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Animal health and welfare standards meet or exceed all Australian requirements and 69 animal health and welfare audits of suppliers were conducted in 2010 and 2011.

A new McFlurry Cup design has reduced plastic use by more than 47 tonnes per annum.

A new napkin dispenser will reduce napkin wastage by 40 per cent and reduce outer carton packaging by 42 tonnes per year.

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SUSTAINABLE
SUPPLY CHAIN



SUSTAINABLE SUPPLY CHAIN

McDonald's supply chain is unique. Our model is based on a culture of partnership and collaboration which makes it possible for us to serve consistently safe and high quality food.

It is important to McDonald's that our suppliers operate sustainable and profitable businesses and benefit from their partnership with us. It is equally important to us that we source our products in a responsible and ethical manner that contributes to the development of sustainable agriculture and food manufacturing processes.

The scale and complexity of the McDonald's supply chain presents some unique challenges and as a result there is a global governance structure in place that guides McDonald's work towards its sustainable supply vision. For more information about our global supply chain policies and programs please go to www.aboutmcdonalds.com.

VISION

We envision a supply chain that profitably yields high-quality, safe products without supply interruption while leveraging our leadership position to create a net benefit by improving economic, ethical and environmental outcomes.

- Economic - We envision delivering affordable food, engaging in equitable trade practices, limiting the spread of agricultural diseases, and positively impacting the communities that our suppliers operate in.
- Ethical - We envision purchasing from suppliers that follow practices that ensure the health and safety of their employees and the welfare and humane treatment of animals in our supply chain.
- Environmental - We envision influencing the sourcing of our materials and ensuring the design of our products, their manufacture, distribution and use to minimise lifecycle impacts on the environment.

Viewing our responsibilities in this type of holistic manner, we consider our priorities for food safety, quality and affordability in conjunction with our ethical, environmental, and economic responsibilities, as we make purchasing decisions and evaluate supplier performance.

ECONOMIC RESPONSIBILITY

McDonald's is committed to supporting Australian producers and manufacturers and our first preference is always to source produce from within Australia whenever it is viable and appropriate to do so. We use a very high proportion of Australian sourced food with over 90 per cent of our food and packaging needs manufactured in Australia.

In 2011 McDonald's Australia spent more than \$669 million on Australian produce. This included purchasing:

- More than 381 million hamburger buns;
- More than 86 million English muffins;
- Almost 84 million kilos of potatoes;
- 26 million kilos of beef;
- 720,000 kilos of sliced and diced apples;
- 18 million kilos of chicken;
- More than 91 million eggs;
- More than 10 million kilos of Australian grown fresh produce, primarily tomatoes and lettuce; and
- 43 million litres of milk (including shake and sundae mix).

The standard of McDonald's products in Australia has been recognised internationally resulting in exporting success. For example, we export more than 49 million kilos of Australian beef each year which is used in McDonald's restaurants in South East Asia, Japan and the United States.

McDonald's does not own any businesses that supply to McDonald's, however there are suppliers that have facilities dedicated to McDonald's production. We also have long term relationships in place with many of our Australian suppliers, for example, we have been working with Ingham for 25 years and Quality Bakers for 40 years. Several of our egg suppliers have been providing us with fresh eggs for many years including Pace Farms in NSW (22 years), Farm Pride in Victoria (23 years), Sunny Queen in Queensland (31 years) and Novo in three states (22 years).

Some 10 per cent of our suppliers supply 82 per cent of our product needs in Australia, and some of our most significant supply partners are:

- OSI - beef, chicken and fish;
- Keystone Foods - beef;
- Ingham Enterprises - chicken products;
- Simplot - fries and hash browns;
- McCain - fries and hash browns;
- Fresh Start Bakeries - buns and muffins;
- Fonterra - cheese, milk, shake and sundae mix and yoghurt; and
- Martin Brower - distribution.

There are five key characteristics that shape our relationship with these strategic suppliers.

