

Nationalisation ... More than Just a Vision



**MCDONALD'S SAUDI ARABIA:
LEADING THE WAY IN
NATIONALISATION**



ANNUAL REPORT

2015



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It's our people that make the difference

We're opening a new chapter in the story of our success.

But none of our successes and achievements would have been possible without our employees who have helped propel McDonald's Saudi Arabia on this path.

We extend our deepest gratitude to each and every member of the McDonald's team for their trust in us and for their belief in the McDonald's brand.

It is their commitment, loyalty, and innovative ideas that have put McDonald's where it is today – at the forefront of the quick service sector in Saudi Arabia, contributing to the happiness of our customers and the benefit of our nation.



We believe in action, not words

The nationalisation of the workforce is not a luxury, or optional, but a mandatory requirement and a cornerstone of our industry.

The rules of the game in Saudi Arabia are continuously changing, and only good, innovative players will thrive. All the private sector – and particularly our industry – realizes that their business needs to innovate to stay ahead of the competition, and to remain sustainable.

Preparing our annual nationalisation report gives us the opportunity to take stock and measure our progress. Each year has seen us recruit, train and promote ever more young Saudis, building a pool of efficient skilled labor which has a positive impact on the entire nation, changing the lives of thousands of young Saudis for the better.

For McDonald's Saudi Arabia, nationalisation is a prerequisite for success. But to succeed in nationalisation requires careful forethought, detailed strategy and planning – but above all, it takes determination.

We have always challenged ourselves, and others, to find solutions. We consider labor market challenges as opportunities, and take a creative approach to solving them, realizing we need to go further than merely satisfying the immediate requirements of the labor market, but to find innovative solutions that will lead the market.

Being a leading Saudi company, it was up to us to take the initiative on behalf of the entire sector. Understanding that nationalization is fundamentally a question of investing in Saudi youth, we were able to see the huge benefits – for us and the Kingdom – if we could harness the potential of this large and growing group. That was, and still is, our major objective ever since we opened our first restaurant in 1993.

Last year this objective saw us developing an ambitious and unique plan to assign young Saudis to branch management positions across our network. To begin with, factors beyond our control limited our progress, but thanks to our perseverance, we eventually succeeded.

Ever since our beginnings we have offered employees fair monthly incentives and compensations – but in addition we have also introduced incentives such as flexible attendance, assignment to a branch nearby their home, medical insurance, a two-day weekend and a clear career path, with well-rewarded promotions.

While reviewing our 2015 achievements, we are proud of the progress we have made. Staff turnover decreased, and nationalisation reached 26 percent at 2,744 Saudi employees from a total of 8,000 – with ambitious targets to reach an additional 1,000 Saudi employees before 2017.



McDonald's Saudi Arabia now operates 228 restaurants, with plans to increase this to 255 by the end of the year – which is the real challenge we are facing as a Saudi company committed to investing in the local economy.

We are determined to fulfil the ambitions and guidance of the Custodian of the Two Holy Mosques, HM King Salman bin Abdulaziz and the leadership of our country. In this regard, we intend to continue to be the frontrunner in our industry with regards to nationalisation, and to do so are developing our training strategy and employment practices to become more proactive.

We still have plenty to do to realize our ultimate vision of nationalisation, but we have great faith in our innovative ideas, ambitious plans, and thorough implementation.

Finally, we thank you for the time spent reading this report, which we hope you found informative and useful.

For
McDonald's
Saudi Arabia,
nationalisation
is a
prerequisite
for success.

Mishaal Khalid F. Al Saud
President

Riyadh International Catering Corporation
Developmental licensee for McDonald's Restaurants in the Central, Eastern, and Northern regions of the Kingdom of Saudi Arabia

Abdul Rahman Ali Reza
General Manager

Reza Food Services Co. Ltd
Developmental licensee for McDonald's Restaurants in the Western and Southern regions of the Kingdom of Saudi Arabia

Nationalisation

Phase 1: Before Nitaqat

For two decades, the quick service restaurant (QSR) industry has been hampered by Saudi ambivalence about restaurant work, making it difficult for us and our competitors to achieve nationalisation targets.

We looked for ideas that would overcome that barrier by addressing issues such as weak English skills, remote accommodation, lack of public transport, long hours, and anti-social shift patterns. In addition to these practical problems, turnover rate of Saudi staff was reaching 149 percent, and our nationalisation score falling.

