A Plan to Win / Win

January 18, 2006

Pershing Square
Capital Management

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The analyses provided include certain estimates and projections prepared with respect to, among other things, the historical and anticipated operating performance of the Company. Such statements, estimates, and projections reflect various assumptions by Pershing concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the estimates and projected results contained herein.

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Agenda

Background of our involvement

What are our objectives?

Brief review of our Initial Proposal

Our <u>Revised Proposal</u>

Benefits of our Revised Proposal

- ✓ Company
- ✓ Franchisees
- ✓ Shareholders

Q & A

A Revised Proposal for Creating Value at McDonald's

Pershing's Involvement with McDonald's

September 22, 2005: **Pershing Square Capital Management ("Pershing") presented a proposal for increasing shareholder value ("Initial Proposal") to McDonald's management**

October 31, 2005: **McDonald's management communicated its response to our Initial Proposal**

- Management believed that our Initial Proposal (1) would result in potential "frictional costs"; (2) could have an unfavorable credit impact; and (3) could create system issues
- McDonald's believed, based on its advisors' valuation, that there was not enough value creation to outweigh frictional costs and other concerns

November 15, 2005: **Pershing presented the Initial Proposal to the investment community**

- Since November 15, we have had numerous discussions with shareholders and franchisees from around the world

Today we would like to share our <u>Revised Proposal for Creating Significant Value at McDonald's</u> which incorporates feedback from McDonald's management, franchisees and other shareholders

A Revised Proposal for Creating Value at McDonald's

What Are Our Objectives?

In developing our Revised Proposal, our objectives are to:

- ✓ **Improve McOpCo's operating performance**
- ✓ **Strengthen the McDonald's System**
- ✓ **Unlock significant shareholder value**

We believe our Revised Proposal will:

- **Achieve these objectives**
- **Address all of the Company's concerns regarding our first proposal**
- **Increase McDonald's share price to $46-$50 per share (before considering any operational benefits)**
- **Minimize execution risk and management distraction**

Objective 1:
Improve McOpCo's Operating Performance

Objective 1: Improve McOpCo's Operating Performance

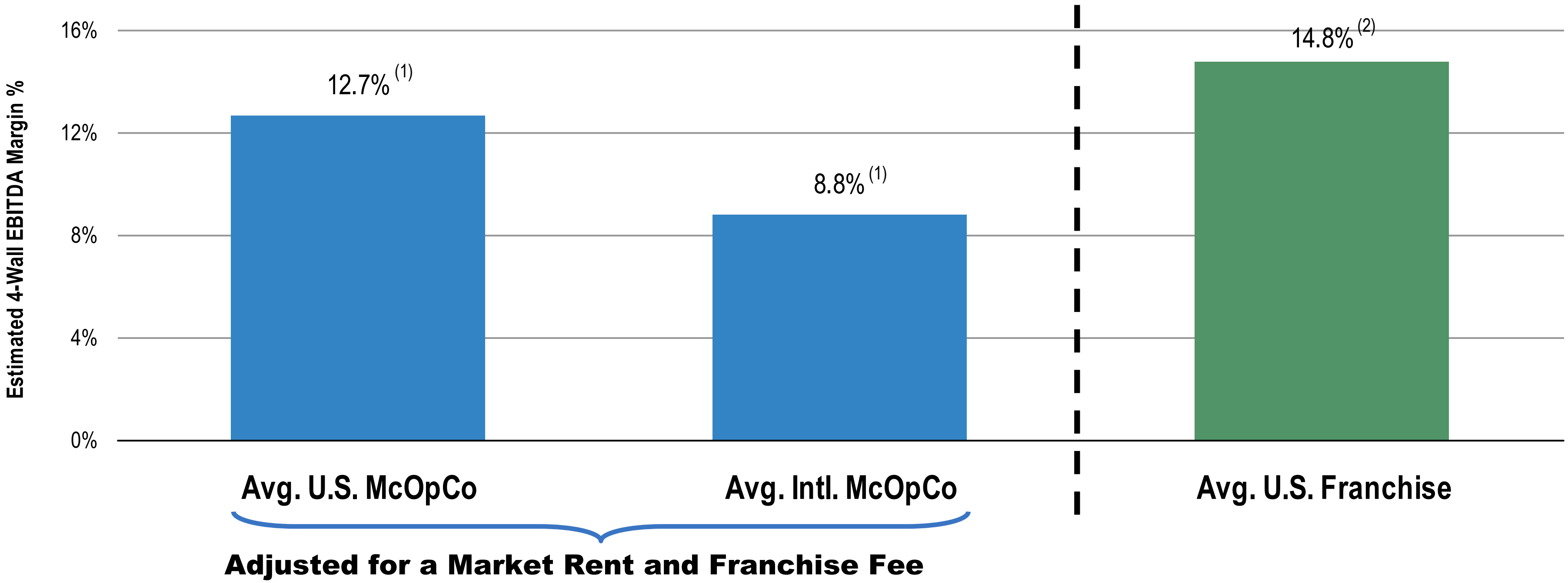
McOpCo, as a wholly owned subsidiary, is not achieving its full business and financial potential

- McOpCo does not pay a market rent or a franchise fee, unlike a typical franchisee
- Adjusting for a market rent and a franchise fee, McOpCo has lower average unit margins than those of an average U.S. franchisee
- "Corporate subsidies" in the form of uncharged rent and uncharged franchisee fees have led to McOpCo being run inefficiently over time
  - Uneconomical capital allocation decisions
  - Suboptimal pricing policy

Objective 1: Improve McOpCo's Operating Performance *(cont'd)*

McOpCo's Estimated Average Unit EBITDA margins
versus
U.S. Franchisees' Estimated Average Unit EBITDA margins[1]

Estimated 4-Wall EBITDA Margins



Note: See page 57 of the Appendix for Pershing's detailed assumptions.
1) Analysis is based on Pershing's estimates using 2004 financial data. **McDonald's does not provide average unit data for McOpCo or McDonald's franchisees in its public financials.** Assumes a market rent of 9% of sales and a franchise fee of 4% of sales.
2) Based on $260k of average EBITDA per franchised store and average revenues per franchised store of approximately $1,760k.

Objective 1: Improve McOpCo's Operating Performance *(cont'd)*

McOpCo managers do not have appropriate compensation incentives

- No direct equity compensation in McOpCo's business
- No market-based performance measurement system
- "Farm Team" mentality whereby the best McOpCo managers are promoted to corporate McDonald's
  - If they don't join corporate McDonald's, they sometimes leave to become a franchisee
- Top restaurant operators need more incentive to stay at McOpCo

Objective 1: Improve McOpCo's Operating Performance *(cont'd)*

"Earn the Right to Own"

McOpCo's restaurant portfolio needs to be optimized in order to improve margins and capital allocation

McOpCo

Refranchise select units in mature markets

- Because of their developed franchise systems, mature markets do not need the same capital or resources as emerging markets
- e.g., U.S., Canada and U.K.

