operations, engaging suppliers to reduce supply chain emissions, strengthening business resilience and using our voice to advocate for collective transformation.**

 Climate Action

 [Climate Risk & Resiliency Summary 2021 \(pdf\)](#) (3.9MB)

## On the Journey to Net Zero Greenhouse Gas Emissions by 2050

We are evolving our efforts and have joined the United Nations Race to Zero campaign, putting McDonald's on the path to **net zero emissions by 2050**. Set in 2018 and approved by the Science Based Targets initiative (SBTi), our current targets aim to reduce restaurant and office emissions by 36% by 2030 from a 2015 baseline, and supply chain emissions intensity by 31% over the same period. Through the SBTi Business Ambition for 1.5°C campaign, we have committed to evolving our targets to keep global temperature rises under 1.5°C.

**We have achieved a 2.9%<sup>7</sup> reduction in the absolute greenhouse gas (GHG) emissions of our restaurants and offices compared to 2015 figures.**

**We have achieved a 7.8%<sup>7</sup> reduction in supply chain GHG emissions intensity compared to 2015 figures.**



## Cutting Emissions with Renewable Energy

Renewable energy plays an important role in helping us reduce emissions. In Europe, 11 markets<sup>17</sup> purchase over 75% renewable electricity for restaurants, with many at or close to 100%.

McDonald's has completed eight renewable energy projects through virtual power purchase agreements in the U.S. since 2019, which, when online, are expected to collectively generate energy equivalent to more than 10,000 restaurants' worth of electricity. This is expected to contribute to a 27% reduction in restaurant greenhouse gas (GHG) emissions from our global 2015 baseline.



## Collaboratively Reducing Supply Chain Emissions

With the scale of our value chain, we know collaboration is crucial **to accelerate the rate of our emissions reductions** and we are partnering with suppliers and other food businesses, nongovernmental organizations (NGOs) and climate experts. This includes working with logistics suppliers to achieve world-class operations, **working with packaging suppliers to increase the amount of recycled material**, and collaborating on regenerative agriculture initiatives that improve soil health and climate resiliency while sequestering carbon.



We are assessing climate risk and strengthening our collective resiliency as recommended by the Task Force on Climate-related Financial Disclosures. In 2021, we released our first [Climate Risk & Resiliency Summary](#).

## Our Planet

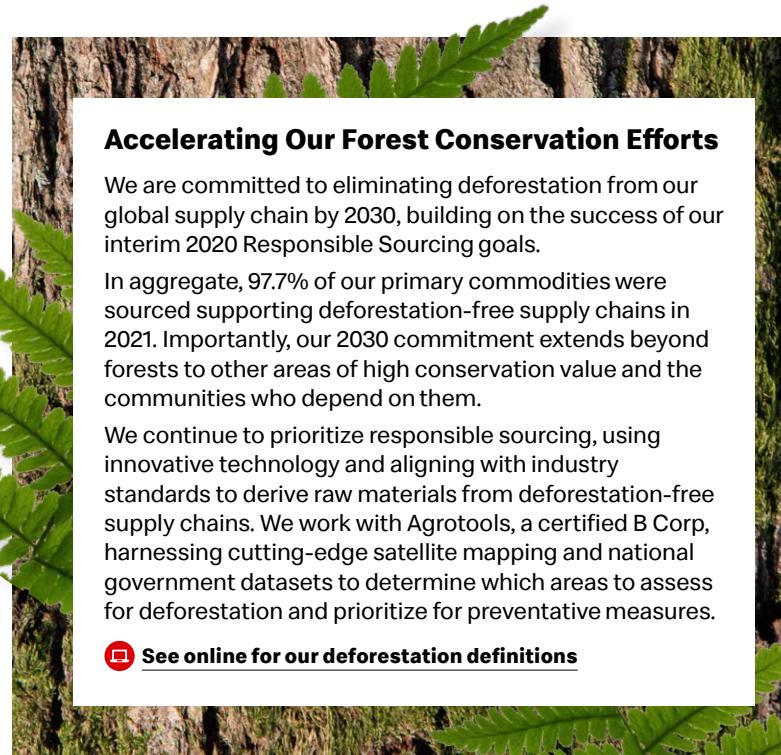
# Conserving Nature, Forests and Water

**As a company that sources ingredients directly from nature, we rely on biodiverse ecosystems, including forests and water reserves. We're taking a holistic approach to protecting natural resources, the communities that rely on them and the future of our business.**