Undoubtedly, it was time for a radical approach that would benefit us, the QSR sector – and indeed the entire private sector.

As a consequence, in early 1995 we established a nationalisation committee headed by RICC President, Mishaal bin Khaled Al-Saud, which embarked on detailed research on the needs of young Saudis, to attract more of them to careers at McDonald's, and to create a positive, comfortable, incentivized work environment.

The research also included McDonald's leavers to understand the reasons behind their resignations, in order to improve turnover rates.

In 2008, we established a new committee which took a deeper dive into understanding the labor market, focusing on what factors most motivate young Saudi job hunters. The committee's recommendations were:

- To offer jobs near the applicants' homes, and no requirement to visit company HQ
- To translate training courses into Arabic
- To offer a three-day recruitment process, including medical, interview and contract signing.

As a consequence, conditions improved, with turnover falling to acceptable levels, but by 2012, we had further challenges to overcome.

Phase 2: After Nitaqat

For the QSR sector, 2012 was challenging, especially for less established brands, but McDonald's too, suffered after implementing the Ministry of Labor's Nitaqat program (which rates businesses according to levels of nationalization achieved).

Alongside this, the MoL introduced Hafiz, an initiative granting a monthly SAR2,000 subsidy to job seekers. Together, these two programs saw our nationalisation levels fall – with competitors targeting our well-trained employees to boost their Nitaqat scores, and other employees resigning in order to claim Hafiz.

Responding to the realities of the new labor market, McDonald's Saudi Arabia offered greater incentives, launched a major recruitment campaign, and targeted remote areas with various in-kind benefits such as accommodation, transport, five days off every three months with free travel tickets home, and three weeks' vacation every 11 months. However, all these initiatives didn't deliver the required results.



Phase 3: SAR4500 Campaign

After a turbulent 2012, the first quarter of 2013 saw an upturn in our fortunes, thanks largely to commissioning qualitative research based on a sample size of 500 young Saudis.

As a result we launched a new campaign, which in addition to existing benefits, increased the minimum crew salary to SAR4,500, and introduced a more flexible work policy. This launched in November 2013 and immediately boosted applications ten-fold, from 150 to nearly 1,500 a month, winning us huge plaudits from across the private sector, and a great deal of imitation, with many adopting a similar recruitment strategy. In effect, we had radically changed the entire labor market – and made a significant impact on the overall welfare of the Saudi population.

However, for McDonald's Saudi Arabia, the results were mixed. We certainly boosted our recruitment figures, but our turnover remained problematic because so many other private sector employers targeted our employees, recognizing how well trained they were, and how proficient in English.

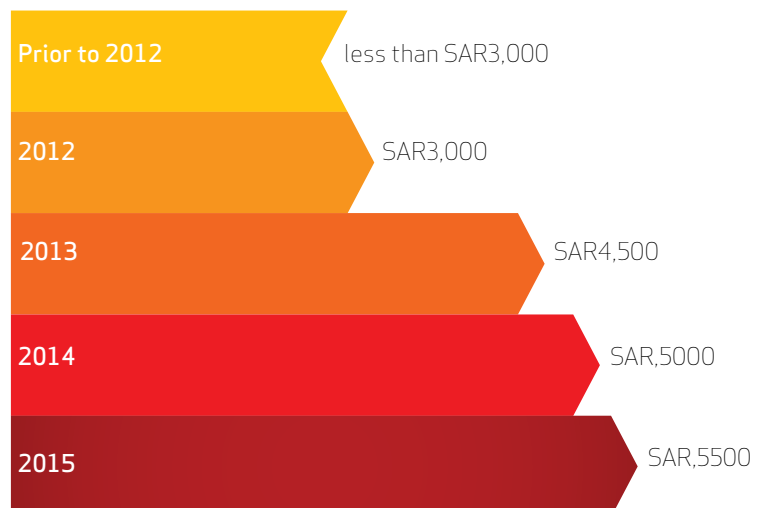
From this, we did learn some valuable lessons.

Phase 4: SAR5000 and SAR5500 Campaigns

Our 22nd anniversary in 2014 was marked by many more achievements, and also saw the launch of our SAR5,000 campaign, in which we offered a basic salary of SAR4,000 with a SAR1,000 bonus awarded for good attendance (comprising SAR500 for 60 percent, and a further SAR500 for 80 percent attendance). Once again, the campaign produced immediate results: nationalisation rates increased, while turnover fell.