Redeploy capital and resources in emerging markets

- Capital and freed-up resources from refranchising should be redeployed in fast growing / high return emerging QSR markets
  - Regions where franchise laws are still in infancy and McDonald's franchise base is not yet sufficient to drive growth
  - e.g., China and Russia

McOpCo increases focus on emerging markets growth

- McOpCo should increase its focus on profitable emerging markets growth

Objective 2:
Strengthen the McDonald’s System

A Revised Proposal for Creating Value at McDonald's

Objective 2: Strengthen the McDonald's System

Pershing spoke with franchisees from around the world. Here's what they told us:

(1) Inherent conflict between McDonald's and the Franchisees:
McDonald's "Top-line" focus *versus* Franchisees' "Bottom-line" focus

- McDonald's makes the bulk of its profits from the franchisees' top line
- However, top line same-store sales growth does not always translate into improving franchisees' bottom line
  - Stock market often rewards McDonald's for higher same store sales growth even though the franchisees are sometimes pressured to sacrifice margin for discount pricing

(2) McOpCo, with its subsidized economics, magnifies this conflict

- McOpCo does not compete on equal footing because it does not pay a market rent or franchisee fee
- Suboptimal pricing or capital allocation decisions do not impact McOpCo's financials as dramatically as those of franchisees
- Perception among franchisees is that McOpCo is not held to the same degree of accountability

A Revised Proposal for Creating Value at McDonald's

Strengthening the McDonald's System: *What Franchisees Had to Say*

(3) Capital allocation criteria / decision-making process varies between McOpCo and the franchisee community

- Low ROIC investments are occasionally forced upon franchisees
- McOpCo regional managers often make capital investment decisions they will not have to live with, given their status as salaried employees with limited tenure in any one position
- **"Made for You"** program is an example of a historical capital investment decision that may have been amended or prevented by an arm's-length McOpCo
  - Hundreds of millions of dollars of capital invested in a kitchen system that is widely considered inefficient
  - For many franchisees, it has led to decreased profitability, increased wait times and increased staffing requirements
  - Testing at McOpCo did not reveal the true economic impact of the program
  - "Made for You" problems could have been prevented if the system had the appropriate **"checks and balances"**

A Revised Proposal for Creating Value at McDonald's

Strengthening the McDonald's System: *What Franchisees Had to Say (cont'd)*

(4) McOpCo undercuts on pricing

- McOpCo's subsidized economics reduce the impact of lower margin product pricing decisions
- As such, approximately 27% [(1)] of the McDonald's system currently does not price optimally
  - Reduces the profitability of the entire system
- Underpricing at McOpCo pressures franchisees to sacrifice "penny profits" for traffic and sales volume

(5) McDonald's should retain control of McOpCo

- Franchisees generally agreed that control of McOpCo should remain with McDonald's
  - Keeps the franchisee vote democratic and dispersed

(1): Based on approximately 8,119 McOpCo restaurants out of 30,516 systemwide McDonald's restaurants, as of 2004.

A Revised Proposal for Creating Value at McDonald's

Strengthening the McDonald's System: *What Franchisees Had to Say (cont'd)*

(6) Strong interest in owning new units / McOpCo refranchising program

- Franchisees have a strong interest in buying McOpCo restaurants
  - Given McDonald's exclusivity requirements for franchisees, the only opportunity for franchisees to materially increase their wealth is to own more McDonald's units
- A refranchising program would create an attractive incentive system
  - Would allow the top quartile performing operators to be rewarded with an opportunity to increase units
- McOpCo's current portfolio of restaurants needs to be rationalized through refranchising, in order to
  - Increase McOpCo's profitability
  - Improve systemwide same-store sales growth
  - Satisfy considerable franchisee demand

Objective 3:
Unlock Shareholder Value

Objective 3: Unlock Shareholder Value at McDonald's

McDonald's

Brand McDonald's

Collects a royalty of 13% of systemwide sales

Real Estate

- McDonald's controls substantially all of its systemwide real estate
- **Earns 9% of systemwide unit sales as rent**
- For real estate it does not own, it pays a rent expense and generates income through subleases

Franchise

- Approximately 32,000 restaurants where **McDonald's receives 4% of unit sales**

McOpCo

Restaurant Operations

- Over 8,000 McDonald's company operated restaurants

A Revised Proposal for Creating Value at McDonald's

Objective 3: Unlock Shareholder Value at McDonald's *(cont'd)*

There are very few businesses in the world with all the attractive business characteristics of Brand McDonald's

Brand McDonald's

Collects a royalty of 13% of systemwide sales

Real Estate	Franchise

- ✓ World-leading brand
- ✓ ~ 60% EBITDA Margins (1)
- ✓ Low maintenance capital requirements
- ✓ ~ 55% EBITDA – maintenance capex margins (1)
- ✓ Low operating leverage / high earnings stability
- ✓ High ROIC
- ✓ Low cost of capital
- ✓ Valuable fixed asset base
- ✓ 50 year track record
- ✓ Global and diverse customer base

(1) Based on Pershing's estimates. Assumes McOpCo pays a market rent and franchise fee.

Objective 3: Unlock Shareholder Value at McDonald's *(cont'd)*

The first step to unlocking shareholder value is to introduce transparent segment financials.

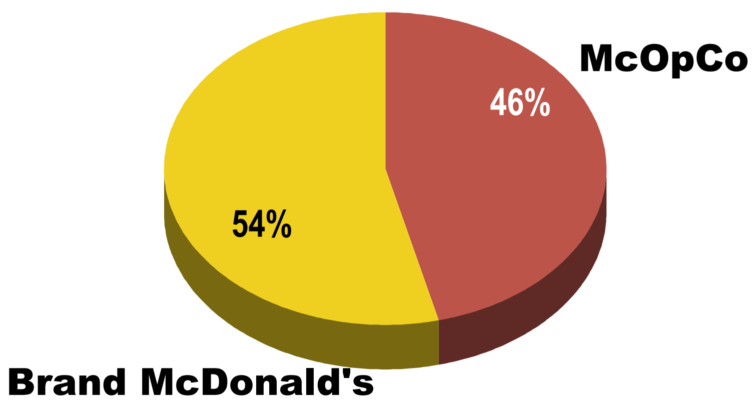
Financial statements are not transparent

- McOpCo does not pay an "arm's-length" rent or franchise fee to Brand McDonald's
- As such, reported financials do not make apparent that approximately 80% of McDonald's EBITDA is derived from the higher multiple Brand McDonald's
- Issuing transparent segment financials for McOpCo and Brand McDonald's would demonstrate
  - ✓ True profitability of Brand McDonald's
  - ✓ True operating margins and capital requirements at McOpCo

Objective 3: Unlock Shareholder Value at McDonald's *(cont'd)*

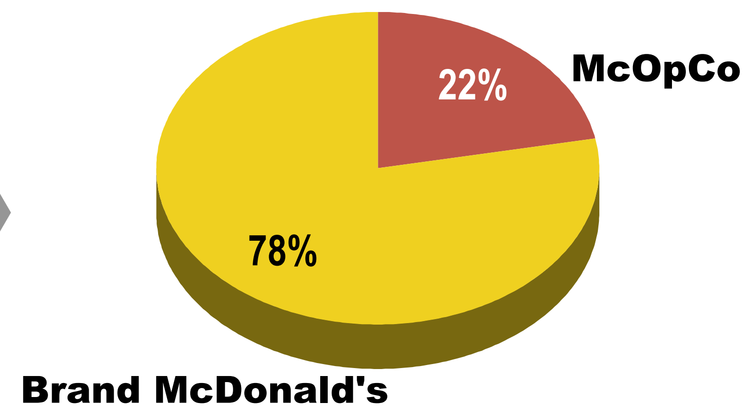
In 2004, McDonald's company-operated restaurants appeared to contribute 46% of total EBITDA. However, once adjusted for a franchise fee and a market rent fee, McOpCo constituted only 22% of total EBITDA, with Brand McDonald's contributing 78% of total EBITDA.