1. We strongly believe that long term partnerships outperform a short term transactional approach.
2. Transparency, inclusion and trust are critical components of these relationships.
3. We choose the long term benefit of the entire System first, rather than short term gains for any single part of the System.
4. Financial implications for all parties are taken into account in every decision, with the goal of achieving a win-win result wherever possible.
5. Rather than focus on crisis management, we anticipate potential issues and take proactive action to prevent them.

In this way, the three legged stool of the McDonald's System - franchisees, suppliers and corporate employees - work effectively together to achieve the ultimate goal of supplying safe, quality food to the restaurants, whilst also enabling us to deliver on the value component of our customer promise.



McDONALD'S, MARTIN BROWER AND FOODBANK

In 2011 McDonald's and our distribution partner Martin Brower joined forces with Foodbank Australia to help eliminate hunger by providing charities and community groups with fresh food. McDonald's donates surplus ingredients such as lettuce, tomatoes, onions and sauces and Martin Brower puts its full logistic capabilities to the task of ensuring that all food which could be of use to Foodbank makes it to their warehouses in plenty of time for distribution. The donated food is used by hostels, shelters and drop-in centres for preparing meals for people in need.

From the beginning of the relationship in November 2011 until July 2012, McDonald's and Martin Brower have worked together to donate 29,968 kilos of fresh food to Foodbank.

"We are really pleased to have McDonald's and Martin Brower on board," said Foodbank Australia's CEO Jon Webster. "This relationship helps us with our goal of providing more fresh food to welfare agencies and is another step towards achieving our vision of an Australia without hunger."

ETHICAL RESPONSIBILITY

We know that our influence in the marketplace brings with it a responsibility to ask for more than quality and price. Our progress in relation to an ethically responsible supply system is motivated by our commitment to our customers, leadership on sustainability issues and our desire to do the right thing.



SUPPLIER WORKPLACE ACCOUNTABILITY

The foundation of our program is our global Code of Conduct for Suppliers which outlines McDonald's minimum requirements in the areas of employment and workplace practices, including health and safety.

Supplier workplace accountability audits are conducted regularly with our core suppliers to ensure they are meeting our social responsibility expectations. The primary aim of the program is to protect the health, safety, and human rights of workers. In 2010 and 2011, 77 supplier workplace accountability audits were conducted with suppliers in Australia.

ANIMAL HEALTH AND WELFARE

We consider animal health and welfare to be of great importance and recognise that our responsibility as a purchaser of food products includes working with our suppliers to ensure high standards of animal handling.

Our animal health and welfare expectations currently meet or exceed all minimum standards in Australia.

We adhere to McDonald's global guiding principles in relation to animal health and welfare which express our commitment to ensuring animals are "free from cruelty, abuse and neglect".

Our animal health and welfare guidelines are based on technical standards and a comprehensive audit program which was developed using the knowledge and assistance of third party experts.

To ensure supplier compliance with our animal health and welfare principles, our beef, poultry and pork suppliers' processing plants are regularly audited by independent third party auditors from Ausmeat. In 2010 and 2011, 69 animal welfare audits of our suppliers were conducted.

The audits use a standard protocol based on a methodology developed by McDonald's Global Animal Welfare Council with the assistance of Dr. Temple Grandin, a leader in innovative animal welfare research and handling practices.

While we are a significant purchaser of beef, chicken and eggs in Australia, in most cases we only purchase a small percentage of the overall market. As a result, it is often most effective if we work more broadly with the relevant industry associations, as well as directly with our suppliers, to encourage and support animal welfare initiatives in individual industry sectors.

ROUNDTABLE FOR SUSTAINABLE BEEF AUSTRALIA

McDonald's is a founding member of the Roundtable for Sustainable Beef Australia (RSBA) which is a multi-stakeholder industry group focused on advancing continuous improvements in the sustainability of beef production in Australia. Other members of the RSBA include the World Wildlife Fund, the Cattle Council of Australia, Merck, JBS and Teys Australia. RSBA is working towards creating an Australian beef industry in which all aspects of the beef supply chain are environmentally responsible, socially equitable and economically viable.