But as in any such campaign, the initial effect tailed off, so clearly it was no time to congratulate ourselves on our success, but for our HR team to continue their efforts, and develop further imaginative solutions.

Subsequently, in order to follow up in the market we then had to increase our salaries to SAR5500.



The minimum wage since the founding of McDonald's Saudi Arabia

Phase 5: Managers of the Future

The QSR sector is the fastest growing market in Saudi Arabia, with a great deal of imitation of the market leading – usually McDonald's! – products and campaigns. We've no problem with that – after all imitation is said to be the sincerest form of flattery – but only as long as it benefits the Saudi population by investing in their capabilities and their future, and ultimately benefiting national development.

Realizing that linking nationalisation campaigns solely to salaries will have a limited lifespan – and eventually drive smaller companies out of the market – we now put a greater emphasis on career progression.

Key elements of this new approach is – as well as existing financial incentives – to focus on the provision of comfortable accommodation, but most importantly, offer a work environment that offers clear career development, and promotion to a well-defined timescale.

This latest recruitment campaign encourages McDonald's Saudi Arabia employees to remain with us, and provides all the necessary experience

and skills to progress to management positions. Furthermore this approach, pioneered by RICC, the McDonald's developmental licensee in the central, eastern and northern regions, answers an important national need: a pool of trained and experienced Saudi managers.

RICC offers four distinct career paths (as described below); Reza Food Services, our franchisee in the west and south, launched the 'I Quit Unemployment' campaign based on similar training materials, which offered three pathways (see below).

Together, these two similar campaigns saw job applications rise to 500 weekly. Additionally, existing Saudi employees were integrated onto these career paths, according to their current levels of training and experience.

The RICC approach

McDonald's Saudi Arabia launched a four-track recruitment campaign that takes into consideration new employee requirements, and combines appropriate salaries and career development:



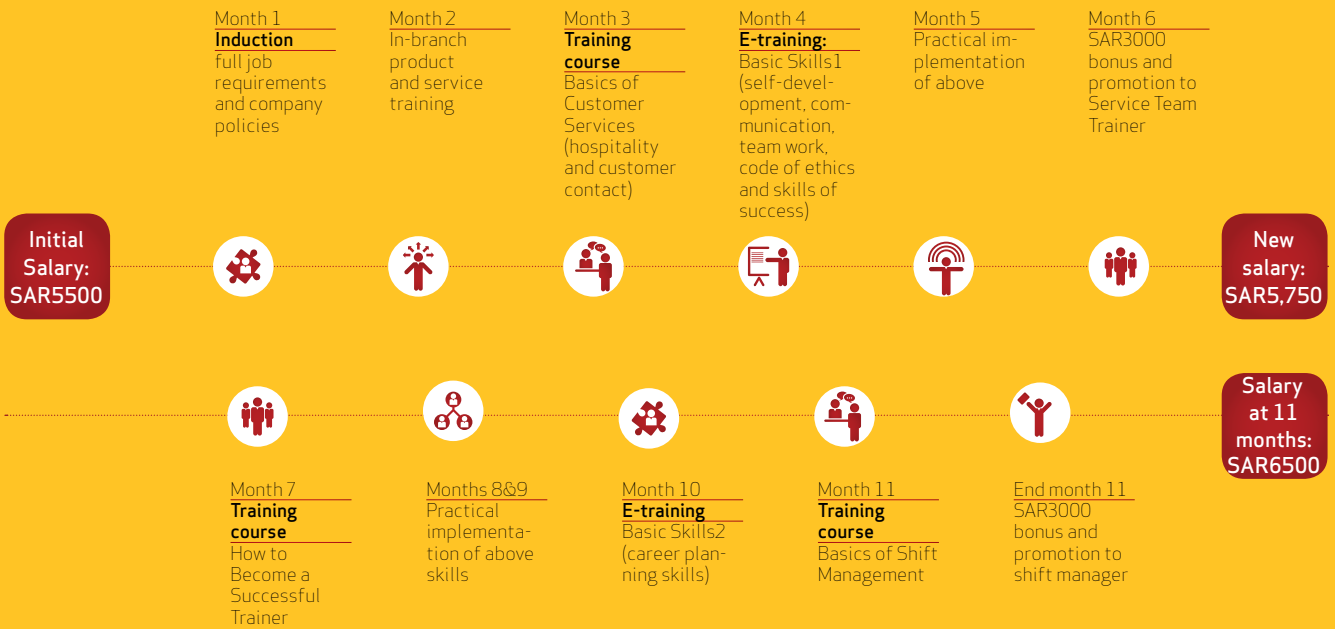
1. Tahadi Track

Five eight-hour days on-shift, two days off, and promotion to shift manager with a SAR6,500 salary within 11 months. Performance expectations are clearly laid out for each step, and we provide all necessary recommendations, regular follow ups, computer and English language training.