2004 Total EBITDA As Reported



	2004 EBITDA	%
McOpCo	$2.4bn	46%
Brand McDonald's	2.8bn	54%
Total	**$5.2bn**	**100%**

2004 Total EBITDA Adjusted for Market Rent and Franchise Fees



	2004 EBITDA	%
McOpCo	$1.1bn	22%
Brand McDonald's	4.1bn	78%
Total	**$5.2bn**	**100%**

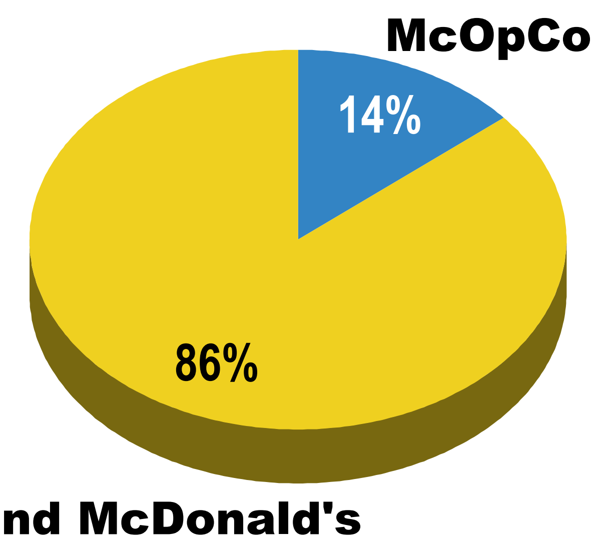
Note: The analysis assumes that 75% of the total G&A is allocated to Brand McDonald's business and 25% is allocated to McOpCo. McDonald's management has indicated this is a conservative assumption regarding Brand McDonald's. Analysis excludes $441 mm of non-recurring other net operating expenses.

A Revised Proposal for Creating Value at McDonald's

Objective 3: Unlock Shareholder Value at McDonald's *(cont'd)*

McDonald's is fundamentally Not a restaurant company

McDonald's FY 2005E
EBITDA – Maintenance CapEx, Adjusted for a Market Rent and Franchise Fee(1)



Why is it valued as such?

(1) FY'05E EBITDA- Maintenance CapEx contribution is based on Pershing's estimates. CapEx is net of proceeds from restaurant closings. We note that the Company does not provide EBITDA and Maintenance CapEx allocation by segment.

A Revised Proposal for Creating Value at McDonald's

Objective 3: Unlock Shareholder Value at McDonald's *(cont'd)*

Lack of transparency had created an undervaluation by the market

- **McDonald's currently trades at roughly 8.9x EV/2006E EBITDA(1), despite over 85% of its pre-tax unlevered cash flows being generated by Brand McDonald's (2)**
- We believe Brand McDonald's, valued independently, is worth 12.5x – 13.5x EV/'06E EBITDA
  - High branded intellectual property/franchise businesses such as Choice Hotels, PepsiCo and Coca-Cola trade in the range of 12x – 19x EV/'06E EBITDA
  - Real Estate C-Corporations and REITs typically trade in the range of 13x-16x EV/'06E EBITDA

- **Only when Pershing's ideas regarding transparency became public did Wall Street analysts begin deriving sum-of-the parts valuations in the mid $40s per share**
  - Recent UBS sum of the parts valuation: $46 per share (3)
  - Recent Goldman Sachs sum of the parts valuation: $44 per share (4)

(1) Based on McDonald's recent stock price of $34 per share.
(2) Pre-tax unlevered cash flows calculated as FY'05E EBITDA- Maintenance CapEx. We note that FY'05E EBITDA- Maintenance CapEx contribution is based on Pershing's estimates. CapEx is net of proceeds from restaurant closings. The Company does not provide EBITDA and Maintenance CapEx allocation by segment.
(3) UBS research report dated 11/10/2005.
(4) Goldman Sachs research report dated 11/18/2005. McDonald's sum-of-the-parts valuation of $44 is before estimated frictional costs.

Review of our Initial Proposal

A Revised Proposal for Creating Value at McDonald's

Review of Our Initial Proposal

Our Initial Proposal called for...

Step 1: **McOpCo to be organized as an independent entity**

- Signs "arm's-length" rent and franchise agreements with McDonald's

Step 2: **IPO of 65% of McOpCo**

- McOpCo is deconsolidated and transparent financials are released to investors

Step 3: **Issue $14.7bn of financing secured against real estate**

- Implies approximately $9.7bn of incremental debt

Step 4: **Use Debt financing and IPO proceeds to**

- Refinance all of the existing net debt (approximately $5bn) at Brand McDonald's [(1)]
- Repurchase shares and pay transaction fees and expenses

Our Initial Proposal is available on the internet at **http://www.valueinvestingcongress.com/Final-Pres.pdf**

(1) Assumes $6.35bn of net debt on 12/31/05 at consolidated McDonald's of which $1.35 bn of net debt is allocated to McOpCo and $5.0 bn of net debt allocated to Brand McDonald's.

Mischaracterizations of Our Initial Proposal…

There have been several mischaracterizations of our Initial Proposal which we believe need to be cleared up.

Our Initial Proposal *did NOT:*

- Provide for the sale of any real estate by McDonald's
- Put franchisees in danger of having a new landlord
- Involve the creation of a REIT
- Require a real estate financing to create significant value
- Hinge on a leveraged share buyback as its primary method of value creation

Our Initial Proposal *did:*

- Assume significant value would be unlocked once McOpCo was IPO'ed and investors had access to transparent financials for Brand McDonald's, demonstrating that it is fundamentally NOT a restaurant company

A Revised Proposal for Creating Value at McDonald's

Concerns Regarding Initial Proposal

	Frictional Costs	Credit Impact	Alignment Issues
Management	Frictional costs associated with the CMBS financing and taxes due to the 65% McOpCo IPO	$9.7bn of incremental leverage may put pressure on credit rating	Brand risk due to a loss of McOpCo control
Franchisees	Concerns regarding a potential new landlord (rent hikes)	Concerns regarding any potential increase in borrowing costs	McOpCo will compete for new units Fear of preferential treatment of McOpCo
Shareholders	←	Management distraction Execution risk	→

Our Revised Proposal

Our Revised Proposal

Step 1: Issue Transparent Segment Financials

- McOpCo signs arm's-length lease and franchise agreements with McDonald's Corporation
  - McDonald's Corporation requires McOpCo to pay a market rent and franchise fee
- **McDonald's Corporation issues transparent segment financials for arm's-length McOpCo and Brand McDonald's**

Step 2: IPO 20% of McOpCo

- McOpCo creates a separate Board of Directors
  - At least one Board member appointed from the franchisee community
- IPO 20% of McOpCo
  - 20% IPO will generate no tax costs given existing tax basis
- **McDonald's retains full control of McOpCo**
- Minimal execution risk
- Frictional costs of roughly 5 cents per share [(1)] (versus management estimates of \$4-\$5 per share for the Initial Proposal)

[(1)] Assumes IPO transaction fees and expenses of 5% of IPO proceeds.