 [Nature, Forests & Water](#)

 [Commitment on Forests \(pdf\)](#) (352KB)

 [Supporting Addendum for Commitment on Forests \(pdf\)](#) (492KB)



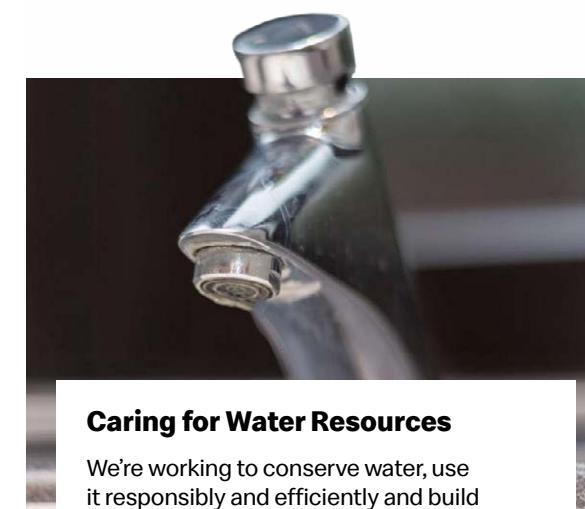
### Accelerating Our Forest Conservation Efforts

We are committed to eliminating deforestation from our global supply chain by 2030, building on the success of our interim 2020 Responsible Sourcing goals.

In aggregate, 97.7% of our primary commodities were sourced supporting deforestation-free supply chains in 2021. Importantly, our 2030 commitment extends beyond forests to other areas of high conservation value and the communities who depend on them.

We continue to prioritize responsible sourcing, using innovative technology and aligning with industry standards to derive raw materials from deforestation-free supply chains. We work with Agrotools, a certified B Corp, harnessing cutting-edge satellite mapping and national government datasets to determine which areas to assess for deforestation and prioritize for preventative measures.

 [See online for our deforestation definitions](#)



### Caring for Water Resources

We're working to conserve water, use it responsibly and efficiently and build resiliency. With support from experts, we have created a stewardship approach that drives actions and improvements across our value chain, including sourcing, processing, transportation and in our restaurants.

### Restaurants

We focus on water quality, availability, efficiency and stewardship in our restaurants. This includes utilizing rainwater harvesting and condensate recovery, and grey water use in toilet facilities in some locations in individual markets. We also encourage the use of native and/or drought-tolerant landscaping, along with storm water management using rain gardens, permeable pavements, and rainwater collection and reuse.

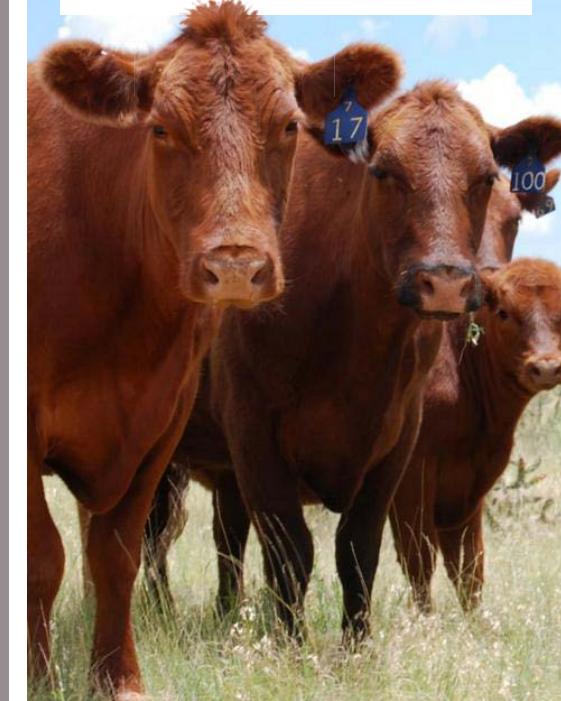
### Supply Chain

Water stewardship practices are embedded in our sourcing requirements, detailing our expectation that suppliers use water responsibly. We also include them in our Global Sustainable Sourcing Guide, an internal resource aligned with internal targets, emerging risks and developing best practices.