Employees must:

- achieve 90 percent attendance

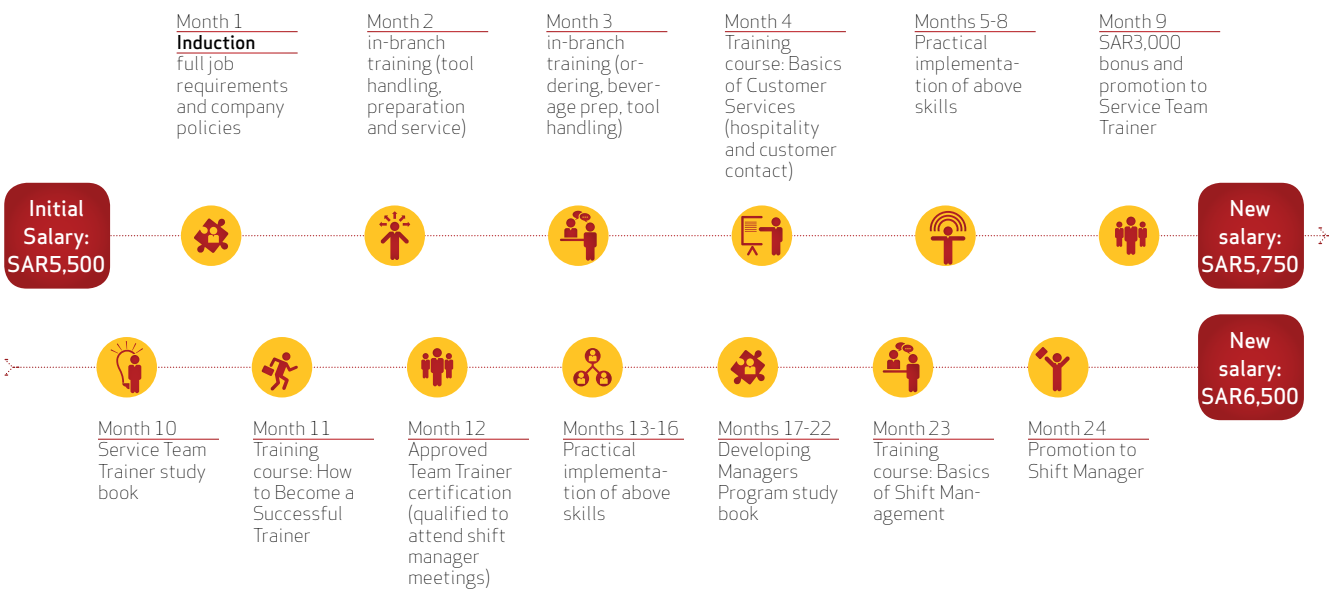
- pass our 5-stars program
- complete two training books (Team Trainer and Approval and Managers Development Program A)
- pass "Basics of Customer Services", "How to Become a Successful Trainer", "Basics of Shift Management" and two e-training courses
- pass Performance Review Test in the restaurant.



2. Normal Track

Five eight-hour days working, two days off, promotion to shift manager with SAR6,500 salary within 24 months. In this approach, the

employee may be promoted within 24 months to a Shift Manager with a salary SAR6,500 per month. Performance expectations and training support as above.