Continued

Our Revised Proposal *(cont'd)*

Step 3: Commence McOpCo Refranchising Program

- McOpCo commences refranchising 1,000 units in mature markets (U.S., Canada and U.K.) over the next two to three years
- Proceeds from refranchising can be redeployed in fast growing, high return emerging markets (China and Russia)

Step 4: Dividend Increase and Share buybacks

- McDonald's increases its dividend payout to 90% of after-tax free cash flow from roughly 35% of free cash flow currently [(1)]
  - Implies a dividend of $1.93 per share in FY 2006E versus 0.67 per share in 2005
  - At a recent price of $34 per share, implies a **new dividend yield of 5.7%,** versus current yield of ~ 2%
- McDonald's Corporation initiates incremental share buybacks using existing cash on hand and IPO proceeds
- **Revised Proposal requires no incremental debt to be issued over total debt position as of 9/30/05**

(1) Assumes $843mm of dividends paid in FY2005E. FY2005E dividend payout ratio based on 9/30/2005 Last Twelve Months after-tax free cash flows, calculated as operating cash flows less cash flows from investing activities.

A Revised Proposal for Creating Value at McDonald's

Addressing Concerns Regarding the Initial Proposal

	Frictional Costs	Credit Impact	Alignment Issues
Management	✓ No CMBS financing ✓ Minimal transaction costs ✓ No taxes	✓ No incremental debt ✓ Transparency improves credit profile	✓ Maintain control of McOpCo ✓ Retain flexibility
Franchisees	✓ No transfer of property ✓ No rent hikes	✓ No increase in borrowing cost for operators	✓ Preserves highly "democratic" franchisee system ✓ McOpCo will be a net seller of units in mature markets

Shareholders

Minimal management distraction

Minimal execution risk

A Revised Proposal for Creating Value at McDonald's

Improving McOpCo's Operating Performance

Current Issue	Benefits of the Revised Proposal
McOpCo is not reaching its full business and financial potential	✓ IPO of McOpCo would make margin improvement a key focus ✓ No more corporate subsidies to buttress operating margins ✓ McOpCo management can run its business based on the most appropriate operating strategy ✓ Publicly traded arm's-length McOpCo would force improved capital allocation decisions and optimal pricing policy ✓ Refranchising and redeploying capital/resources would better position McDonald's in the most attractive growth markets ✓ **Investors will respond well to margin and capital allocation improvement as well as the emerging markets growth story**
Managerial focus and incentives	✓ McOpCo's management can be compensated based on the market performance of its business ✓ McOpCo managerial focus will improve as a result of having greater accountability, increased responsibility, a better performance measuring yardstick via the public markets and more direct incentives

Strategic Benefits to the McDonald's System

Pershing believes that a publicly traded arm's-length McOpCo, which remains controlled by McDonald's, would **strengthen the McDonald's System**.

McOpCo makes optimal pricing, capital allocation and refranchising decisions

- Arm's-length McOpCo's decision-making criteria on product pricing and capital allocation will be substantially similar to that of the franchisee community
- McOpCo, no longer subsidized by Corporate McDonald's, will review its restaurant portfolio more closely for refranchising rationalization / opportunities
  - Refranchising program would create an incentive system whereby the best operators would be rewarded with an opportunity to own new units
  - Poor performing operators will be motivated to improve performance to earn the right to own more restaurants

Franchisees would recognize that the new McOpCo competes on equal footing

- McOpCo, required to pay arm's-length rent and franchise fees, would face the same economic consequences as franchisees, thus creating a better aligned system
- Improves fairness and accountability throughout the system

Strategic Benefits to the McDonald's System (cont'd)

Would increase McDonald's credibility in the system and allow it to better understand the true impact of new product introductions

- Testing products at arm's-length McOpCo would provide McDonald's with
  - A better understanding of the true economic impact of its new products on the typical owner/operator's bottom line
  - More credibility when communicating impact of new products to franchisees
- Franchisee participation on the McOpCo Board will temper any perception that McOpCo receives "preferential treatment" from McDonald's
- 80% ownership of McOpCo would preserve McDonald's "skin in the game"
- Bottom-lined focused McOpCo would be influential in endorsing new products

Addressing Potential Franchisee Questions

Question: *Would a publicly traded McOpCo be an aggressive competitor to franchisees, given its need to grow its business for the benefit of its new shareholders?*

Answer: No, quite the opposite. We believe a more likely scenario is the following:

- ✓ McOpCo, no longer supported by corporate subsidies, will price more optimally
- ✓ Refranchising program will remove McOpCo as a competitor in many key markets
- ✓ McOpCo's most attractive growth plan is to focus on emerging markets where the franchise base is still in its infancy, such as China and Russia

Question: *Under your Revised Proposal, is there any risk that McDonald's real estate will be sold or that franchisees will experience unexpected rent hikes?*

Answer: No. We have never endorsed the sale of real estate or the creation of a REIT.

- ✓ We don't believe it's the right operational move
- ✓ We are confident management is not inclined to sell the real estate

Addressing Potential Franchisee Questions

Question: *How will this change a franchisee's day-to-day interaction with McDonald's Corporation?*

Answer: There will be no changes. A franchisee's day-to-day interaction with McDonald's will not be affected by the creation of a publicly traded McOpCo.

However, the franchisee community may find a strong ally in a publicly traded McOpCo

- ✓ McOpCo's management will be able to push back on lower margin / low return new products introduced by Corporate McDonald's
- ✓ McOpCo will improve the **check and balance** mechanisms in the system
- ✓ Testing at McOpCo on new products will be a better benchmark for how a product will perform throughout the system
- ✓ Many McOpCo stores in the U.S., Canada and U.K. will be up for refranchising
- ✓ Franchisee representation on McOpCo's Board will improve McOpCo's credibility and communication with the system

A Revised Proposal for Creating Value at McDonald's

Addressing Potential Company Questions

Question: *Would a publicly traded McOpCo hinder the current "Farm Team" system or inhibit McDonald's ability to recruit top McOpCo managers to work at Corporate?*

Answer: No. We believe the creation of a publicly traded McOpCo will actually improve the talent pool at **both** Brand McDonald's and McOpCo.

✓ Offering direct equity compensation in McOpCo will

- Attract "best-in-class" operators
- Improve retention

✓ Arm's-length, publicly traded McOpCo is better training ground than the current wholly owned McOpCo

- Better "real world" business discipline for managers, once corporate subsidies are removed
- Teaches restaurant operators how to run a public business

✓ With 80% ownership, Brand McDonald's will still be able to leverage its deep relationship with McOpCo for recruiting purposes

A Revised Proposal for Creating Value at McDonald's

Unlocking Shareholder Value

A publicly traded McOpCo would increase financial transparency and would allow investors to appropriately value McDonald's on a sum-of-the-parts basis.