### Protecting Nature and Helping Boost Biodiversity

Nature-positive ecosystems – areas where biodiversity thrives – are vital for securing a habitable, healthy future. Many of McDonald's environmental impacts occur in our supply chains and so, to protect nature and biodiversity, we partner with suppliers, expert NGOs and other organizations on farmer- and rancher-led programs that promote regenerative practices.

We have also joined the Taskforce on Nature-related Financial Disclosures forum, collaborating with others on the frameworks, metrics and tools that will be used to address nature-related risks and opportunities.



## Our Planet

# Driving Circularity in Packaging, Toys and Waste

**Our ambition is that the packaging and materials we use remain part of a circular economy rather than becoming waste. Our packaging and waste strategies help keep communities clean, protect the planet for future generations and support long-term business resilience.**

### Packaging, Toys & Waste



#### Protecting the Value of Food

We believe food should never be wasted. Our approach, based on global best practices, is a critical part of McDonald's sustainability journey and purpose to feed and foster community. We have developed a food waste hierarchy to minimize waste in our supply chain. In U.S. restaurants, distribution centers, and supply chains, one of the key ways we're addressing food waste is through enabling food donations. In 2021, we expanded methods for recovering surplus food, so that excess ingredients like dairy, pork and poultry could be donated directly to charities.

We source **82.7%** of our primary packaging materials and **96.8%<sup>7</sup>** of our primary fiber packaging from recycled or certified sources.

By the end of 2021, we offered guests the opportunity to recycle packaging items in an average of **35%** of restaurants in our top 35 markets.

Additionally, on average, roughly **78%** of our restaurants in McDonald's largest European markets already provide guest packaging recycling.

#### Focusing on Solutions to Drive Systems Change

We're committed to achieving a circular economy – where we help keep materials in use rather than relying on new ones. To achieve this, as well as remaining on track to achieve defined packaging and waste goals, we have created a strategy based on five focus areas:

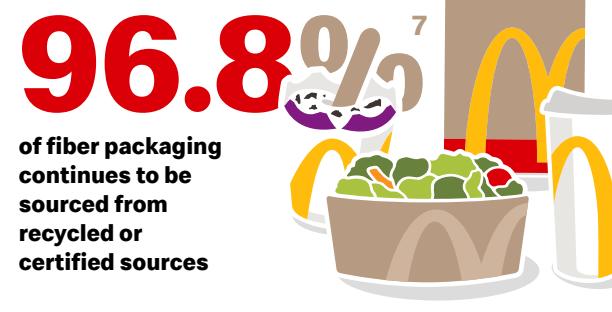
**Eliminating packaging and streamlining materials for easier recovery** in addition to new material innovation, testing reusable solutions and creating behavior change opportunities to reduce usage.

**Transitioning away from virgin fossil fuel-based plastics** in primary guest packaging to 100% renewable, recycled or certified sources and drastically reducing virgin fossil fuel-based plastics in Happy Meal toys.

**Improving recycling and reuse processes** to reduce the waste coming out of our restaurants. This includes making it easier for our guests to recycle, and exploring reusable options where appropriate – these are just some of the tools of the many used to accelerate more circular packaging solutions.

**Increasing the use of recycled materials** to drive global demand for recycled content – including in packaging and in design materials for restaurants and facilities.

**Partnering to increase scale** and impact of a circular economy approach. By engaging in strategic partnerships, we can increase adoption of circularity across our industry.



#### Reducing Plastic, One Toy at a Time

We have set a goal to drastically reduce virgin fossil fuel-based plastics and offer more sustainable Happy Meal toys globally by the end of 2025. We're aiming for a 90% reduction in virgin fossil fuel-based plastic used to make Happy Meal toys by the end of 2025. Since 2018, we have reduced virgin fossil fuel-based plastic in Happy Meal toys by **24.4% globally** and we continue to work on sourcing materials used in Happy Meal toys from renewable, recycled, or certified sources.