3. Flexible Track

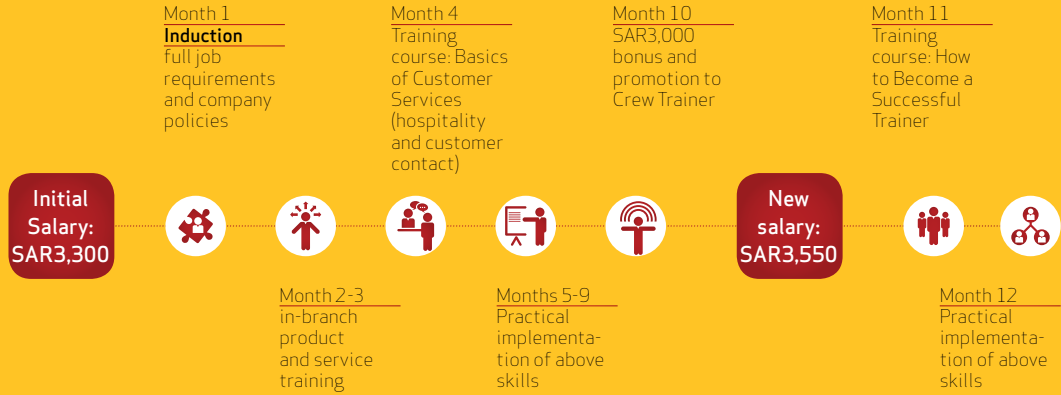
Promotion to Crew Trainer within 10 month: four six-hour shifts on, three days off, and promotion to Crew Trainer with SAR3,550 monthly salary after 10 months, followed by two months training.

Performance expectations are clearly laid out for each step, and we provide all necessary recommendations, regular follow ups, computer

and English language training.

Employees must

- achieve 90 percent attendance
- pass our 5-stars program
- pass courses: "Basics of Customer Services", "How to Become a Successful Trainer"



4. Student Track

Flexibility to choose attendance, working three eight-hour shifts per week, paid according to actual hours worked.

Allows the new employee to choose work days and hours within the week; whereas he is paid only for actual work hours.

Month 1 Induction
full job requirements and company policies

Month 3
in-branch product and service training (including customer areas and beverage prep)



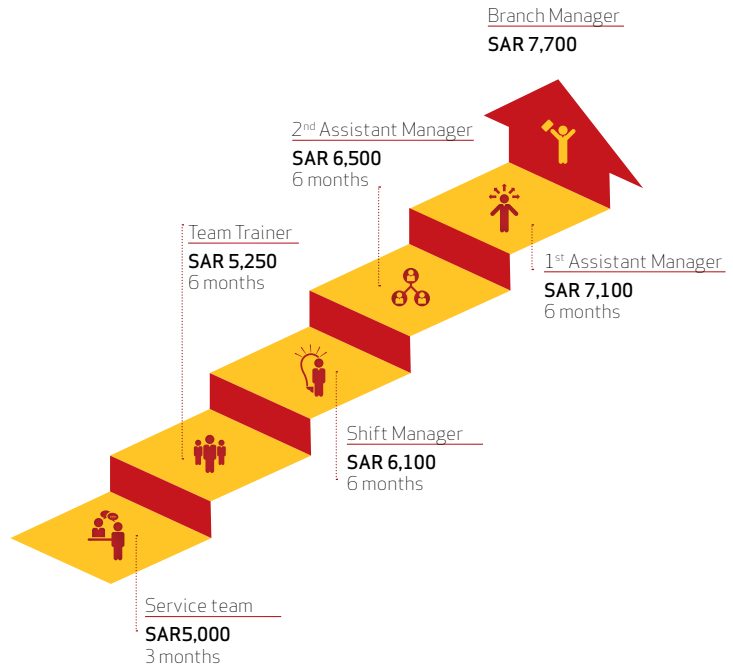
The Reza Food Services Approach

Entitled 'I Quit Unemployment', the Reza Food Services recruitment campaign also combines a fitting salary with clear career promotion, offering the flexibility between part or full time

positions and assignment in the nearest available branch. The three optional career paths, all of which make use of standard McDonald's training courses and materials, are:

Student applicants

Flexible work, with applicants receiving both annual leave and paid examination leave, with either four six-hour shifts or three eight-hour shifts per week.



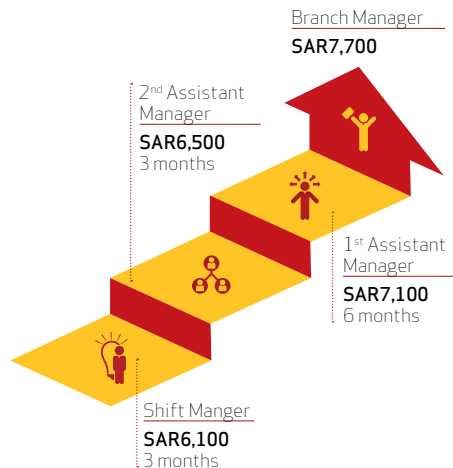
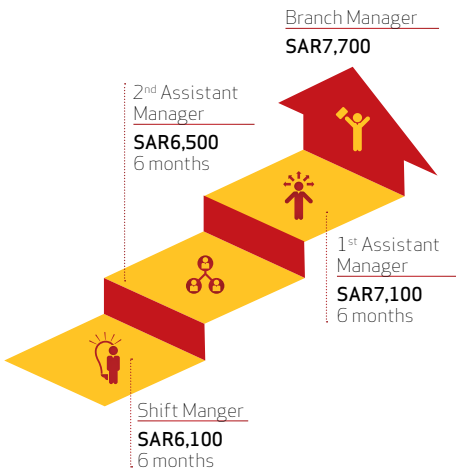
Graduate applicants