Current Issue	Benefits of the Revised Proposal
Transparent financials	✓ Separate arm's-length McOpCo financials would be made available to investors ✓ Transparent segment financials would be made available at McDonald's, demonstrating the operating cash flows generated by Brand McDonald's
Dividends and Equity Options	✓ Ability to increase dividends ✓ Reduce option dilution at McDonald's through the use of McOpCo currency
Valuation	✓ McOpCo IPO would allow Wall Street analysts and the broad investment community to value McDonald's on a sum-of-the parts basis ✓ Investors would focus more on the value of Brand McDonald's

A Revised Proposal for Creating Value at McDonald's

Revised Proposal: Allows Investors to Value on a Sum-of-the-Parts Basis

Brand McDonald's operating metrics and business characteristics (100% royalty-based revenues, low cost of capital and high earnings stability) are much closer to high branded intellectual property businesses such as PepsiCo, Coca-Cola or Choice Hotels or a typical Real Estate C-Corporation than they are to a typical QSR. **We believe Brand McDonald's could be worth 12.5x – 13.5x EV/2006E EBITDA.**

Based on an approximate $48 sum-of-the-parts value for McDonald's	Brand McDonald's	Typical Real Estate C-Corp	Choice Hotels	PepsiCo	Coca-Cola	Typical Mature QSR (1)
2005E Operating Metrics:						
EBITDA Margins	**60%**	~70% - 80%	66%	23%	31%	~15% - 20%
EBITDA – CapEx Margins	**50%**	~65% - 75%	61%	18%	27%	~7.5 % - 12.5%
Long-term EPS Growth (2)	**9%**	NA	16%	11%	9%	~10% - 12%
Business Characteristics:						
Maint. Capital Requirements	**Low**	**Low**	**Low**	**Low**	**Low**	**Medium**
Earnings Stability	**High**	**High**	**High**	**High**	**High**	**Medium**
Average Cost of Capital	**Low**	**Low**	**Low**	**Low**	**Low**	**Medium**
Fixed Asset Value	**High**	**High**	**Low**	**Low**	**Low**	**Low**
Trading Multiples						
Adjusted Enterprise Value (3) /						
CY 2006E EBITDA	**13.0x**	~13x - 16x	19.1x	12.2x	12.0x	~8.5x - 9.5x
CY 2006E EBITDA – CapEx	**15.5x**	~17x - 20x	20.3x	15.4x	13.6x	~12x - 15x

Stock prices as of 1/13/2006. Projections based on Wall Street research estimates. Analysis assumes a 7x EV/EBITDA valuation multiple for McOpCo.
(1) Typical mature QSR business characteristics based on YUM! Brands and Wendy's.
(2) Brand McDonald's long-term EPS growth rate is based on the Company's current dividend payout ratio and assumes excess free cash flow after dividends is used for share buybacks.
(3) Adjusted for unconsolidated assets.

A Revised Proposal for Creating Value at McDonald's

Revised Proposal: Allows Investors to Value on a Sum-of-the-Parts Basis

We believe a minority IPO of McOpCo would force a market revaluation of McDonald's.

($ in millions)

	As Reported	Adjusting for a Market Rent and Franchise Fee			IPO of 20% of McOpCo and Transparency Drives Revaluation			
					EV/'06E EBITDA Multiple		Enterprise Value	
Segment	2006E EBITDA	2006E EBITDA	EV/'06E EBITDA Multiple	Enterprise Value	Low	High	Low	High
McOpCo	$2,503	$1,130	7.0x	$7,908	7.0x	7.0x	$7,908	$7,908
Brand McDonald's	3,090	4,464	9.3x	41,675	12.5x	13.5x	55,799	60,263
Total	**$5,594**	**5,594**	**8.9x**	**$49,582**			**$63,707**	**$68,171**

Recent Stock Price	**$34.00**	**Implied Share Price**	**$46**	**$50**
		Premium to Unaffected Price [(1)]	45%	57%

Implied multiple, based on a $34 stock price

Note: Assumes $1.25bn of proceeds from IPO and $1.75bn of existing cash on hand used to repurchase shares. Capital structure assumptions are detailed on page 56 of the Appendix. Analysis is pro forma for a McOpCo spin-off and McDonald's share buyback on 12/31/05.

(1) Based on 10/31 closing price of $31.60.

A Revised Proposal for Creating Value at McDonald's

McDonald's Sum-of-the-Parts Analysis at Various Multiples

Assuming McOpCo pays a market rent and franchisee fee, we have modeled McOpCo FY '06E EBITDA of $1.1 billion and Brand McDonald's FY '06E EBITDA of $4.5 billion.

Based on these assumptions, we believe McDonald's stock price would trade in the range of approximately $46 - $50 per share, as a result of a 20% IPO of McOpCo.

Assuming Transparent Segment Financials

McDonald's Equity Value per Share

		Brand McDonald's EV/2006E EBITDA			
		12.0x	12.5x	13.0x	13.5x
McOpCo	6.0x	$42.97	$44.86	$46.74	$48.62
EV / '06E	6.5x	43.45	45.33	47.21	49.10
EBITDA	7.0x	43.93	45.81	47.69	49.57
Multiple	7.5x	44.40	46.28	48.17	50.05

Note: Assumes 75% of consolidated G&A is allocated to Brand McDonald's, with the rest allocated to McOpCo. Assumes McDonald's FY '05E Net Debt of $8.1bn, Minority Interest in McOpCo of $1.3bn, and FY'05E Diluted Shares Outstanding of 1,186mm, all pro forma for Pershing's Revised Proposal.

A Revised Proposal for Creating Value at McDonald's

McDonald's Free Cash Flow Yield Analysis

Pershing believes that McDonald's, pro forma for the McOpCo 20% IPO, would have a 2006E Free Cash Flow yield of 4.3 % - 4.7% at stock price in the range of \$46 - \$50 per share. We note our Free Cash Flow calculation is based upon our estimates of 2006E After-Tax Levered Operating Cash Flow *less* Growth and Maintenance Capital Expenditures. (1)

McDonald's 2006E FCF/Dividend Yield at Varous Stock Prices

	Current	Projected				
Stock Price	\$34	\$46	\$47	\$48	\$49	\$50
2006E FCF Yield	**6.3%**	**4.7%**	**4.6%**	**4.5%**	**4.4%**	**4.3%**

(1) FCF Yield is based on Attributable Free Cash Flow before dividend payments. See Appendix page 54 for a calculation of FY 2006E Attributable Free Cash Flow.

Minimal Execution Risk

McOpCo

A minority IPO of McOpCo would have minimal execution risk and negligible frictional costs

- ✓ Simple transaction
- ✓ Many successful value creating precedent transactions
- ✓ Minimal management distraction
- ✓ Frictional costs of roughly 5 cents per share
- ✓ Preserves current structure's control of McOpCo

McDonald's would maintain the flexibility to repurchase minority McOpCo stake

- ✓ …if desired improvements were not obtained
- ✓ Minority buyouts are simple and common transactions with minimal transaction costs

Further Upside to Our Valuation

Pershing's valuation is based on the business as it exists today, assuming no further operational improvements.