We believe that participating in a whole of industry approach is the most effective way to make a difference. The group is taking a leadership role in the industry and will champion the adoption of best practices across the entire beef supply chain.

RSBA is a part of the larger Global Roundtable of Sustainable Beef which includes the world's largest processors, food service companies, retailers, environment NGOs and animal health companies.



ENVIRONMENTAL RESPONSIBILITY

Our responsibility to the environment starts with the fresh ingredients at the farm and the design of our food packaging, and extends through food manufacture, to our restaurants, customers, and waste disposal.

We aim to work with our suppliers to assist them to provide us with an uninterrupted, long term supply of quality food and packaging in a way that minimises our impact on the natural environment. We also aim to encourage the protection of resources that our suppliers share with the communities in which they operate.

Our environmental guidelines for suppliers can be viewed at www.aboutmcdonalds.com.

We use a scorecard to measure supplier environmental performance for water, energy, waste and emissions related to the manufacture of McDonald's product. Our suppliers of beef, poultry, potato and bakery products have been reporting on these parameters since 2005 and we have recently expanded this to incorporate packaging and Happy Meal toy manufacture. Reporting is conducted annually and significant improvements have been tracked by many of our suppliers.

The scorecard is a global tool to monitor supplier performance and manage their environmental impacts and Australia was one of the first McDonald's markets to implement the program.

In Australia we also have specific issues relevant to our country and climate that we are working with our suppliers to address. The challenges of extreme weather and climate events present real issues for farming in Australia and we work with our suppliers to support strategies for sustainable supply of produce.

We also engage with peak bodies and industry associations to explore issues of concern, discuss innovations and offer our support to industry-wide improvements in agriculture and food manufacture.

SUSTAINABLE PACKAGING AND WASTE MANAGEMENT

When it comes to packaging and waste we are continuing to explore options to decrease our environmental impact. Our first priority is to reduce the resources and materials being used wherever possible.

Where we can't reduce our materials, our aim is to reduce waste to landfill. We continue to seek ways to incorporate reuse and recycling into our restaurants and we see this as one of our greatest opportunities for improvement.

PACKAGING

McDonald's is a signatory to the Australian Packaging Covenant which is an agreement to reduce the environmental impacts of consumer packaging through:

- designing packaging that is more resource efficient and more recyclable;
- increasing the recovery and recycling of used packaging from households and away from home sources; and
- taking action to reduce the incidence and impacts of litter.

As part of our commitment to the Australian Packaging Covenant, McDonald's Australia reports regularly and publicly on our progress against our formal action plan. Our action plan and reports can be viewed at www.packagingcovenant.org.au and is also available on our website.

Our choice of packaging is an important part of ensuring our customers receive their food and beverages at the right temperature and in an easy manner to consume. Our aim is to maintain the highest standards of safety and quality whilst reducing source materials used and increasing recycled content. We continue to make headway.

Environmental impact is one of five criteria incorporated into McDonald's process of developing food and beverage packaging. The other four criteria are functionality, cost, availability of materials and impact on operations. From an environmental perspective, we aim to make our packaging sustainable from the outset.

PACKAGING INITIATIVES

- We continued to use recycled raw materials in our consumer packaging, where possible. In 2011 4,824,885 kg of recycled raw materials were used.
- A new four flap McFlurry Cup has been developed which eliminates the need for a lid on the cup and will reduce plastic use by 47.82 tonnes per annum.
- The new Xpressnap napkin and napkin dispenser was recently introduced into restaurants and is expected to decrease napkin wastage by 8000 tonnes or approximately 40 per cent per annum. The SCA Xpresssnap has an independent environmental certification from Environmental Choice North America. The added benefits include reduction in use of outer cartons by 42 tonnes per annum and fuel savings with fewer cartons transported and stored.

TOTAL WEIGHT OF CONSUMER PACKAGING SOLD INTO THE AUSTRALIAN MARKET

DESCRIPTION	2011
Paper and cardboard	22,251,794 kg
Plastics (incl non-recyclable)	4,101,406 kg
TOTAL	26,353,200 kg

We are committed to promoting the efficient and responsible use of wood and wood-based products, ensuring the fibre for our packaging comes from legal and acceptable sources. As part of this commitment, continuous assessment of our packaging suppliers is being conducted to examine their sourcing practices. Based on the results of the assessment we work with them to outline action plans for improvement as applicable.