This approach is designed for graduates, qualifying them to enter at shift management level.

Expert applicants

Those deemed expert in the industry can become a Future Manager within just nine months, with an initial salary of SAR6,100 – but must meet the following criteria:

- be a degree holder
- demonstrate good English skills, both spoken and written
- demonstrate good computer skills
- have at least two years' restaurant experience (inside or outside KSA).



2015 achievements

Despite a challenging business climate, McDonald's Saudi Arabia successfully achieved the majority of its 2015 objectives, without neglecting the flexibility that is at the heart of everything we do.

Of particular note were our efforts to build a new culture – investing in our people, enhancing their skills and capabilities, developing them and treating them as partners in our business, not just employees.

Of crucial importance was our fresh approach to recruitment, as detailed above, which resulted in very encouraging figures, surpassing levels we achieved in less difficult times. During 2015, we recruited 2744 young Saudis, and plan to add a further 1000 next year.

As well as our new recruitment strategies, the growth in our branch network, especially in remote areas of the country, helped with this achievement. We opened 34 new restaurants during the course of the year, with the total McDonald's Saudi Arabia network now standing at 228 branches.

What's more, next year we plan to open a further 29 outlets.

Open Door Policy

In our relations with our employees, we plan on the long-term – which is why we believe in building a culture a relationship solidly based on trust and transparency. Our management team encourages every staff member to share their ideas and to fully understand and engage with the McDonald's Saudi Arabia strategy. To achieve this, objectives must be clear: employees need to know their roles, understand what is expected of them, and to believe that they are listened to by all levels of our management team.

We interview all leavers as a matter of course in order to better understand their reasons for resigning, and to preserve the high quality of our manpower by highlighting any inefficiencies and strengthening best-practice.

We conduct quarterly meeting with all employees to encourage a productive dialogue between management and staff, and understand their attitude about work. These two-hour long meetings gives a voice to employees and provides the opportunity to submit suggestions, ask questions or voice grievances to management, without the need to navigate bureaucratic channels.





McDonald's Saudi Arabia is also proud to have continued to fulfill its social responsibilities.

Community matters

Throughout 2015, McDonald's Saudi Arabia is also proud to have continued to fulfill its social responsibilities.

In cooperation with the Saudi Arabian Football Federation, we launched the McDonald's Mawahib Football Talents Program, aimed at discovering promising young footballers and help develop their talents.

We also launched "Your Right to Know" platform, an interactive digital platform that invites customer questions about the McDonald's brand, products and restaurants, that illustrates our commitment to transparency – a cornerstone of our corporate social responsibility objectives.

Perhaps the most far-reaching of our social responsibility programs of 2015 was the launch of Ajjalona (Our Generations) a platform for all our corporate responsibility activities, designed to raise awareness of our philanthropic work, shed light on our active and balanced lifestyle activities, and publicize our nationalisation initiatives and job opportunities.



A Partnership that broadens our horizons

The Human Resources Development Fund (HRDF) is tasked with building a firm base for job nationalisation in Saudi Arabia, in the course of which it has developed strong relationships with many private sector companies.

McDonald's Saudi Arabia is proud to be an active partner with HRDF – and delighted that as well as adopting our approach as a model of best-practice, the HRDF continues to take a keen interest in any new initiatives we implement.

As a result of this relationship, McDonald's Saudi Arabia and the HRDF have been widely praised for exemplifying the government's nationalisation objectives, creating job opportunities for thousands of young Saudis, and equipping them with the skills and stability to succeed in the labor market.

Among the notable milestones passed during 2015 was the signing of a memorandum of understanding between McDonald's Saudi Arabia and the HRDF's DOROOB program – a national training initiative – to provide electronic training and education services to our employees, signed by RICC VP Prince Waleed bin Nasser Al Saud, and Nabil Toker, General Manager of the DOROOB Program.