- Pershing believes that creating a publicly traded arm's-length McOpCo will substantially improve both top-line and bottom-line performance of McDonald's
  - We believe that McOpCo has EBITDA margins of roughly 7.3% (post corporate allocation) [(1)]
  - Based on comparable restaurant businesses, we believe McOpCo is capable of achieving at least 10% EBITDA margins
- However, Pershing has assumed no incremental operational improvements as part of its valuation

We also see potential G&A improvement as an additional opportunity

- Standalone McDonald's LTM 9/30/05 G&A per systemwide unit of $68k versus YUM! Brands LTM 9/30/05 G&A per systemwide unit of approximately $35k

We have not included an IPO / potential spin-off of Chipotle as part of our analysis

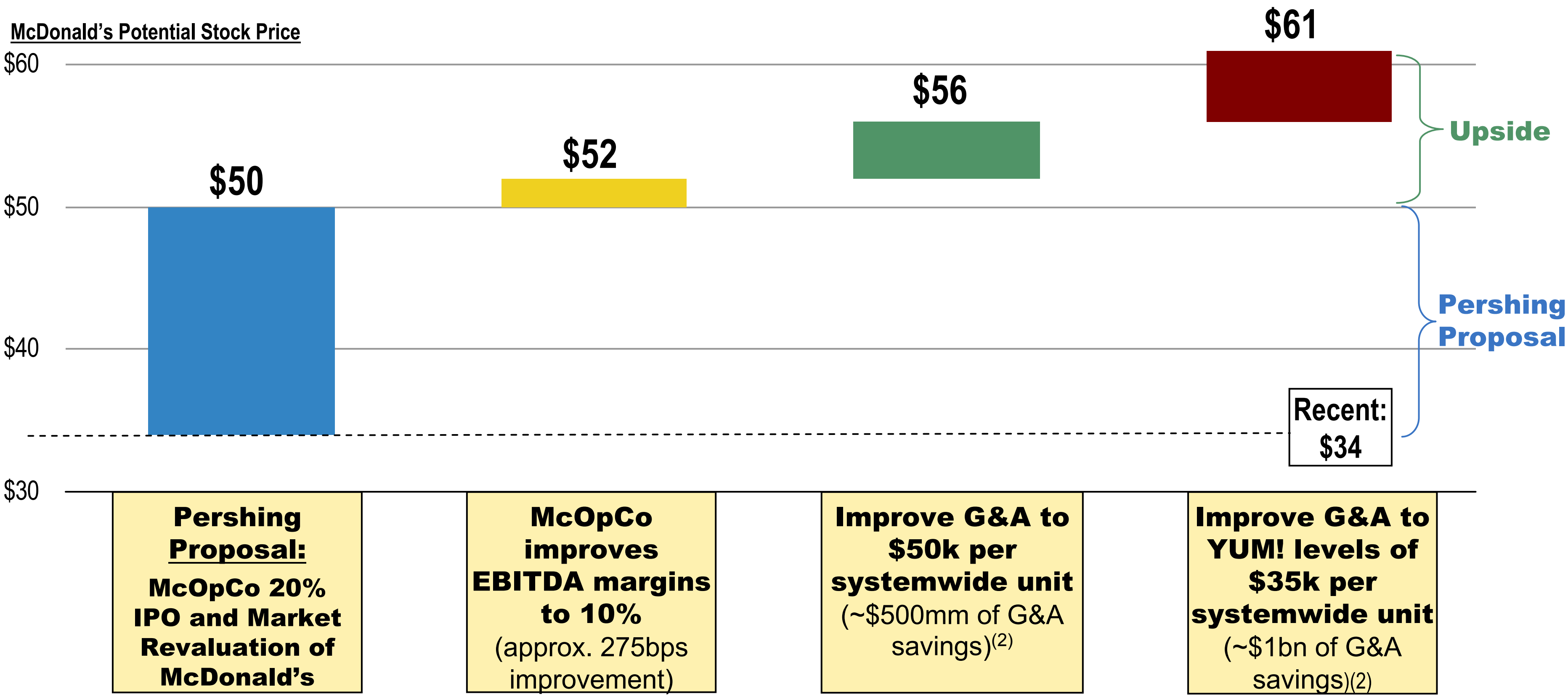
- IPO and potential spin-off of Chipotle will create additional value for investors

(1) McOpCo EBITDA margins are after adjusting for a market rent and franchise fee and allocating 25% of McDonald's consolidated G&A to McOpCo.

A Revised Proposal for Creating Value at McDonald's

Further Upside to Our Valuation *(cont'd)*

We believe our Proposal can potentially increase McDonald's share price to $50 per share. In addition, we believe McDonald's strong management team, running a world-leading brand, can create significant additional value based only on incremental operating improvements.[(1)]



(1) See Appendix page 55 for more detail regarding our assumptions on operating improvements.
(2) Total savings denotes consolidated G&A, of which 75% is allocated to Brand McDonald's and 25% is allocated to McOpCo.

A Plan to Win / Win

- ✓ Addresses concerns of **all stakeholders**
- ✓ Creates financial **transparency** for investors
- ✓ Will lead to **substantial value** creation for McDonald's shareholders
- ✓ **Simple transaction**
- ✓ **Minimal execution risk**, management distraction and frictional costs
- ✓ Positions McOpCo to make **optimal capital allocation** and business execution decisions
- ✓ Improves the System's **"checks and balances"**
- ✓ Allows McDonald's maximum control and **flexibility** regarding future strategic alternatives
- ✓ **Significant upside,** given strong Management team

Q & A

Appendix

Appendix

2004 McDonald's P&L As Reported

Set forth below is a table which reconciles McOpCo's, Brand McDonald's and stand-alone McDonald's FY 2004 income statements, as they are currently reported. The analysis demonstrates how McOpCo is paying neither a market rent nor a franchise fee.

	2004 Income Statement	McOpCo P&L	Brand McDonald's P&L	2004 Consolidated Sum of Parts
Sales by Company Operated Restaurants	$14,224	$14,224		$14,224
Rent from Franchise and Affiliate Rest.	3,336		3,336	3,336
Franchise Fees From Franchise and Affiliate Rest.	1,505		1,505	1,505
Total Revenue	**$19,065**	**$14,224**	**$4,841**	**$19,065**
Company Operated Expenses:				
Food and Paper	4,853	4,853	-	4,853
Compensation & Benefits	3,726	3,726	-	3,726
Occupancy and Other Expenses (excl. D&A)	2,747	2,747	-	2,747
Company Operated D&A	774	427	347	774
Total Company Operated Expenses	**$12,100**	**$11,753**	**$347**	**$12,100**
Franchised Restaurant Occupancy Costs	576	-	576	576
Franchise PPE D&A	427		427	427
Corporate G&A	1,980	495	1,485	1,980
EBIT	3,982	1,976	2,006	3,982
Depreciation & Amortization	1,201	427	774	1,201
EBITDA	**$5,183**	**$2,403**	**$2,780**	**$5,183**
% of Total EBITDA	***100%***	***46%***	***54%***	***100%***

The analysis assumes that 75% of the total G&A is allocated to the Brand McDonald's and 25% is allocated to McOpCo. To the extent that there should be more G&A allocated to McOpCo, then there would be a greater percentage of total EBITDA at Brand McDonald's than what is shown here.

Note: Analysis excludes $441 mm of non-recurring other net operating expenses.