Our packaging suppliers purchase paper and paperboard primarily from New Zealand, Australian and European suppliers. 77 per cent of the fibre in our paper packaging is now covered by CoC certification (71 per cent FSC CoC). The combined total



TRANSPORT AND DISTRIBUTION

McDonald's Australia's distribution partner, Martin Brower, is dedicated to the distribution of McDonald's restaurant supplies and to ensuring every restaurant is equipped with the required amount of produce and packaging. The timing of each delivery and the quantities delivered is obviously critical to ensure uninterrupted supply for our restaurants and therefore, customers.

Across Australia 1,612,456km of transport was avoided in 2011 as a result of inventory optimisation at restaurants. This accounts for a reduction in fuel usage of 12 per cent or 599,429 litres.

In 2011 McDonald's Australia started using The Sustainability Footprint Assessment (SFA) which is a web-based tool which gathers data from Distribution Centres' operations across the McDonald's Asia Pacific, Middle East and Africa logistics supply chain. The reports produced by the SFA show the energy usage and carbon emissions of Distribution Centres' and their truck fleets in a way that identifies opportunities for improvement. A baseline from 2010/11 has been established which has enabled the setting of energy reduction targets and in the future we will be able to measure and report on results.

of virgin fibre covered by CoC certification and recycled fibre is 93 per cent of our paper packaging (percentage based on 2010 data).

CoC certification tracks material through the production process - from the forest to the consumer, including all successive stages of processing, manufacturing and distribution.

WASTE MANAGEMENT

Waste reduction and management is a key priority for the business but continues to be a challenge.

We have just completed a Back of House recycling trial in 25 restaurants aiming to divert more than 60 per cent of waste from landfill. As part of the recycling initiative, the restaurants separated organics (food and liquid), cardboard and general waste on site. The organics were then transported to a compost facility, the cardboard recycled and the general waste is separated into recyclable waste streams at the waste collector's facility.

The trial has been successful in increasing landfill diversion rates over a short space of time however there were issues with waste contamination. Based on these learnings, we will continue to trial Back of House recycling in the restaurants and expand into the market when this issue is resolved. Achieving effective packaging recycling is an important priority for us and reaching an effective solution is currently a focus for the business.



CONVERTING USED COOKING OIL TO BIODIESEL

In an innovative move, used cooking oil from McDonald's restaurants is now being converted to biodiesel and used to fuel restaurant delivery trucks across Victoria. This closed loop recycling scheme works by collecting used cooking oil from the restaurants, the oil is then delivered by McDonald's transport partner, Martin Brower, to a Neutral Fuels processing plant and at the same time the delivery truck is re-fuelled with 100 per cent biodiesel.

The conversion of used cooking oil to biodiesel is a great fit with our sustainability strategy offering both environmental and economic benefits. Implementing this scheme in Victoria alone looks set to reduce carbon emissions by 730 tonnes per year which is the equivalent of flying from Sydney to London 260 times. As production facilities become available, this recycling scheme will be rolled-out to McDonald's restaurants all over Australia. The roll-out will make a significant difference to our transport carbon footprint and is an excellent example of our restaurants and supply partners working together.

Converting used cooking oil to biodiesel brings many environmental benefits including:

- the ozone forming potential of biodiesel combustion is approximately 50 per cent less than that of fossil diesel;
- compared to fossil diesel, biodiesel exhaust emissions of sulfur oxides and sulfates are virtually non-existent;
- the 'well to wheel' life cycle analysis of converting used cooking oil to biodiesel shows that the amount of carbon dioxide and equivalents emitted is reduced by nearly 80 per cent compared to fossil diesel.

Biodiesel provides significant sustainability advantages over non-renewable fuels and this model of biodiesel does not impact food security as it uses a by-product (ie. used cooking oil) rather than virgin grains or seeds.