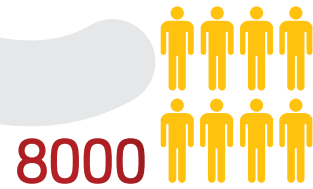
McDonald's Saudi Arabia is confident that this positive and productive partnership with HRDF will continue to help us lead the way in job nationalisation, leading us to even broader horizons.

McDonald's at a glance

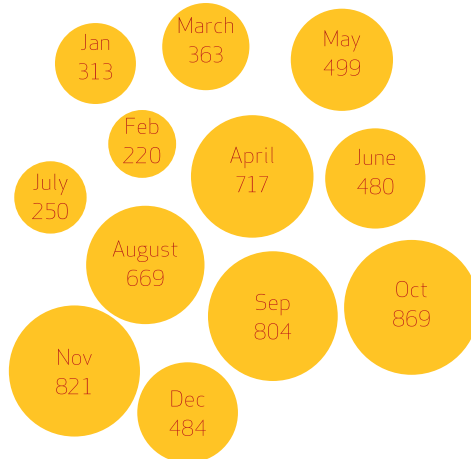
Nationalisation rate



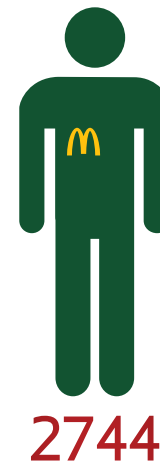
Total staff of McDonald's Saudi Arabia



Number of Saudi applying for work at McDonald's during 2015



Number of Saudis hired in 2015



Number of job vacancies for Saudis in 2016



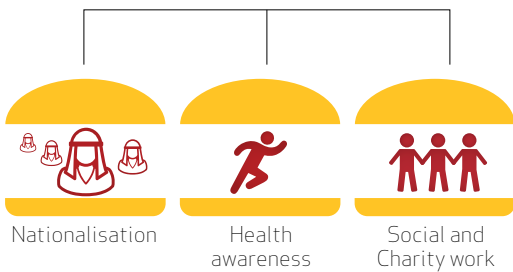
new branches opened in 2015



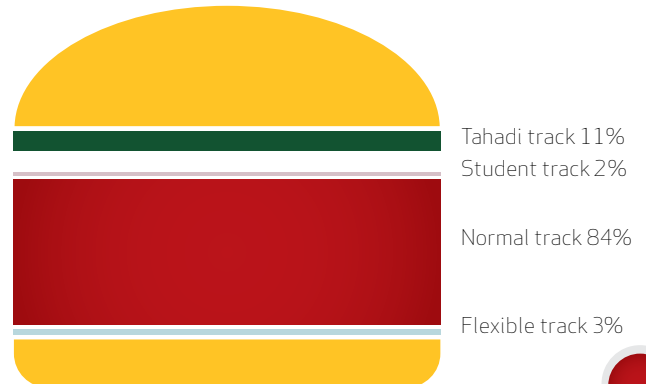
new branches to open in 2016



Our **Ajyalona** program, launched in 2015, has three components



McDonald's **Managers of the Future** (central, eastern and northern regions):



Success Stories

Today's Youth... Tomorrow's Leaders

From talking to our Managers of the Future, one thing became very clear – all of them believe that the word 'impossible' doesn't exist in the McDonald's vocabulary.

عبدالمجيد المحميد
المنطقة الشمالية - فرع طريف
من مزايا العمل في ماكدونالدز
السعودية أنها تحتضن مساراً
وظيفياً واضحاً، مرناً، وبيئة عمل
تتسم بروح الفريق الواحد.

زين علي عريبي
المنطقة الغربية - فرع شارع فلسطين
الالتحاق بماكدونالدز السعودية سهل
جداً، ما عليك إلا زيارة الموقع الإلكتروني، أو
زيارة أقرب فرع إليك، وطاقمنا سيتكفل
بإطلاعكم على عروضنا الوظيفية،
وإجراءاتنا الميسرة.

ABDULMAJEED ALMOHAIMEED Northern Province - Toraif Branch

"One of the advantages of McDonald's Saudi Arabia as a workplace is adopting a clear, flexible job approach and the one-team spirit."



ZEIN ALI OREIBI Western Province - Palestine Branch

"Joining McDonald's is very easy, all you have to do is visit the website, or the nearest branch to you, and our team will give you our job offers and our easy procedures."