Appendix

Reconciling McDonald's 2004A P&L

Set forth below is a table which reconciles McOpCo's, Brand McDonald's and stand-alone McDonald's FY 2004A income statements, assuming McOpCo pays a market rent and franchise fee. **The analysis demonstrates that the Brand McDonald's contributed approximately 78% of total EBITDA.**

	2004 Income Statement	McOpCo P&L	Brand McDonald's P&L	Inter-Company Eliminations	2004 Consolidated Sum of Parts
Sales by Company Operated Restaurants	$14,224	$14,224			$14,224
Rent from Franchise and Affiliate Rest.	3,336		3,336		3,336
Rent From Company Operated Rest.	-		1,280	(1,280)	-
Franchise Fees From Franchise and Affiliate Rest.	1,505		1,505		1,505
Franchise Fees From Company Operated Rest.	-		569	(569)	-
Total Revenue	**$19,065**	**$14,224**	**$6,690**	**($1,849)**	**$19,065**
Company Operated Expenses:					
Food and Paper	4,853	4,853	-	-	4,853
Compensation & Benefits	3,726	3,726	-	-	3,726
Non-Rent Occupancy and Other Expenses (excl. D&A)	2,164	2,164	-	-	2,164
Company Operated D&A	774	427	347		774
Company-Operated Rent Expense	583	583	583	(583)	583
Additional Rent Payable to PropCo	-	697	-	(697)	-
Franchise Fee Payable to FranCo	-	569	-	(569)	-
Total Company Operated Expenses	**$12,100**	**$13,019**	**$930**	**($1,849)**	**$12,100**
Franchised Restaurant Occupancy Costs	576	-	576	-	576
Franchise PPE D&A	427		427		427
Corporate G&A	1,980	495	1,485		1,980
EBIT	3,982	710	3,272	-	3,982
Depreciation & Amortization	1,201	427	774	-	1,201
EBITDA	**$5,183**	**$1,137**	**$4,046**	**$0**	**$5,183**
% of Total EBITDA	***100%***	***22%***	***78%***		***100%***

The analysis assumes that 75% of the total G&A is allocated to Brand McDonald's and 25% is allocated to McOpCo. McDonald's management has indicated that this is a conservative assumption regarding the real estate and franchise business.
Note: Analysis excludes $441 mm of non-recurring other net operating expenses.

Appendix

Revised Proposal: Preliminary Transaction Assumptions

For modeling purposes, we have assumed a 20% IPO of McOpCo and the proposed share repurchases occurred on 12/31/2005. In addition to our IPO assumptions, set forth herein are assumptions regarding share repurchases, capital structure and dividend policy.

IPO assumptions

- 20% IPO of McOpCo generates $1.25bn of cash proceeds after expenses (on 12/31/2005)
  - Assumes a 7x EV/'06E EBITDA multiple for McOpCo
- No taxes paid given McOpCo's basis which is assumed to be approx. $1.65bn
  - Tax basis is equal to $3 billion of initial assumed basis (based on an assessment of net equipment and other property at McDonald's) less $1.35 billion of net debt

Share repurchases

- Approximately 7% of the share base repurchased using
  - ~ $1.75bn of expected cash on hand at the end of the year (after paying dividends)
  - ~ $1.25bn of IPO proceeds, net of fees

Capital structure post share repurchases

- Per management guidance, assumes McDonald's issues a $3bn term loan to repatriate foreign earnings
- No incremental debt issued at McDonald's over total debt at 9/30/2005 ($8.1bn), excluding a $3bn term loan required to repatriate earnings
- Assumes FY'05E Net Debt at consolidated McDonald's of $8.1bn
  - FY'05E Total Debt of $11.1bn, which includes $3bn of debt required for the repatriation of foreign earnings
  - FY'05E cash balance of $3bn, based on proceeds received from repatriation

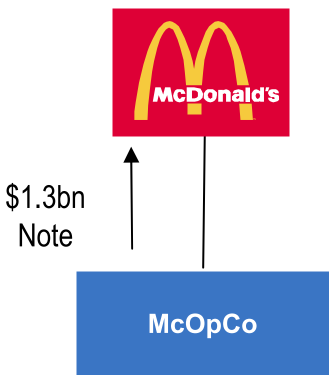
Increase dividend payout

- Increase dividend payout ratio to 90%

Appendix

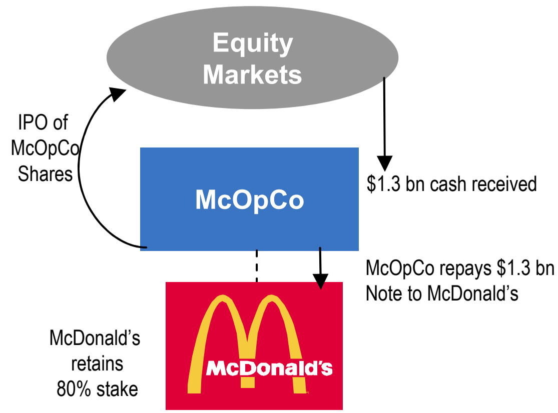
McOpCo IPO: Mechanics

Step 1: McOpCo dividends a $1.3bn Note to McDonald's (parent)



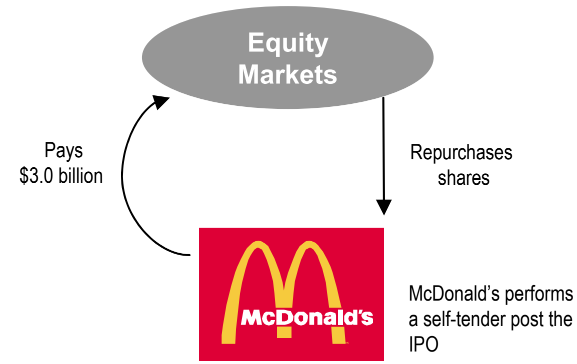
- McOpCo declares and pays a dividend to McDonald's (parent) in the form of a Note in an amount equal to the anticipated proceeds from an initial public offering of McOpCo
- For illustrative purposes, we assume the Note is for $1.3bn, or 20% of the equity market value of McOpCo (assumed to be $6.6bn)

Step 2: IPO of McOpCo



- McOpCo undertakes the IPO and uses the proceeds to repay the dividend note.
- Any tax cost for the IPO would be the amount by which the IPO distribution exceeded McDonald's basis in the McOpCo stock multiplied by McDonald's corporate and state/local tax rate
- **Assuming a $1.3bn of IPO distribution, there would be no tax cost associated with the IPO**
  - Assume a $1.65 billion of tax basis

Step 3: Share Repurchases using Cash on Hand and IPO Proceeds



- No incremental leverage issued
- PF McDonald's repurchases approximately 7% of the fully diluted share base using
  - Excess cash on hand
  - After tax proceeds of IPO

Appendix

McOpCo IPO: Proceeds

Given the estimated tax basis in McOpCo, we believe that no taxes would need to paid in an IPO of McOpCo.

McOpCo IPO After Tax Proceeds

	Low	High	Average
Taxes payable			
McOpCo Equity Market Value	$5,993	$7,122	$6,558
IPO Percentage	20%	20%	20%
Distribution to PF McDonald's	$1,199	$1,424	$1,312
Estimated Book Basis of McOpCo	3,000	3,000	3,000
Net Debt Allocated to McOpCo	(1,350)	(1,350)	(1,350)
Adjusted Basis in McOpCo	1,650	1,650	1,650
Taxable Gain	$0	$0	$0
Tax Rate	38%	38%	38%
Taxes payable	$0	$0	$0
After Tax Proceeds			
Distribution	$1,199	$1,424	$1,312
Taxes Payable	0	0	0
After Tax Distributions	**$1,199**	**$1,424**	**$1,312**
Estimated IPO fees	(60)	(71)	(66)
Net Proceeds	**$1,139**	**$1,353**	**$1,246**

Appendix

McDonald's Cash and Debt Schedules:
No Incremental Debt Issued Post 9/30/2005

Set forth herein are the schedules for (1) FY 2005E funds available for proposed share buybacks; (2) '05E Total Debt Balances; and (3) '05E Cash Balances. **We have assumed that no incremental debt would be issued at McOpCo as of 9/30/2005 on top of the estimated $3 billion required to repatriate earnings from foreign territories.**

$ in millions

Pre-IPO Cash Available to Fund Share Buybacks:	
Beginning Cash Balances 1/1/2005	$1,380
Plus: FY'05E Free Cash Flow Before Dividends and Debt Pay Down	2,351
Less: FY'05E Debt Reduction	(1,155)
Less: FY'05E Dividends	(843)
Equals: FY 2005E Cash on Books Available for Share Buybacks	**$1,733**
FY 2005E Total Debt Balance:	
Beginning Total Debt Balances 1/1/2005	$9,220
Less: FY'05E Debt Reduction	(1,155)
Estimated New Term Loan to Fund Repatriation	3,000
Total Debt FY 2005E	**$11,065**
Post IPO FY 2005E Cash Balance:	
Beginning Cash Balances 1/1/2005	$1,380
Plus: FY'05E Free Cash Flow Before Dividends and Debt Paydown	2,351
Less: FY'05E Debt Reduction	(1,155)
Less: FY'05E Dividends	(843)
Plus: Estimated IPO Proceeds, net of fees	1,246
Less: Share buybacks	($2,979)
Plus: Proceeds from Repatriation	3,000
FY 2005E Ending Cash Balance	**$3,000**
FY 2005E Net Debt	**$8,065**

Appendix

McDonald's 2006E Free Cash Flow
Assuming a 20% IPO of McOpCo

Set forth herein is a schedule for 2006E Free Cash Flow based on our estimates.

Attributable free cash flow per share deducts the minority interest free cash flow pertaining to the 20% stake of McOpCo's no longer owned by McDonald's. FY2006E shares outstanding is pro forma for the proposed share buyback.

2006E Cash Flow Data *($ in mm except per share data)*	
EBITDA	$5,594
less: Cash Taxes	(1,186)
less: Cash Interest Expense	(563)
less: Growth CapEx (Net of Proceeds from Closings)	(316)
less: Maintenance CapEx	(943)
less: Change in Working Capital	12
less: Minority Interest Free Cash Flow	(74)
Attributable Free Cash Flow Before Financing Activities	$2,525
FY 2006E Average Shares Outstanding (mm)	1,176
Attributable Free Cash Flow per Share	**$2.15**
Dividends Paid at 90% of Attributable FCF	2,272
Dividend Paid per Share	**$1.93**

Appendix

Assumptions: Upside Operating Improvements

Set forth herein is a table which details our assumptions regarding potential operating improvements.

Transaction / Assumptions		Segment	Pr Forma 2006E EBITDA	Estimated EV/'06E EBITDA Multiple	Pro Forma Enterprise Value
McOpCo EBITDA Improvement		McOpCo	$1,554	7.0x	$10,878
		Brand McDonald's	4,464	13.5x	60,263
275bps		**Total**	**6,018**		**$71,141**
FY 2006E Financial Data:					
McOpCo Revenue	$15,429	Less: FY'05E Net Debt			8,065
McOpCo EBITDA	$1,130	Less: Minority Interest (Market Value)			1,906
Current EBITDA Margin	7.3%	Equals: Market Value of Equity			$61,171
New Margins	10.1%	PF FY'05E Diluted Shares Outstanding (mm)			1,186
New McOpCo EBITDA	1,554	**Estimated Share Price**			**$52**
G & A Savings: Improving to $50k per unit		McOpCo	$1,679	7.0x	$11,753
Unit Level Assumption:		Brand McDonald's	4,839	13.5x	65,326
~50k per unit		**Total**	**6,518**		**$77,078**
G&A Allocation Assumptions:					
McOpCo	25.0%	Less: FY'05E Net Debt			8,065
Brand McDonald's	75.0%	Less: Minority Interest (Market Value)			2,081
Savings ($ in mm)		Equals: Market Value of Equity			$66,933
McOpCo	$125	PF FY'05E Diluted Shares Outstanding (mm)			1,186
Brand McDonald's	$375	**Estimated Share Price**			**$56**
G & A Savings: Improving to YUM! Levels		McOpCo	$1,804	7.0x	$12,628
Unit Level Assumption:		Brand McDonald's	5,214	13.5x	70,388
~35k per unit		**Total**	**7,018**		**$83,016**
G&A Allocation Assumptions:					
McOpCo	25.0%	Less: FY'05E Net Debt			8,065
Brand McDonald's	75.0%	Less: Minority Interest (Market Value)			2,256
Savings ($ in mm)		Equals: Market Value of Equity			$72,696
McOpCo	$250	PF FY'05E Diluted Shares Outstanding (mm)			1,186
Brand McDonald's	$750	**Estimated Share Price**			**$61**

Appendix

Valuation Assumptions

Set forth herein is a table which details our sum-of-the-parts valuation.

($ in millions)	Adjusting for a Market Rent and Franchise Fee			IPO of 20% of McOpCo and Transparency Drives Revaluation			
				EV/'06E EBITDA Multiple		Enterprise Value	
Segment	2006E EBITDA	EV/'06E EBITDA Multiple	Enterprise Value	Low	High	Low	High
McOpCo	$1,130	7.0x	$7,908	7.0x	7.0x	$7,908	$7,908
Brand McDonald's	4,464	9.3x	41,730	12.5x	13.5x	55,799	60,263
Total	**5,594**	**8.9x**	**$49,638**			**$63,707**	**$68,171**
Less: FY'05E Net Debt			6,332			8,065	8,065
Less: Minority Interest (Market Value)			-			1,312	1,312
Equals: Market Value of Equity			$43,306			$54,331	$58,794
PF FY05E Diluted Shares Outstanding			1,274			1,186	1,186
Recent Stock Price	**Recent Stock Price**		**$34.00**	**Implied Share Price**		**$46**	**$50**
				Premium to Unaffected Price (1)		45%	57%

Note: Assumes $1.25bn of proceeds from IPO and $1.75bn of existing cash on hand used to repurchase shares. Analysis is pro forma for a McOpCo spin-off and McDonald's share buyback, as proposed, occurring on 12/31/05.

(1) Based on 10/31 closing price of $31.60.

Appendix

Average Unit Level EBITDA Margins

Set forth herein is a table which details our assumptions regarding average unit level 4-Wall EBITDA margins for McOpCo and U.S. Franchisees.

($ in thousands)	Avg. US McOpCo Unit		Avg. Intl. McOpCo Unit		Avg. US Franchisee Unit	
Avg. Unit Sales	$1,912	100.0%	$1,494	100.0%	$1,762	100.0%
Operating Income Before Rent Expense	$433	22.7%	$281	18.8%		
Less: Market Rent & Franchisee Fee	249	13.0%	194	13.0%		
Operating Income after Rent and Franchise Fee	$185	9.7%	$87	5.8%		
Plus: Estimated D&A	57	3.0%	45	3.0%		
4-Wall EBITDA (w/ Mkt. Fees)	**$242**	**12.7%**	**$132**	**8.8%**	**$260** (1)	**14.8%**

Note: McOpCo estimates based on FY 2004 financial data and assumes 2,002 U.S. McOpCo units and 6,117 International McOpCo units.
(1) As presented by Ralph Alvarez, President of McDonald's North America, at McDonald's Analyst Meeting at Oak Brook, IL on 9/21/05.

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McDonalds 7 Year Stock Price Performance:
January 1999 to present